REPORT OF THE

QUEENSLAND COMMISSION OF AUDIT

OPERATING BUDGET OUTLOOK

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VOLUME II

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Outline

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Brief Guide to Volume II

The Queensland Government can, as discussed in Volume I, be divided into three sectors:

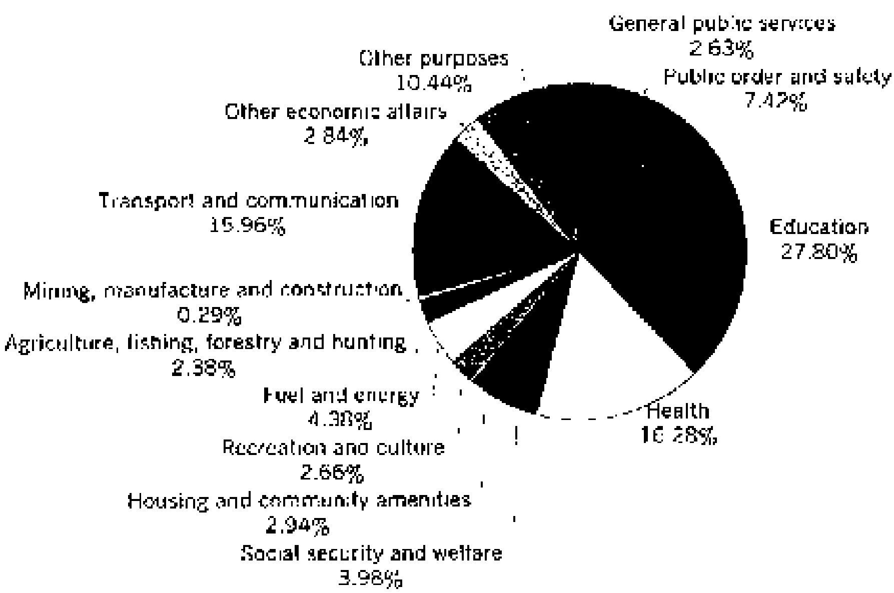
- general government;
- public trading enterprises; and
- public financial enterprises.

From an administrative perspective, the State Government comprises 18 Departments, a small number of other Budget-dependent entities and several hundred statutory bodies and subsidiary entities, including companies and trusts.

Queensland government outlays on Health, Education and Training, and Public Order and Safety accounted for over 60 per cent of total *current* outlays in 1994-95 (see Figure II.1). These areas are examined in Chapters Nine, Ten and Thirteen, respectively.

Figure II.1

Outlays by GFS Category, 1994-95



Source: Queensland Treasury, 1995 *Annual Financial Report*

Transport and Communications, and Fuel and Energy accounted for over 67 per cent of *capital* outlays in 1994-95, and these services are also very significant contributors to State economic activity. These areas are examined in Chapters Eleven and Twelve, respectively.

Local government and other areas of public service and infrastructure provision are examined in Chapters Fourteen and Fifteen, respectively.

Chapter Sixteen examines the Government's businesses, other than those assessed in earlier chapters (eg Queensland Rail in Chapter Eleven).

As described in Volume I, Chapter One, the approach taken by the Commission in each of these areas is as follows:

- first, to assess the actual results or outcomes being achieved ie assessing the present standard of service delivery against relevant benchmarks, in most cases the standards achieved in other Australian States, or, in some cases, other comparable Organisation for Economic Cooperation and Development (OECD) countries or, where they exist, specific benchmarks set by the Queensland Government itself;
- second, to assess the resourcing of service delivery in terms of operating efficiency and the state of supporting infrastructure;
- third, to examine operating service delivery demands for the future—where possible, out five and ten years—as a basis for assessing their resourcing requirements, including infrastructure requirements;
- fourth, to identify and as far as possible quantify the resource and financial implications of continuing to maintain high levels and standards of service delivery, broadly on present planning assumptions and under present policies and practices, including broadly the present degree of direct government involvement; and to make explicit the budgetary implications of this strategy both in each service delivery area and in aggregate;
- fifth, to examine the State's future financial options—both options to finance recurrent expenditures and options (eg asset and liability transactions) to finance infrastructure investments; and
- finally, to identify key issues posed by these findings, and alternative means by which services can be provided which reduce pressure on the State's finances while achieving greater efficiency and effectiveness in delivering high quality services to the Queensland community on an equitable basis.

Chapter Nine

Health and Community Services

Key Points

Queensland's public hospital system, the core of government involvement in health services, is relatively efficient compared to those of the other States and there is no evidence to suggest that the quality of services is lower. However, there is scope for improved utilisation of both public and private hospitals and greater efficiency will be needed to be achieved, given the prospective rising demand for health services driven by population growth and ageing of the population over the next 30 years.

The Department of Families, Youth and Community Care is responsible for provision or funding of a wide range of community services, including services for older people, child care, child protection, community corrections for young people, services to people with a disability, services for victims of domestic violence and services to Aboriginal and Torres Strait Islander people. Demands and spending have been growing, requiring better management of resources (including assets) and a larger role for external (primarily not-for-profit) providers.

Health Services

Findings

- *Queensland's overall health expenditure per capita is around 85 per cent of the Australian average, although expenditure on hospital services for public patients is about average after allowing for lower numbers of private patients in public hospitals in this State.*
- *Queenslanders are relatively healthy compared to the rest of Australia and other countries in the Organisation for Economic Cooperation and Development (OECD).*
- *Queensland's public hospitals are relatively efficient compared to those of the other States, providing a similar quality of service for about 85 per cent of the Australian average cost. The major part of the cost differential arises from a lower average casemix complexity; in part, this is because Queensland public hospitals apparently admit a substantial number of people who might have been treated differently (eg as outpatients) had they resided elsewhere in Australia. Queenslanders are relatively heavy users of hospitals, with total*

public and private hospital admission rates six per cent higher than the Australian average.

- *Elective surgery waiting times are somewhat worse for Queensland than the Australian average, although the reasons are complex and include medical workforce issues, internal management of hospitals/operating theatres, and so on.*

- *There is significant scope for improved utilisation of hospitals overall, many of which provide a low volume and complexity of services in relation to their costs.*

- *Health service delivery has not responded flexibly to emerging needs driven by demographic and technological changes.*

- *There remain deficiencies in capital planning and investment decisions, and in asset management:*

  - *capital investment has not achieved as much in service terms as it should have for the costly resources involved, because it has not been closely linked to service needs;*

  - *integration between public and private sectors has been poor, entailing duplication of costly infrastructure; and*

  - *information required to support cost-effective asset management and maintenance is inadequate.*

- *If the existing hospital admission rates and approach to service delivery continue, health services for the population of the State, which is ageing along with the rest of Australia, will create a heavy financial burden. If quality health services are to be sustained, strategic decisions about service delivery must:*

  - *be based on the full, transparent costs of alternative approaches;*

  - *provide incentives for improved productivity; and*

  - *ensure improved capacity utilisation.*

- *Market type mechanisms which allow competition between health service providers have been shown to improve the efficiency and effectiveness of health services.*

Recommendations

9.1 To prepare Queensland's hospital system for the future, an independent health service planning body composed of eminent people drawn from outside government should be established for a limited period to make recommendations on, inter alia:

- *which organisational units should have responsibility for funding of public health services;*

- *the appropriateness of the structure and geographical boundaries for District Health Services for competitive service delivery; and*
- *principles for the location and size of hospitals.*

9.2 *A competitive framework should be established within the hospital and ambulatory care sectors to improve the efficiency and responsiveness of the public health system, and to maintain good performance over time, including:*

- *providing funding for hospital inpatient services' outputs defined under the casemix system, and encompassing full best practice costs (ie on a comprehensive accruals basis, including a capital charge to reflect the cost of the capital used, and capital consumption in the provision of services), regularly reviewed against competitive benchmarks;*
- *funding private and not-for-profit health service providers on the same basis as public providers for treating public patients; and*
- *operating corporate planning, budgeting and management through a system of binding service agreements which is 'seamless' between public, private and not-for-profit providers, with appropriate rewards and sanctions for non-compliance.*

Community Services

Findings

- *While Queensland has the lowest level of welfare services provision, as measured by the Commonwealth Grants Commission, it also has the lowest cost of service provision.*
- *The Department's budget has increased significantly over the past six years and has been supplemented since 1994-95 with growth funding to address increased service demands arising from the growth in the Queensland population.*
- *Client service standards for direct service delivery are being developed and there are service agreements between the Department and funded organisations. Work with other jurisdictions is required to develop comparable relevant efficiency and effectiveness indicators.*
- *Scope exists to increase the use of the non-government sector to deliver services. Outsourcing would provide an effective means to reduce costs, and gain flexibility, while maintaining the quality of care to clients. There are other opportunities to achieve resource efficiencies, including rationalising under-utilised assets.*

Recommendations

9.3 *Accommodation support for people with an intellectual disability and low support needs should be outsourced to the non-government sector, together with respite care and community linking/participation. Other functions currently directly delivered (eg resource and assessment of people with a disability, juvenile community corrections, and child protection) should also be reviewed to determine those elements which could be outsourced.*

9.4 *The efficiency of all resource use should be reviewed, including disposal of under-utilised facilities (eg Carramar and Wurlaldia). Contracts with funded service providers should be outcome-focused, specifying the quantity and quality of services, the basis of funding and resource management.*

Chapter Nine

Health and Community Services

9.1 Introduction

While constitutional responsibility for health and community services is shared between the Commonwealth and the States, regulation of the sector is largely a state matter.

The states also have the main carriage of hospital services and a range of community welfare services. This chapter explores the performance and resourcing of major state-based health and community services in Queensland, particularly the public hospital system and services for people with disabilities.

The public hospital system in Queensland has developed along markedly different lines to those in other states.[1] Government subsidies to provide financial assistance to hospitals were first institutionalised (prior to Queensland's establishment as a separate colony) in the *Hospitals Act 1847*, which was one of the earliest examples anywhere of legislative intervention in hospital services. The *Hospitals Act 1923* formally ended the necessity for hospitals to rely on subscription revenue. Queensland chose to maintain its free public hospital system from that time forward, despite a 50 per cent higher Commonwealth subsidy for treatment of insured patients during the period 1951 to 1970.

By national and international standards the health of Queenslanders is very good, with some room for improvement which would most effectively be achieved by attention to behaviour/lifestyle factors. Utilisation of hospitals in Queensland is quite high, however, and current utilisation levels suggest a degree of inappropriate admissions, despite access issues for elective surgery patients in some areas of the State.

A range of recent health service reforms in member countries in the Organisation for Economic Cooperation and Development is also explored.

Options for improving the efficiency and effectiveness of health and community services in Queensland are recommended, with a key theme being the improved utilisation of capital and recurrent resources through competition.

1 Butler, J.R.G. (1989) "The Queensland Public Hospital System: an Economic Perspective", in Butler, J.R.G. and Doessel, D.P. (eds), *Health Economics, Australian Readings*.

Health Services

Key Points

Queensland's public hospital system, the core of government involvement in health services, is relatively efficient compared to those of the other states and there is no evidence to suggest that the quality of services is lower. However, there is scope for improved utilisation of both public and private hospitals and greater efficiency will be needed to be achieved, given the prospective rising demand for health services driven by population growth and aging of the population over the next 30 years.

Findings

- *Queensland's overall health expenditure per capita is around 85 per cent of the Australian average, although expenditure on hospital services for public patients is about average after allowing for lower numbers of private patients in public hospitals in this State.*
- *Queenslanders are relatively healthy compared to the rest of Australia and other countries in the Organisation for Economic Cooperation and Development.*
- *Queensland's public hospitals are relatively efficient compared to those of the other States, providing a similar quality of service for about 85 per cent of the Australian average cost. The major part of the cost differential arises from a lower average casemix complexity; in part, this is because Queensland public hospitals apparently admit a substantial number of people who might have been treated differently (eg as outpatients) had they resided elsewhere in Australia. Queenslanders are relatively heavy users of hospitals, with total public and private hospital admission rates six per cent higher than the Australian average.*
- *Elective surgery waiting times are somewhat worse for Queensland than the Australian average, although the reasons are complex and include medical workforce issues, internal management of hospitals/operating theatres, and so on.*
- *There is significant scope for improved utilisation of hospitals overall, many of which provide a low volume and complexity of services in relation to their costs.*
- *Health service delivery has not responded flexibly to emerging needs driven by demographic and technological changes.*
- *There remain deficiencies in capital planning and investment decisions, and in asset management:*

  - *capital investment has not achieved as much in service terms as it should have for the costly resources involved, because it has not been closely linked to service needs;*
  - *integration between public and private sectors has been poor, entailing duplication of costly infrastructure; and*
  - *information required to support cost-effective asset management and maintenance is inadequate.*
- *If the existing hospital admission rates and approach to service delivery continue, health services for the population of the State, which is ageing along with the rest of Australia, will create a heavy financial burden. If quality health services are to be sustained, strategic decisions about service delivery must:*
  - *be based on the full, transparent costs of alternative approaches;*
  - *provide incentives for improved productivity; and*
  - *ensure improved capacity utilisation*
- *Market type mechanisms which allow competition between health service providers have been shown to improve the efficiency and effectiveness of health services.*

9.2 Background

Key Points

- *Queensland's overall health expenditure per capita is around 85 per cent of the Australian average, although expenditure on hospital services for public patients is about average after allowing for lower numbers of private patients in public hospitals in this State.*

Existing Services

The health sector is regulated and partly funded by Queensland Health (QH), with annual expenditure on public health services of around $2.7 billion. A work force of 38,472 full-time equivalent staff is employed in the Department, including 168 separately incorporated acute hospitals, 323 community health facilities, 29 nursing homes, and 12 residential psychiatric facilities throughout the State. Health units reporting to Queensland Health range from the Royal Brisbane Hospital with 3,834 full-time equivalent staff to the Normanton Home and Community Care Service with one part-time staff member.

The State's public health sector is complemented by medical services and pharmaceutical goods funded through the Commonwealth Medicare Scheme, and licensed private facilities including 211 nursing homes, 57 acute hospitals and 17 free-standing day hospitals.

Public health services are broadly divided into three program areas, Population Health, Treatment, and Health Maintenance (see Table 9.1).

Table 9.1

Queensland Health 1995-96 Budget

Program Area	Current $ million	Capital $ million	Total $ million
Population Health	121.9	5.0	126.9
Treatment			
Adult Medical and Surgical	1,339.6	148.3	1,488.0
Maternity and Newborns	146.0	3.7	149.7
Children and Young People	116.1	2.2	118.3
Mental Health	178.5	16.9	195.5
Rural and Remote Health Care	169.8	21.6	191.4
Emergency Medicine	118.3	2.0	120.3
Oral Health	70.1	2.4	72.6
Sub-total	2,138.6	197.3	2,335.9
Health Maintenance			
Home Care	116.4	6.2	122.6
Residential Care	115.2	8.2	123.4
Sub-total	231.6	14.3	246.0
Total	2,492.1	216.6	2,708.8

Source: State Budget Papers, 1995-96, *Portfolio Program Statements, Minister for Health.*

Population Health activities are targeted at whole populations or communities, or at the needs of special groups (eg primary health services for Aboriginal and Torres Strait Islander communities), and strategies include prevention, promotion, health surveillance, health screening and community development.

Treatment program services are provided principally through the public hospital system and community-based health services, and include both inpatient and ambulatory care for the target groups. Treatment services consume more than 86 per cent of all State health expenditure, and hospitals alone consume more than 80 per cent of recurrent health expenditure.[2] Given the

[2] Commonwealth Grants Commission, *Report on General Revenue Grant Relativities, 1996 Update.*

relatively large share of health expenditure consumed, public hospitals will form the main focus of this chapter.

The Health Maintenance program aims to ensure that older people, people with a disability, and people requiring palliative care have access to a coordinated network of health related services.

Health Expenditure

Queensland's per capita expenditure on public health services is relatively low compared to other States in Australia, although this is not reflected in inferior health outcomes. In fact, Queenslanders are healthier than the average Australian in a number of key health indicators (see Section 9.3). Nor is lower expenditure attributable to lower utilisation of hospital services. Queenslanders are admitted to hospital six per cent more frequently than the Australian average admission rate, which, in turn, is considerably higher than the Organisation for Economic Cooperation and Development average (see Section 9.3).

The $2.7 billion a year consumed by public health services is a substantial proportion (23.2 per cent) of the State's Consolidated Fund outlays. Queensland's recurrent public sector expenditure on health services was $1.886 billion in 1994-95, equating to $583 per capita. Annual recurrent expenditure has increased by about $300 million over the five years to 1994-95, but remains significantly below the average of the other States according to the Commonwealth Grants Commission[1] (see Figure 9.1).

Figure 9.1

Recurrent Health Expenditure per Capita, 1990-91 to 1994-95

Source: Commonwealth Grants Commission, *Report on General Revenue Grant Relativities, 1996 Update.*

[1] Commonwealth Grants Commission (1996) op. cit.

It should be noted that the Commonwealth Grants Commission changed the basis upon which it reports for the 1996 update of relativities from a net to a gross basis. This had the effect of increasing the level of public expenditure in those States with relatively high offsetting revenues. This effect is particularly apparent in the hospital services category where patient fees and other user charges are offsetting revenues to hospital services expenditure. To compare net State expenditure on public hospital services, per capita revenue of $56 for New South Wales, $50 for Victoria, but only $25 for Queensland would need to be deducted from the above amounts. Hospital fee revenue is lower in Queensland because Queensland's public hospitals treat fewer private patients.

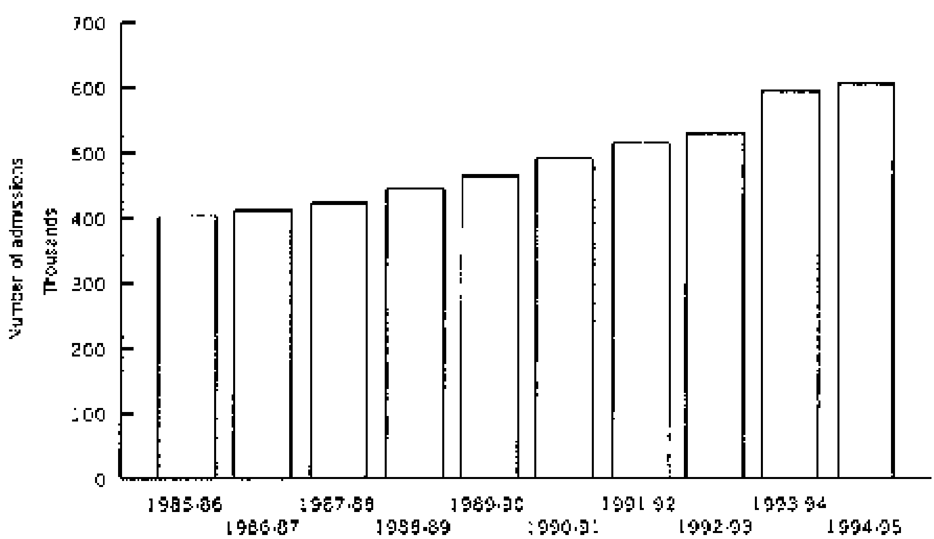
After taking hospital fee revenue offsets into account, Queensland expenditure per capita on public hospitals is around the Australian average. Queensland's relatively low health expenditure overall is largely explained by lower expenditure per capita on mental health (67 per cent of the average) and community health services (53 per cent of the average).

Hospital Activity

Admissions to Queensland public hospitals have increased quite rapidly over the past ten years. Annual admissions have increased by more than 203,000 or 50 per cent, which is substantially faster than population growth of 24.6 per cent over the same period (see Figure 9.2).

Figure 9.2

Number of Admissions to Queensland Public Hospitals, 1985-86 to 1994-95

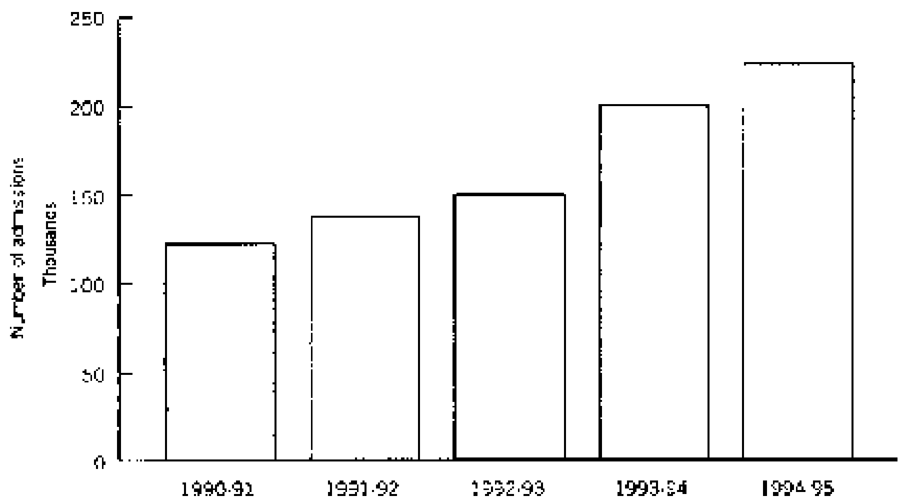


Source: Queensland Health, *Queensland Hospital Statistics*

Since 1990-91, the majority of this increase was in the number of day-only admissions, which have increased by around 100,000 or 81 per cent over the past five years (see Figure 9.3). Day only admissions now comprise 32.4 per cent of all separations in Queensland public hospitals, consistent with the trend throughout Australia.

Figure 9.3

Number of Day-Only Admissions to Queensland Public Hospitals, 1990-91 to 1994-95



Source: *Queensland Health Annual Report, 1994-95.*

The average length of stay per admission also dropped significantly over this period, largely as a result of the increase in day-only admissions.

In addition to acute inpatients, Queensland's public hospitals also accommodate a significant number of long-stay nursing home type patients. Nursing home type patients accounted for 219,997 occupied bed days in 1994-95, or 8.3 per cent of total occupied bed days.

9.3 Performance Assessment

Key Points

- *Queenslanders are relatively healthy compared to the rest of Australia and other countries in the Organisation for Economic Cooperation and Development.*
- *Queensland's public hospitals are relatively efficient compared to those of the other States, providing a similar quality of service for about 85 per cent of the Australian average cost. The major part of the cost differential arises from a lower average casemix complexity; in part, this is because Queensland public hospitals apparently admit a substantial number of people who might have been treated differently (eg as outpatients) had they resided elsewhere in Australia. Queenslanders are relatively heavy users of hospitals, with total public and private hospital admission rates six per cent higher than the Australian average.*

- ***Elective surgery waiting times are somewhat worse for Queensland than the Australian average, although the reasons are complex and include medical workforce issues, internal management of hospitals/operating theatres, and so on.***

The Health of Queenslanders

Improvements in the health status of the work force and population in general are valued by the community and contribute to improving the State's productivity and wealth.

According to key health indicators, Queensland has one of the better health profiles of the general population among the Australian States. Queensland has made the most rapid improvement between 1971 and 1991 of all Australian states in the two key indices of standardised death rates and expectation of life.[4] More specifically:

- By 1991, the overall age standardised death rate was lower in Queensland than in the rest of Australia, reflecting lower-than-average death rates from cardiovascular disease, malignant neoplasms (ie cancers), mental disorders, and chronic bronchitis, emphysema and asthma. This good performance was marred by somewhat higher death rates for external injury, particularly for suicide and self-inflicted injury.
- By 1993, Queenslanders could expect on average to live for 78.04 years, compared with 77.96 years for all Australians.[5]

The glaring exception to Queensland's (and Australia's) relatively good health outcomes is the 15-20 year gap in expectation of life between Aboriginal communities and the total population. This is largely a reflection of high Aboriginal mortality in middle age, with death rates from most causes six to 12 times higher than for all Australians.

Notwithstanding the relatively good health of Queenslanders, there is still potential for further improvement in health for all causes of death combined. Potential years of life lost which could be saved (if mortality in Queensland was reduced to the best-performed European country for each disease category) are as shown in Figure 9.4.

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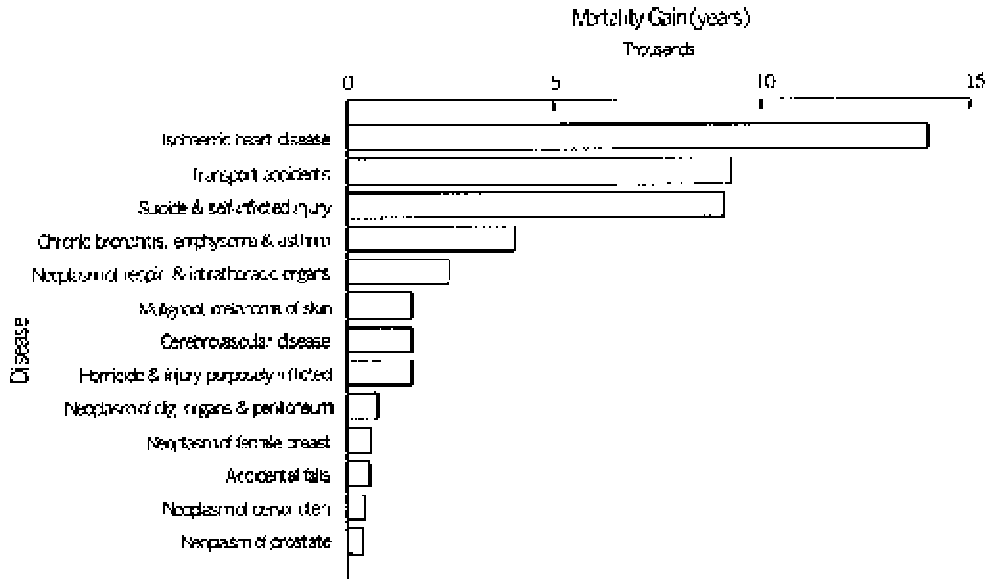
4 Australian Bureau of Statistics *Trends in Mortality by Cause of Death in Australia, the States and Territories during 1971-92 and in Statistical Division and Sub-division during 1991-92* 3313.0.

5 Australian Bureau of Statistics *Deaths, Australia* 3302.0

Figure 9.4

Queensland Potential Mortality Gain



Source: Queensland Health, Epidemiology and Health Information Branch (1995), *Information Circular No.33*.

To put this into perspective, even if Queensland were to achieve all of this potential mortality gain, this would represent an increase of just 5.3 days or 0.018 per cent in average life expectancy.

For Queensland to achieve such gains there would need to be considerable improvements in behaviour/lifestyle in relation to nutrition, tobacco use, alcohol abuse, injury risks and sun exposure. Well integrated, sustained public education programs have been linked with changed risk behaviours. By comparison, additional utilisation of hospital services could be expected to yield a much more marginal improvement.

Health and Health Care

The contribution of health services to health outcomes is not easily measured, and there is a paucity of data that relate service utilisation to measurable outcomes for consumers of the services. Analysis of reduction in mortality over the past century suggests that better nutrition, clean water, hygiene, sanitation and family planning may have at least as important a role to play as any medical interventions, and that, of the last, primary health care such as immunisation may be more important than secondary health care, such as hospital in-patient services, in improving the health of the population as measured in terms of life expectancy.[6]

6 McKeown T. (1979) *The Role of Medicine: Dream, Mirage or Nemesis?* (2nd ed), Oxford, Basil Blackwell.

Wide variations in cost, price and patterns of resource use in health sectors between Organisation for Economic Cooperation and Development countries with similar health outcomes suggest that there is considerable scope for increased efficiency in many countries (see Table 9.2).[7]

Table 9.2

Total Expenditure on Health Care in Gross Domestic Product (per cent)

	1960	1980	1992
United States	5.1	9.2	14.0
Canada	5.5	7.4	10.2
France	4.2	7.6	9.4
Australia	4.9	7.3	8.8
Germany	4.8	8.4	8.7
Italy	3.6	6.9	8.5
Sweden	4.7	9.4	7.9
New Zealand	4.3	7.2	7.2
United Kingdom	3.9	5.8	7.1
Spain	1.5	5.6	7.0
Japan	3.0	6.6	6.9
Total OECD	**3.9**	**6.7**	**8.4**

Source: Oxley and MacFarlan (1994), *Health Care Reform Controlling Spending and Increasing Efficiency.*

By focusing on the way in which health care is delivered, it may be possible to provide the same amount of health care but more efficiently. Some key 'institutional' differences which seem to reduce overall costs include:[8]

- the use of primary care 'gatekeepers' (ie providers of compulsory letters of referral for non-emergency access to secondary care or specialists);
- reimbursement systems, where the patient first pays the provider and is then reimbursed (either by their government or an insurer);
- capitation systems or wage and salary payments, as opposed to fee-for-service systems for remuneration of physicians; and
- a low overall share of inpatient care as a proportion of total spending, with a relatively higher share for ambulatory care (ie non-inpatient treatment). That is, inpatient care is more expensive than ambulatory care.

7 Oxley and MacFarlan (1994), *Health Care Reform Controlling Spending and Increasing Efficiency*, Organisation for Economic Cooperation and Development.

8 Gerdtham, Jonsson, MacFarlan and Oxley (1994), *Factors Affecting Health Spending. A Cross-country Econometric Analysis*, Organisation for Economic Cooperation and Development

The latter two factors are of particular interest in terms of Queensland's public health sector which has traditionally had a high proportion of salaried medical officers, but places a heavy emphasis on hospital inpatient services.

The very weak association between overall health-care spending and available indicators of health outcomes raises two additional issues:

- health care spending at the margin may have only limited effects on overall health status; and
- since health outcomes are dominated by a range of additional factors besides health care, governments may be able to achieve health goals more effectively via other channels.

Another consequence of the weak association between health care spending and health outcomes is that objective assessment of the adequacy or otherwise of health services is difficult. It is possible to make broad comparisons of service usage as a proxy measure of service adequacy, although such comparisons have limited normative significance. For example, relatively high levels of service usage may reflect either a greater prevalence of disease or over-servicing by providers. The analysis of Queensland's health services in this report confines itself to this type of comparison and assumes that, in general, disease is no more prevalent in Queensland than in the rest of Australia.

Utilisation of Services

Australia has a high rate of admissions to acute hospitals, but a relatively short average length of stay. In 1991-92, the Australian admission rate was 224 admissions per 1,000 population compared to a median rate of 163.3 per 1,000 for other Organisation for Economic Cooperation and Development countries.[9] The practice in Australia of counting same-day procedures as admissions, contrary to other Organisation for Economic Cooperation and Development countries, is partly responsible for the high rate of admissions. However, once this factor is excluded, Australia was still somewhat above the median at 173 admissions per 1,000. By 1993-94, Australia's admission rate had grown to 257.6 per 1,000, including 168.2 overnight admissions and 89.4 day-only admissions.[10] An emphasis on bed-based services at the expense of home-based and outpatient treatment is a likely contributor to Australia's high admission rate.

Amongst the Australian States, Queensland had the second highest admission rate, at 273.1, in the public and private sector in 1993-94 (190.2 and 82.9 admissions per 1,000 population, respectively), exceeding the national average on both (see Figure 9.5).[11]

A somewhat different pattern was observed for admissions by patient accommodation status. Queensland had the highest admission rate for public patients, reflecting the relatively lower

9 Oxley and Macfarlan (1994), op cit

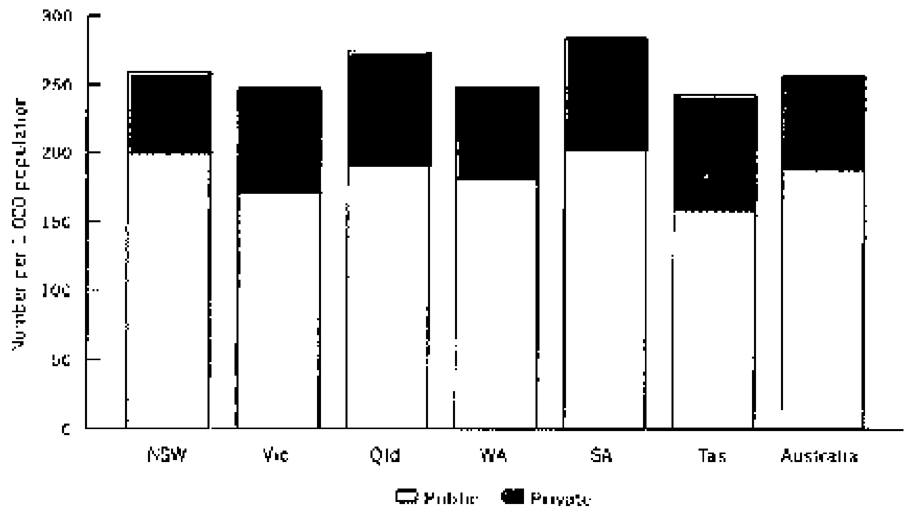
10 Australian Institute of Health and Welfare (1996), *First National Report on Health Sector Performance Indicators*

11 Australian Institute of Health and Welfare (1996), op cit

rate of Queenslanders with health insurance and lower numbers of private patients in public hospitals in this State ('other' patients include compensable and other patients ineligible for Medicare) (see Figure 9.6).

Figure 9.5

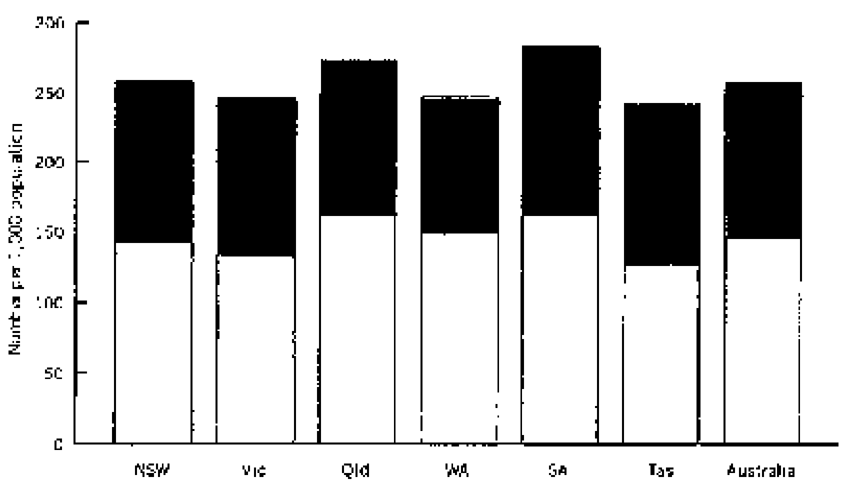
Number of Admissions per 1,000 Population, by Hospital Type, 1993-94



Source: Australian Institute of Health and Welfare (1996), *First National Report on Health Sector Performance Indicators*.

Figure 9.6

Number of Admissions per 1,000 Population, by Patient Accommodation Status, 1993-94



Source: Australian Institute of Health and Welfare (1996), *First National Report on Health Sector Performance Indicators*.

Average length of stay for acute hospital separations in Queensland public hospitals was 4.3 days in 1993-94. This is at the lower end of the range of 4.2 (Victoria) to 5.3 days (Northern Territory), and was lower than the national average of 4.4 days.[12]

Taken together with relatively high numbers of nursing home type patients, these high admission rates suggest that Queensland is providing inappropriate and relatively high-cost acute hospital care to a significant group of clients whose needs may be better met outside the hospital setting. For example, if Queensland had more appropriately accommodated such nursing home type patients, had Australian average acute admission rates, and assuming no change in the proportion of patients treated in public hospitals, the occupancy rate for Queensland public hospitals would have been just 64.9 per cent in 1993-94 (compared to the actual rate of 74.8 per cent).

Efficiency of Services

Casemix is an information tool for the classification of episodes of patient care. Casemix classifications are generally based on the assumption that commonalities exist among the attributes of patients and medical problems on the one hand and patterns of treatment, medical approaches, and levels of service on the other.

Data collected on the basis of casemix classifications can assist with managing, monitoring, and planning health services. Among other things, casemix data can give:

- information about the quality of care;
- a basis for funding, paying and charging for health care services (see Section 9.5);
- measures of hospital output; and
- comparisons between different care options at national and local levels.

The best known casemix classification system is diagnosis related groups. Diagnosis related groups consist of a manageable number of distinct classes based on clinical meaning and resource-use homogeneity, and were first developed in the United States during the 1970s. Since the 1980s, Australia has developed the Australian National Diagnosis Related Groups classification system and national cost weights, tailored to Australian conditions.

The *First National Report on Health Sector Performance Indicators*[13] indicates that while Queensland's public acute hospitals have significantly lower case costs (just over 15 per cent lower) than the average Australian public hospital, this difference is much narrower when adjusted for casemix.

[12] Department of Health and Family Services (1996), *Australian Casemix Report on Hospital Activity 1993-94*

[13] Australian Institute of Health and Welfare (1996), op cit.

Table 9.3

Cost per Separation, Queensland and Australia

	Queensland $	Australia $
Unadjusted		
Non-medical labour costs	1,201	1,322
Other recurrent costs	498	593
Medical labour costs	311	452
Total Unadjusted	2,010	2,368
Total Adjusted	**2,234**	**2,327**

Source: Australian Institute of Health and Welfare (1996), *First National Report on Health Sector Performance Indicators*.

Table 9.3 above suggests there are some significant casemix differences between Queensland and the rest of Australia. The *Australian Casemix Report on Hospital Activity 1993-94*[14] makes a number of interstate comparisons for selected diagnosis related groups which illustrate some of these differences. The major part of the cost differential arises from a lower average case complexity: that is, Queensland public hospitals apparently admit a substantial number of people to hospital as acute inpatients who might have been treated differently (eg as outpatients) had they resided elsewhere in Australia.

Despite lower overall costs, the casemix adjusted costs per case for nursing and other staff (eg domestic staff), and for domestic services, medical and drug supplies were actually higher in Queensland public hospitals than the average Australian public hospital. This suggests that there may be scope for efficiency gains in these areas.

Quality of Services

Overall, the quality of hospital services in Queensland would seem to be similar to that elsewhere in Australia, although quality is a difficult concept to define and measure. Measures of quality tend to be indirect; for example, the adequacy of processes and practices, or the rate of adverse outcomes. Alternatively, client perceptions of quality can be measured directly, if imprecisely, through client satisfaction surveys.

In Australian hospitals, quality has traditionally been approached through quality assurance, whereby processes and practices are assessed by a committee of peers. The Australian Council on Healthcare Standards controls accreditation of Australian hospitals through a rather lengthy process which involves surveys of all areas of the hospital (ie administration, nursing, clinical,

[14] Department of Health and Family Services (1996), op cit

catering, cleaning, and so on), of staff, and of patients. Only 16 per cent of Queensland hospitals were accredited as at 30 June 1994, compared to the Australian average of 42 per cent. This low overall accreditation rate arises largely from the very low rate for Queensland public hospitals (four per cent), reflecting a past lack of active policy support for accreditation. Queensland adopted a policy of seeking accreditation for public hospitals in 1993-94 and is rapidly increasing the number of accredited beds.

The Australian Council on Healthcare Standards has recently developed some clinical indicators as a component of the accreditation program. Although based on only a small sample, these indicators suggest that the rates of adverse outcomes in Queensland hospitals are generally in the middle of the range, with infection rates slightly higher but within national norms (see Table 9.4).

Table 9.4

Rates of Adverse Outcomes, by State, Australia

	NSW	Vic	Qld	SA	WA	Tas
Emergency readmission within 28 days	3.40	3.70	2.00	3.70	2.50	
Unplanned return to operating room	0.50	0.70	0.60	0.50	0.90	0.10
Hospital acquired infection						
Clean wound	1.90	1.80	2.30	2.50	3.00	1.70
Contaminated wound	2.20	3.70	4.70	1.80	3.60	4.40
Bacteraemia	0.04	0.10	0.07	0.03	0.10	0.30

Source: Australian Institute of Health and Welfare (1996), *First National Report on Health Sector Performance Indicators*.

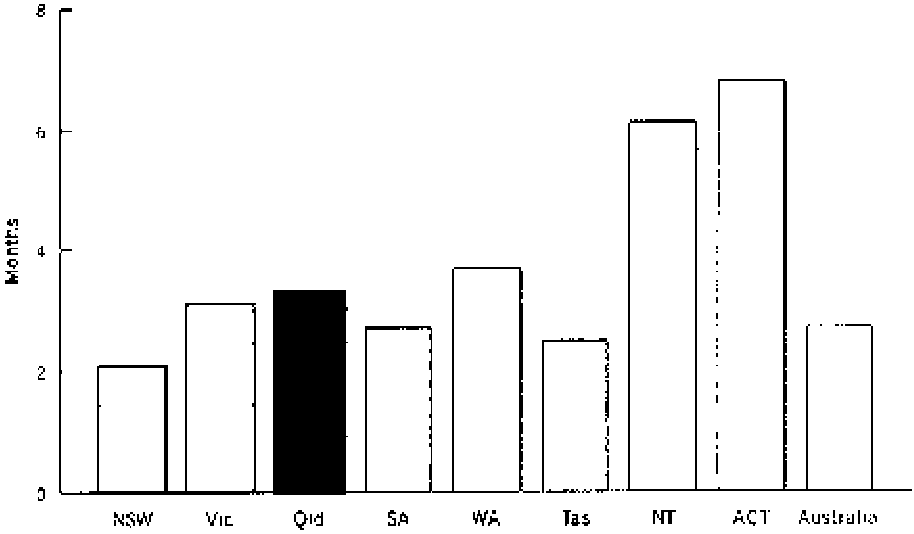
Access to Services

Access relates to the capability of the health system to provide appropriate and timely care in accordance with patient needs. A broadly accepted measure of timeliness which has recently been given some prominence is the waiting time for various categories of elective (as opposed to emergency) surgery. Elective surgery is defined as surgery which can be delayed for at least 24 hours in the treating clinician's opinion.

The clearance time (ie the length of time it would take to clear all patients from the waiting list) and proportion of patients waiting an inappropriately long time for elective surgery are somewhat higher in Queensland public hospitals than the Australian averages (see Figures 9.7 and 9.8).

Figure 9.7

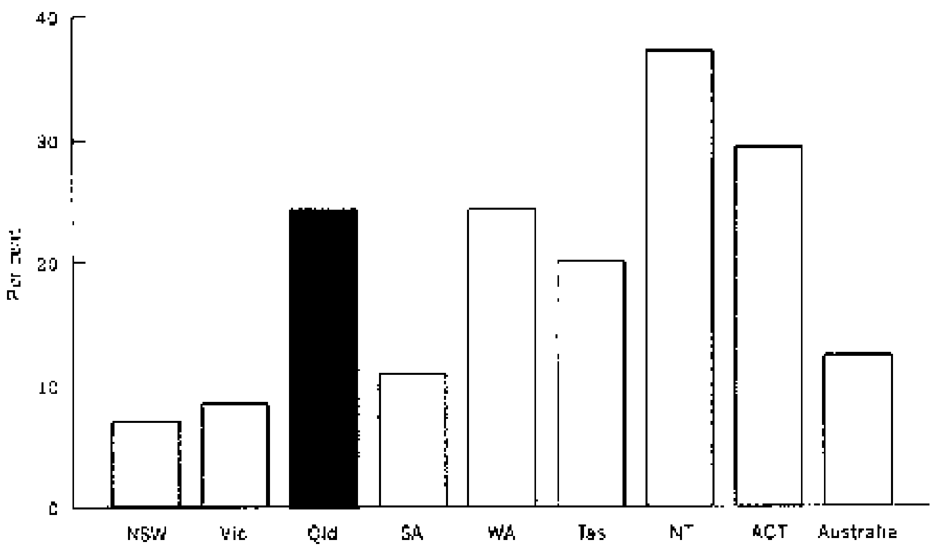
Average Clearance Time for Public Acute Hospitals, by State/Territory, 1995



Source: Australian Institute of Health and Welfare (1996). *Elective Surgery Waiting Lists, Draft Report.*
Notes: 1994 data for Tasmania.

Figure 9.8

Proportion of patients waiting longer than 12 months, by State/Territory, 1995



Source: Australian Institute of Health and Welfare (1996). *Elective Surgery Waiting Lists, Draft Report.*
Notes: 1994 data for Tasmania.

Within the Queensland average there were a small number of surgical specialties and hospitals where waiting times were significantly longer than the state average. In particular, clearance times for ear, nose and throat, orthopaedic and ophthalmology waiting lists were all longer than average. In other states these categories of patients also tend to wait longer for surgery, suggesting that medical workforce issues may be a significant factor.

Waiting times at a small number of hospitals, with average clearance times of more than five months, were also significantly longer than the Queensland average. Clearly there were some specific local factors (eg the 'mix' of resources, including staff, treatment facilities, and operating theatres) at work in these hospitals.

9.4 Resourcing

Key Points

- ***There is significant scope for improved utilisation of hospitals overall, many of which provide a low volume and complexity of services in relation to their costs.***
- ***Health service delivery has not responded flexibly to emerging needs driven by demographic and technological changes.***
- ***There remain deficiencies in capital planning and investment decisions, and in asset management:***
    - ***capital investment has not achieved as much in service terms as it should have for the costly resources involved, because it has not been closely linked to service needs;***
    - ***integration between public and private sectors has been poor, entailing duplication of costly infrastructure; and***
    - ***information required to support cost-effective asset management and maintenance is inadequate.***

Adequacy of Resourcing

Given relatively high hospital admission rates in Queensland, there would appear to be no significant under provision of acute hospital services overall. At the same time, there would seem to be considerable scope for more efficient use of hospital facilities and services.

Relatively low expenditure on mental and community health services, together with some documented deficiencies in mental health services,[15] suggest that greater priority needs to be given to such services. In particular, mental health services in Queensland are heavily

[15] Human Rights and Equal Opportunity Commission (1993), *Human Rights and Mental Illness.*

hospital-based and an issue is whether a better balance of services between hospitals and community-based services would be more cost-effective.

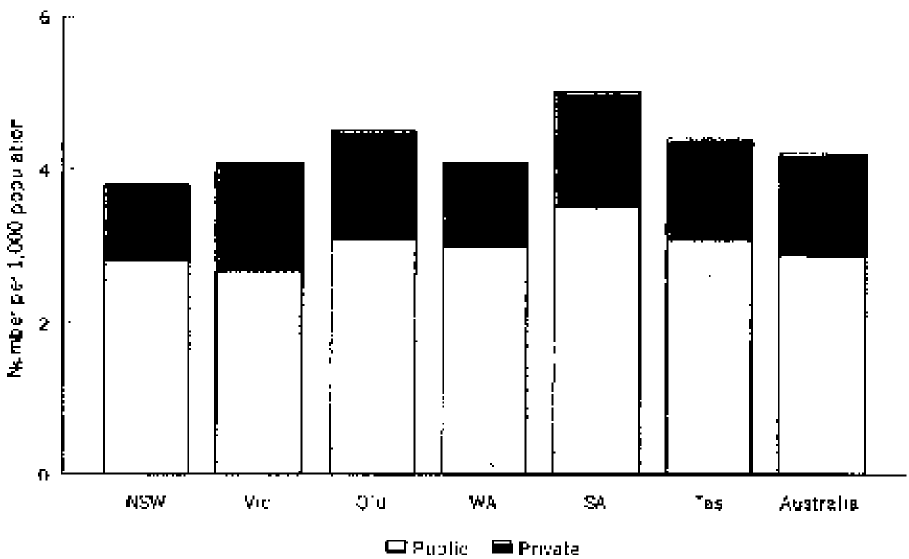
Admission patterns in Queensland public hospitals suggest a high rate of inappropriate admissions, possibly due to a lack of alternative non-inpatient services. Admissions to hospital should be based on clinical need and confirmed by best practice.

Infrastructure

Queensland, with 9,809 public and 4,403 private beds, had the second highest supply of both public and private acute hospital beds among the Australian States in 1993-94, exceeding the national average in both sectors (2.9 beds and 1.3 beds per 1,000 population nationally in the public and private sectors, respectively) (see Figure 9.9).[16]

Figure 9.9

Number of Beds per 1,000 Population, by States, Australia



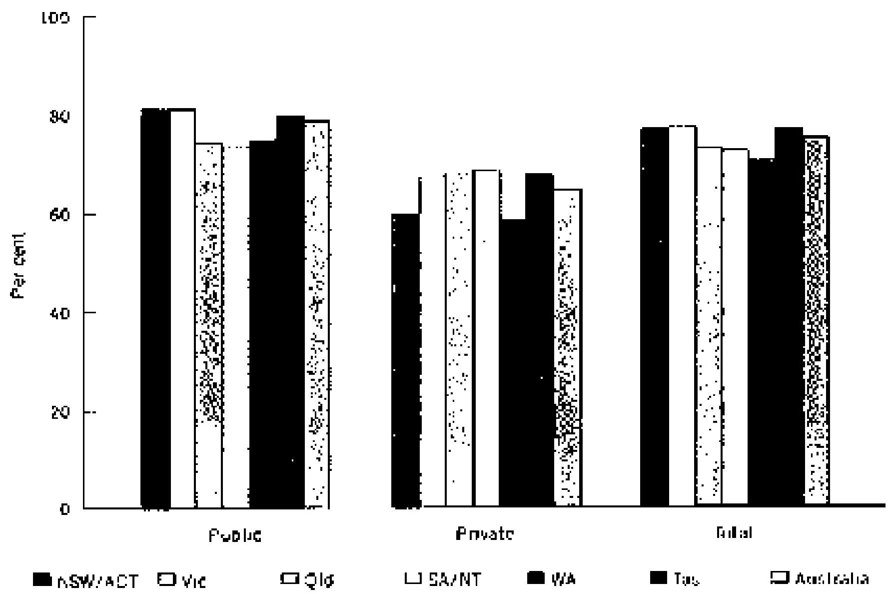
Source: Australian Institute of Health and Welfare (1996), *First National Report of Health Sector Performance Indicators*.

Queensland's average occupancy for the public and private sectors combined was the third lowest of the states in 1991-92 (72.6 per cent), with Western Australia having the lowest rate (70.7 per cent) and was below the national average of 75 per cent. However, while Queensland's average occupancy in the public sector (74.2 per cent) was second lowest of the states and lower than the national average (78.4 per cent), the average occupancy in the private sector (67.8 per cent) was second highest of the States, and higher than the national average (64.4 per cent) (see Figure 9.10).

[16] Australian Institute of Health and Welfare (1996), op cit.

Figure 9.10

Occupancy Rates, by Sector, Australia, 1991-92



Source: Queensland Health, Epidemiology and Health Information Branch (1995), *Information Circular No.34*.

Very high hospital admission rates by Organisation for Economic Cooperation and Development standards (see Section 9.3), combined with relatively low occupancy rates, strongly suggests hospital infrastructure in Australia, and particularly in Queensland, is significantly under-utilised.

While some hospitals have low occupancy rates, others in high growth, low socioeconomic areas have very high occupancy rates. Further analysis is required in relation to individual hospitals to determine patterns of utilisation and the appropriate use of resources.

Capital Investment

The Stock of Hospital Capital

Total State Government investment in hospital facilities had an estimated replacement value of $2,531 million as at June 1993,[17] comprising:

- $2,062 million in hospital buildings and plant;
- $363 million in equipment, of which $325 million was for items valued at $5,000 or more;

[17] Deeble, J. (1993), *Queensland Hospital Capital Survey*.

- $79 million in furniture and furnishings; and
- $27 million in off-site residences, etc.

From information generated by the *Queensland Hospital Capital Survey*, and assuming rates of capital consumption based on estimates of the life of various types of assets, annual capital consumption in 1993 values was estimated as shown in Table 9.5.

Table 9.5

Annual Capital Consumption, Queensland, 1993

Assets	Rate Per cent	Value $ million	Amount $ million
Hospital buildings	3.0	2,062	61.9
Other buildings	2.0	27	0.5
Equipment	8.0	363	29.0
Furniture	6.6	79	5.2
Total		**2,531**	**96.7**

Source: Deeble, J. (1993), *Queensland Hospital Capital Survey*.

By value, the age distribution of Queensland public hospital buildings appears to be quite similar to the national average in terms of hospital buildings constructed prior to 1948 (21.7 per cent), but with a higher proportion of hospital buildings built since 1967 (54.8 per cent). The $1,141 million in post-1967 construction represents an average annual expenditure of $45.6 million in 1993 values, most of which represents asset replacement.

Given the ages of existing assets, replacement will be less than consumption over the next decade or so because most facilities have more than ten years of economic life remaining. The survey estimated aggregate replacement spending over the ten years from 1993-94 as set out in Table 9.6.

Table 9.6

Estimated Aggregate Replacement Spending, 1993-94 to 2002-03

	Value $ million	Expenditure $ million
Buildings		
(i) aged over 45 years	392	
- 50 per cent replaced		196
- 50 per cent refurbished		69
(ii) aged 25-45 years	498	
refurbished		174
Equipment	363	
- 87 per cent replaced		316
Furniture	79	52
Other assets	27	5
Total	**1,359**	**812**

Source: Deeble, J. (1993), *Queensland Hospital Capital Survey*.

The survey was based on replacement value with some enhancements (eg air conditioning), and depreciation rates of 3 per cent on building, 8 per cent on equipment, and 6.6 per cent on furniture and fittings. These estimates differ from the material collated by Arthur Andersen for the whole-of-government balance sheet in Volume I (Chapter Four). The Arthur Andersen study included health capital assets other than hospitals, used depreciation rates of 2.5 per cent on buildings and 5.2 per cent on plant/equipment, and did not explicitly address the issue of upgrading of capital assets. Using either approach, the current forward capital program of $1.7 billion over ten years from 1993-94 would seem adequate, and allow for some upgrading (see Section 9.5).

Of course, estimates of asset replacement costs are based on the concept of maintaining the value of hospital assets over time, but not necessarily their form. It does not imply that all new equipment will be identical to the old or that the replacement of older buildings, for example, will always take place on the same site and in the same configuration. Indeed, characteristics of existing hospital infrastructure suggest that past investment has been less than optimal:

- Over all hospitals, the average area per bed in Queensland was 15.8 square metres or 13 per cent below the average reported for other states in a 1991 national survey of public hospital capital.[18] This difference arose almost entirely in the two main teaching hospitals (Royal Brisbane and Princess Alexandra), where average areas were about 30 square metres per bed below those in equivalent hospitals elsewhere in Australia. At the other end of the scale, the

18 Deeble, J. (1991), *Public Hospital Capital Study*

average space per bed in smaller Queensland hospitals was actually more generous than was measured in the other states.

- Equipment values per bed were marginally lower in Queensland than in the other States. However, as for hospital buildings there was a much larger difference for teaching hospitals (about 20 per cent lower than the national average), and equipment values for smaller hospitals were actually slightly above the average in the other States

Of the space in surveyed hospitals which was over 45 years old, almost 66,000 square metres (or 40 per cent) was in the Royal Brisbane and Royal Women's Hospitals. A further 11 per cent was in the Mater complex. Over half of the pre-1948 space in these hospitals was used for inpatient services and nearly all of it dates back to the 1930s. These older areas no longer meet either medical demands or patient expectations, and refurbishment would not be economic compared to replacement. Clearly these areas must be among the highest priorities for replacement.

Economic Analysis of Hospital Costs

In an analysis prepared for the Commission of Audit,[19] an econometric model of average recurrent and capital costs (ie depreciation) was estimated. A sample of 44 hospitals was used in the study, ranging from the very small (Yarrabah Hospital) to the extremely large (Royal Brisbane group).

The econometric model suggested that, by increasing their rate of capacity utilisation, hospitals could make significant cost savings: a 10 per cent increase in the case flow rate leads, on average, to a 4.4 per cent fall in average costs, but for some hospitals this figure would be considerably higher. In dollar terms, this cost saving would be $142 per weighted inlier equivalent separation (ie a measure of hospital output adjusted for casemix complexity), or $66 million in total across the sample.

Very wide variations in average costs were found for Queensland public hospitals, mainly driven by differences in capacity utilisation as measured by the case flow rate (defined as weighted inlier equivalent separation per square metre of floor area) (see Table 9.7). Hospitals outside south east Queensland tend to have higher average costs, in most cost categories, than those in south east Queensland. This is mainly due to higher labour costs, and the under-utilisation of capacity which prevents the spreading of fixed costs such as depreciation and administration expenses.

[19] Fahrer, J. (1996), *An Economic Analysis of Hospital Costs in Queensland.*

Table 9.7

Queensland Hospitals: Capacity Utilisation, Average Costs and Length of Stay, 1994-95

Hospital Name	Case Flow Rate	Average Costs $	Length of Stay Days
Royal Brisbane Group	0.51	3,323	5.0
Princess Alexandra	0.53	3,869	5.0
Mater Misericordiae Group	0.59	2,973	3.8
Prince Charles	0.52	2,172	5.0
Gold Coast	0.65	2,757	4.3
Toowoomba	0.43	3,406	4.1
Townsville	0.52	3,505	4.6
Cairns Base	0.68	2,708	3.6
Nambour	0.72	2,270	3.5
Ipswich	0.54	2,718	3.9
Rockhampton Base	0.37	3,977	4.7
Redcliffe	0.52	2,589	4.3
Queen Elizabeth II Jubilee	0.19	4,524	3.8
Bundaberg	0.45	2,586	4.0
Mackay	0.55	2,950	3.2
Maryborough	0.44	2,778	3.7
Logan	0.98	2,404	3.2
Mount Isa	0.43	3,123	3.6
Gympie	0.31	2,971	4.1
Innisfail	0.25	3,112	4.7
Caboolture	0.67	2,680	3.2
Warwick	0.21	4,224	5.5
Atherton	0.53	1,877	3.6
Roma	0.25	3,553	4.4
Kirwan Women's	0.71	2,643	4.0
Stanthorpe	0.29	2,966	4.0
Charters Towers	0.29	2,848	2.9
Charleville	0.19	5,537	4.7
Longreach	0.20	4,998	3.8
Mossman	0.32	2,276	4.0
Beaudesert	0.53	1,761	3.1
Proserpine	0.43	2,285	4.0
Caloundra	0.75	2,437	3.6
Wondai	0.24	2,707	3.8
Barcaldine	0.13	7,125	14.8
Yeppoon	0.33	3,626	4.7
Esk	0.18	4,849	6.8
Mundubbera	0.20	3,474	13.1
Maleny	0.26	2,881	7.0
Nanango	0.33	2,382	5.3
Gin Gin	0.11	7,375	5.0
Sarina	0.48	2,615	3.8
Gordonvale	0.66	2,124	5.5
Yarrabah	1.50	1,740	3.8

Source: Fahrer, J. (1996), *An Economic Analysis of Hospital Costs in Queensland.*

The analysis of long-run costs suggests that, up to an area of about 120,000 square metres, average costs increase as hospital size increases, probably due to the lumpy and expensive nature of investment in equipment. As it happens, however, no hospital in the sample is near this point. All except the Royal Brisbane group are smaller, with the largest of these, the Princess Alexandra Hospital, having a capacity of 97,405 square metres, still considerably less than the point of maximum cost. The Royal Brisbane, with a capacity of 174,895 square metres, is considerably past this point.

The capital survey and economic analysis raise issues about the design and location of hospital infrastructure in Queensland. The nature of the current infrastructure will not support the projected service demand and the significant changes which have occurred and will continue to occur in clinical practice (see Section 12.4). For sustainable hospital services in the future it is imperative that strategic decisions about service delivery, including investment in health infrastructure, are designed to ensure improved usage of hospitals.

Asset Management

Some misdirected investment in hospital infrastructure has resulted in relatively high maintenance costs per unit of output. In addition, *ad hoc* approaches to maintenance have not contributed to efficient use of maintenance services.

According to its Physical Asset Strategic Plan,[30] the Department has recently commenced a detailed assessment of the maintenance costs and liabilities of health facilities. This suggests that, at present, the average annual maintenance cost for major metropolitan hospitals is three to five per cent of their replacement value, and that there is also a considerable outstanding maintenance liability. Given relatively lower utilisation of non-metropolitan hospitals, unit maintenance costs for such hospitals could be expected to be correspondingly higher.

Following the completion of the current capital works program, the annual maintenance cost for metropolitan hospitals is projected to reduce to around 1.5 per cent of the replacement value, and the vast majority of the outstanding maintenance liability will be avoided. This will enable a significant reduction in annual maintenance expenditure.

A comprehensive asset management program is being developed in conjunction with the review of the role and functions of hospitals, including a maintenance planning framework and manual. This should help to ensure that maintenance strategies are developed and put in place for each facility.

[30] Queensland Health

9.5 Future Demand

Demand For Health Services

Over the past ten years, length of stay in public hospitals has been falling, while admissions to hospitals have increased. The decline in length of stay outweighs the increase in admissions to hospitals resulting in a need for fewer hospital beds. Across Australia, hospital length of stay fell from 6.5 days in 1985-86 to 4.4 days in 1994-95, a reduction of more than 30 per cent. Changes in medical practice, new and better drugs, and less invasive surgical techniques have contributed to decreasing lengths of stay. These trends will continue with increasing use of same-day surgery.

Queensland has also experienced declining lengths of stay, from 6.9 days in 1985-86 to 4.4 days in 1994-95. The number of hospital beds has also decreased. In 1985-86, there were 11,907 public acute hospital beds in Queensland. By 1994-95, this number had fallen by 2,138 to 9,769, which indicates substantial idle capital capacity.

The number of patients treated in Queensland public hospitals, however, has steadily risen from 402,816 in 1985-86 to 606,013 in 1994-95 (see Section 9.1).

Demand Projections and Service Planning

Planning of health services to meet future needs is a complex business. Planning parameters include:

- population growth and ageing;
- changing model of care, including declining length of stay in acute facilities and increasing ambulatory care, deriving from:
  - technological changes, such as improved drugs, less invasive surgical procedures, and safer anaesthetics, and
  - a shift from crisis intervention towards a more preventative approach;
- redistribution of services to population growth areas, balancing:
  - the optimum location and size of various types of health facility (ie having regard to the need to use skilled staff and capital assets in an efficient manner), and
  - the need for services to be reasonably accessible to consumers.

In relation to hospital services, current projections are for a decline in the number of public acute beds from 9,809 to 9,177 between June 1994 and 2006. This is an overall decline of 632 beds or 6.4 per cent. In effect, population growth will be outweighed by a shorter average length of stay.

In the Brisbane metropolitan area, this is reflected in a small decline in the projected number of inpatient beds required, despite projected population growth of 23 per cent between 1991 and 2006. Within that overall projection, however, significant redistribution of services is anticipated. For example, bed numbers at Prince Charles, Logan and Redland Hospitals should grow, but this should be offset by reduced bed numbers at the inner metropolitan Royal Brisbane group, Mater complex, and Princess Alexandra/Queen Elizabeth II.[41]

Queensland Health's current acute bed projection methodology takes account of both future population changes and projected clinical trends for admission rates, length of stay and day procedure rates:

- Population projections are the Department of Local Government Medium Series.
- Projected clinical trends are based on mathematical projections of rates of change occurring over the past ten years in Queensland. The mathematical projections for length of stay and day procedure levels have been capped at levels considered to be achievable upper limits according to the views of clinician peer groups in New South Wales.
- The projections represent 1993-94 patient catchment flows. Where new hospitals or services have been developed the projections will not be accounted for by these projections (eg Logan and Caboolture Hospitals).
- A length of stay of one day has been assigned to day-only separations. This is considered very generous as the majority of day-only patients would not stay a full day and much activity recorded as day-only does not require a bed.
- Bed occupancy levels of 80 per cent for hospitals with more than 300 beds, 75 per cent for hospitals with 100-300 beds, and 70 per cent for hospitals with less than 100 beds have been assumed.

Decisions about service delivery have ostensibly been linked to Queensland Health's corporate plan via the development of Regional Service Plans. The new District Health Services, which replace the previous 13 Regional Health Authorities, are developing more localised plans. Essentially, 'top down' demographically based demand projections will be reconciled with 'bottom up' service planning by District Health Services through the new Planning and Systems Division. If service plans cannot be resolved at official level, then options may be prepared for consideration by the Government.

Service plans are operationalised through centrally controlled expenditure on fixed capital assets and block grant funding of facilities. Prioritisation of capital investment is undertaken centrally through the Capital Works Task Force, following prioritisation of service needs by each District Health Service.

However, without accurate information about the full costs of alternative approaches to service delivery and appropriate incentives for health service providers, it is difficult to see how required structural change in the system (ie an improved balance between inpatient care and

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41 McKay, B (1993), *South East Queensland Hospital Services Planning Project*

ambulatory care, improved continuity of care, changes to the role and functions of hospitals, and so on) can be achieved.

9.6 Options for Supply

Key Points

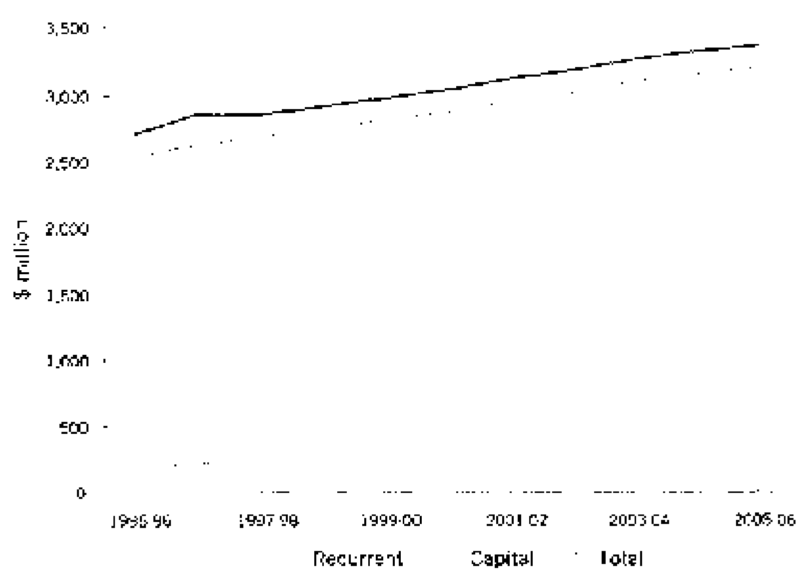
- ***If the existing hospital admission rates and approach to service delivery continue, health services for the population of the State, which is ageing along with the rest of Australia, will create a heavy financial burden.***
- ***If quality health service levels are to be sustained, strategic decisions about service delivery must:***
  - ***be based on the full, transparent costs of alternative approaches,***
  - ***provide incentives for improved productivity, and***
  - ***ensure improved capacity utilisation.***

Future Resourcing

Forward estimates of expenditure are as shown in Figure 9.11.

Figure 9.11

Queensland Health Expenditure Forecasts, 1996-97 to 2005-06



Source: Queensland Health.

The forward estimates show a compound growth rate of 2.4 per cent, which is significantly less than the growth over the past ten years. Key elements of the forward estimates are as follows:

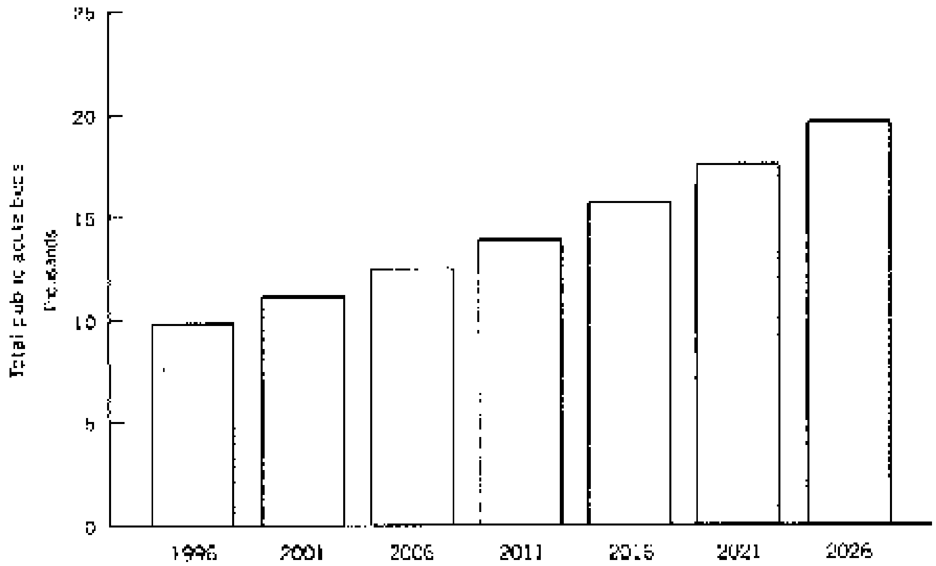
- annual funding increases linked to age-sex weighted population growth;
- a three-year, $64 million program to address hospital waiting times for elective surgery;
- $21 million over three years to enhance community-based mental health services, including additional clinical staff, additional support for community organisations, and expanded child and youth mental health services;
- $11.5 million over three years to improve primary health care services in Cape York and the Torres Strait, including additional health workers and the commissioning of 11 new community health centres; and
- $1.7 billion over ten years from 1993-94 to replace and upgrade health capital infrastructure, including an additional $75 million over 1995-96 and 1996-97 to upgrade specialist equipment and accelerate the rebuilding of metropolitan hospitals.

Noting that a slight decline in acute bed numbers is anticipated over the next 10 years (see Section 9.5), and given that inpatient services are relatively expensive compared to other models of care (Section 9.3 refers), this projected growth in expenditure should be adequate. In effect, a changing model of care and improved efficiency are expected to partly offset demand driven by population growth and ageing.

However, maintenance of existing modes of health service delivery combined with projected population growth and ageing would impose a heavy cost burden over the next few decades. For example, if it is assumed that there is no further reduction in average length of stay, and that existing under-utilisation of hospitals continues, the number of hospital beds required will increase by 28 per cent within ten years (see Figure 9.12).

Figure 9.12

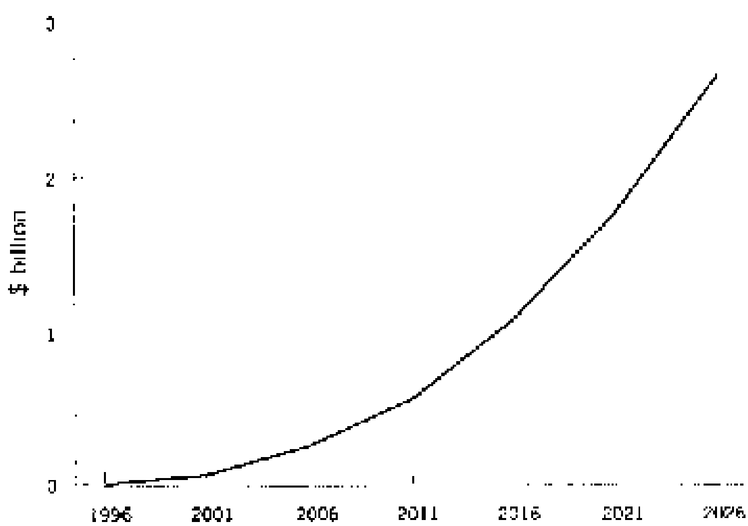
Projected Public Beds, Queensland, 1996-2006



Source: Queensland Commission of Audit estimates.

Figure 9.13

Projected Additional Health Expenditure Due to Population Ageing, 1996 - 2026



Source: Queensland Commission of Audit estimates

Even if it assumed that there is no real increase in health prices (a rather unrealistic assumption), population ageing alone will increase the annual cost of health services by more than one billion dollars (in current dollars) within 20 years (see Figure 9.13).

Evolution of health services with a greater emphasis on home-based and outpatient treatment, as opposed to bed-based services, is most desirable. This should enable the health care needs of our ageing population to be met without any diminution of health services or outcomes.

Output Based Funding

Most Organisation for Economic Cooperation and Development countries are facing similar issues in the health care sector, including increasing costs, problems with equitable access, increasing demand driven by ageing populations and rising expectations, and queuing. There exist a range of funding systems for hospitals in Organisation for Economic Cooperation and Development countries, each with its own strengths and weaknesses.

With *block grants* or global budgets, hospitals receive an annual budget to cover all of their services, usually excepting major capital spending. This is the main payment approach in most countries where the government is the main provider and funder of health services, including Australia. Block funding provides a direct mechanism to contain spending, but few incentives to improve efficiency. In particular, block funding fails to generate price and effectiveness data on medical treatments.

Bed-day payments provide hospitals with a flat rate fee per occupied bed were found mainly in publicly funded systems with a mixture of public and private providers. Private hospitals in Australia are still reimbursed in this manner. Overall hospital spending is capped, in effect, by total hospital capacity; however, suppliers face incentives to lower patient turnover and prolong lengths of stay. As with block grants, funding decisions do not incorporate information on the relative costs of different treatments.

Fee-for-service methods pay hospitals according to the individual services provided. These generally exist in systems with predominantly private providers and multiple insurers such as in Japan, and until recently, the United States. Macro expenditure control is relatively weak, with suppliers facing incentives to raise the quantity, quality and prices of services.

Payments-per-case set fees prospectively, according to diagnosed medical conditions and standardised treatment costs. Payments based on Diagnostic Related Groups were introduced into the United States' Medicare program in 1983, and are now being implemented or considered in most Organisation for Economic Cooperation and Development countries. These come closest to being output-based payments, hence facilitating competitive contracting for treatments, and constraining suppliers' incentives to increase service volumes. They provide incentives for suppliers to increase turnover (ie reduce lengths of stay), although there is some risk that suppliers may classify patients into more highly remunerated diagnostic groups. If the separation (ie the case) costs more than average, the service provider bears the additional cost. If the cost is less than average, the provider keeps the savings. This creates a link between resource use and patient care, and provides an incentive for cost containment and specialisation by hospitals in areas of comparative advantage.

Information yielded by output-based funding mechanisms allows decisions to be made about the most efficient and effective allocation of resources at both operational and strategic levels. That is, individual clinical areas in hospitals can allocate their own resources more effectively, and more optimal decisions about service provision and capital investment can also be made. Most importantly, such funding mechanisms allow the system to respond dynamically to change. Prices are constantly reset by reference to best-practice benchmarks, period by period.

Competitive Frameworks

An approach to capturing the benefits of a competitive market, while providing incentives for efficiency and equity is the structural separation of funder and service provider, which is designed to:

- facilitate competition between providers, with consequent advantages in efficiency, quality and access;
- enable the funder to act primarily in the interests of the community or consumer;
- create an incentive for evaluating effectiveness; and
- enable services to be purchased for a designated population group, or individual, which crosses agency boundaries, thus enhancing continuity of care.

United Kingdom

A number of reforms were implemented to the National Health Service in 1991:[22]

- In lieu of block grants, National Health Service hospitals were offered the opportunity to establish themselves as independent, self-governing trusts, with funding coming from the revenue they generated for patient services. They are subject to capital charges and cash limits on borrowing, but are given the possibility of enjoying a very large degree of autonomy in regard to the techniques and approach they adopt for the management of all their resources.
- District Health Authorities and General Practice fundholders are able to purchase services in districts other than their own, particularly elective hospital services, plus a range of health-related services including diagnoses, prescriptions, and community nursing services.
- There is competition amongst funders as well as providers. Funders include District Health Authorities, General Practice fundholders, and private insurers.

[22] Organisation for Economic Cooperation and Development (1995), *Internal Markets in the Making*.

This approach relies on the power of almost traditional incentives. Since the notion of profit does not apply, it is replaced by incentives linked to the size and growth of the establishment, its prestige, and the performance of its managers and professional staff.[23]

The prices that hospitals charge their customers act as the markers for reallocating business between different suppliers of hospital and other health-related services. The equivalents in the market economy are internal transfer prices within large groups, when those are allowed to reflect costs, as in the auction system utilised by General Motors for choosing the factory in which a particular model will be produced. A large volume of internal invoicing for individual services is not necessary.

Early indications are quite positive, with substantial improvements in technical efficiency, increased day-only cases, and reductions in waiting times.[24] One interesting development is that General Practice fundholders seem to have done a better job of purchasing than District Health Authorities, which suffer from a lack of contracting skills and detailed medical knowledge.

Canada

The Canadian health care system is made up of ten provincial and two territorial public health insurance schemes, each of which is universal and publicly funded.[25] Health-care provision consists predominantly of self-employed physicians paid on a fee-for-service basis, and not-for-profit hospitals funded via block grants. The system is quite heavily hospital-based, with a relatively high number of beds and low expenditure on community nursing.

Total health care costs have risen quite rapidly and, at 10.2 per cent of gross domestic product, are now the second highest in Organisation for Economic Cooperation and Development nations. These cost increases are attributed to supply-side factors, including rising input costs, declining productivity from diminishing returns on technology, and physician numbers and their mode of payment. The reliance on quantitative budget controls alone is limited in its ability to encourage efficiency gains.

Consequently, a host of measures designed to increase accountability at the level of funder, provider, and consumer are being considered. One of the most positive examples is Quebec's remuneration controls on physicians, now being followed by a number of other provinces. This may be regarded as an intermediate step towards United States' style Health Maintenance Organisations or the United Kingdom's General Practice fundholders. Possible features of an improved system are shown in Figure 9.14.

23 Organisation for Economic Cooperation and Development (1993), *Market Emulation in Hospitals*

24 Organisation for Economic Cooperation and Development (1995), op. cit.

25 Organisation for Economic Cooperation and Development (1995), op. cit

Figure 9.14

Possible features of an improved system

FUNDERS

Federal

Provincial

PROVIDERS

Public competition practices

Hospital
- internal competition
- DRG-type accounting
- funding innovations

Physician
- reimbursement innovation
- expenditure control

Institutions
- multiservice delivery
- partnership
- accountability

CONSUMERS

Patients
- limited user charges or premiums
- increased information

Source: Organisation for Economic Cooperation and Development (1995). *Internal Markets in the Making.*

New Zealand

At the core of the structural reforms in New Zealand was the creation of a competitive industry and a pseudo-market. Area Health Boards, which were previously both funders and providers of health care for their communities, were abolished. Four Regional Health Authorities were created. These organisations are responsible for purchasing health care services. At the same time, 23 Crown Health Enterprises were also created which are required to operate as commercial organisations and compete for the services that the Regional Health Authorities demand.

Australia

When the Medicare Agreements were updated in 1993 it was agreed that the States and Territories would work toward:

- establishment of 'a nationally consistent casemix-based management and information system which could serve as the foundation for alternative hospital based funding';
- adoption of casemix measures for the distribution of bonus payments; and

- use of Australian National Diagnosis Related Groups for charging purposes in cases where a person who usually resides in one State or Territory is admitted to hospital in a different State or Territory

Victoria

Victoria introduced casemix-based funding for public hospitals in 1993, which provided the framework for substantial micro-economic reform and improved technical efficiency. The Victorian introduction of casemix funding is characterised by one central purchasing authority, as distinct from the regional purchasing organisations in the United Kingdom and New Zealand.

A Commonwealth review of the Victorian casemix funding system found that the system was well devised and appropriate, although there were issues regarding the broader structure of the health system in which the hospitals operate. In particular, the Commonwealth noted a lack of broader planning mechanisms to more equitably allocate resources. However, the casemix funding system was seen to be sufficiently flexible to allow for the introduction of this element of service planning.

In response, the Victorian Government convened the Metropolitan Hospitals Planning Board, which has proposed the creation of seven provider networks, five to be geographically based and two to have a more specialist focus.[26]

It is worth noting that casemix-based funding in Victoria applies to a number of significant hospitals which are not publicly owned, but which treat large numbers of public patients. These include Saint Vincent's Hospital, Mercy Public Hospitals, Bethlehem Hospital, and the Caritas Christi Hospice, which are owned and operated by Religious Congregations of the Roman Catholic Church. It is anticipated that the new network Boards in that State will negotiate service agreements with such denominational hospitals for the delivery of specified services over a specified time period on specified conditions.

Queensland

In Queensland, the Casemix Based Management and Funding System was introduced on 1 January 1995 with the establishment of processes to manage casemix at the operational level. From 1995-96, casemix information was to be used to manage and develop health services on a Statewide and local basis. Transitional payments, which make up the difference between each hospital's casemix budget (when this is less than its historical budget), were to be reduced by one third per annum over three years to bring historical budgets into alignment with casemix budgets. These savings were to be used to enhance services elsewhere in each Region.[27]

The latest restructuring of public health services in Queensland has eliminated the 13 Regional Health Authorities and replaced them with 39 District Health Services, generally based around

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26 Metropolitan Hospitals Planning Board (1995), *Developing Melbourne's Hospital Network*

27 Queensland Health (1994), *The Casemix Model for Queensland Public Hospitals. Policy Paper Phase 1*

a significant hospital. The Casemix Based Management and Funding System will continue to operate in Queensland's public hospitals in 1996-97, although the focus will be on District Health Services rather than on the former Regions.

In the absence of full, transparent accrual reporting, the Casemix Based Management and Funding System was based on recurrent costs only. Many studies of hospital costs examine only recurrent costs (ie do not include capital costs via depreciation). This is a major flaw for two reasons: capital costs are a major component of hospital costs, and the proportion of total costs accounted for by capital costs can vary greatly between hospitals. Since depreciation varies relatively little with hospital output, but recurrent costs vary a great deal with output, hospitals which under-utilise their capacity will tend to have a high proportion of their costs as depreciation. On the other hand, recurrent expenses will tend to be dominant in small hospitals which tend to provide relatively simple services and, consequently, have relatively inexpensive equipment. Thus, depreciation expenses should be included in any complete analysis of hospital costs.

9.7 Strategic Directions

Key Points

- ***Market type mechanisms which allow competition between health service providers have been shown to improve the efficiency and effectiveness of health services.***

Contemporary research on the provision of health services generally shows there are benefits to be gained from imposing aspects of competitive behaviour on public health systems. However, it is also evident that, due to a number of characteristics of the market for health services, a fully competitive market will fail to organise economic activity in an optimal fashion. Therefore, it is necessary to design the most appropriate, quasi-competitive environment for such a market.

The Organisation for Economic Cooperation and Development has reviewed the introduction of market-type mechanisms in the health sphere, and concludes that such mechanisms have considerable potential for:[28]

- allocating available resources more efficiently among establishments;
- generating productivity gains; and
- improving capacity utilisation.

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28 Organisation for Economic Cooperation and Development (1995), *Governance in Transition*.

Options for Government

Given the history of the public hospital system in Queensland, it is hardly surprising that there remains strong community support for public hospitals in Queensland. The challenge is to create a framework which will ensure the continued provision of efficient, quality public health services, but which will allow the health sector to adapt to the demographic and technological changes of the next century.

Recommendations

9.1 *To prepare Queensland's hospital system for the future, an independent health service planning body composed of eminent people drawn from outside government should be established for a limited period to make recommendations on, inter alia:*

- *which organisational unit/s should have responsibility for funding of public health services;*
- *the appropriateness of the structure and geographical boundaries for District Health Services for competitive service delivery; and*
- *principles for the location and size of hospitals.*

9.2 *A competitive framework should be established within the hospital and ambulatory care sectors to improve the efficiency and responsiveness of the public health system, and to maintain good performance over time, including:*

- *providing funding for hospital inpatient services' outputs defined under the casemix system, and encompassing full best practice costs (ie on a comprehensive accruals basis, including a capital charge to reflect the cost of the capital used, and capital consumption in the provision of services), regularly reviewed against competitive benchmarks;*
- *funding private and not-for-profit health service providers on the same basis as public providers for treating public patients; and*
- *operating corporate planning, budgeting and management through a system of binding service agreements which is 'seamless' between public, private and not-for-profit providers, with appropriate rewards and sanctions for non-compliance.*

Community Services

Key Points

The Department of Families, Youth and Community Care is responsible for provision or funding of a wide range of community services, including services for older people, child care, child protection, community corrections for young people, services to people with a disability, services for victims of domestic violence and services to Aboriginal and Torres Strait Islander people. Demands and spending have been growing, requiring better management of resources (including assets) and a larger role for external (primarily not-for-profit) providers.

Findings

- *While Queensland has the lowest level of welfare services provision, as measured by the Commonwealth Grants Commission, it also has the lowest cost of service provision.*
- *The Department's budget has increased significantly over the past six years and has been supplemented since 1994-95, with growth funding to address increased service demands arising from the growth in the Queensland population.*
- *Client service standards for direct service delivery are being developed and there are service agreements between the Department and funded organisations. Work with other jurisdictions is required to develop comparable relevant efficiency and effectiveness indicators.*
- *Scope exists to increase the use of the non-government sector to deliver services. Outsourcing would provide an effective means to reduce costs, and gain flexibility, while maintaining the quality of care to clients. There are other opportunities to achieve resource efficiencies, including rationalising under-utilised assets.*

9.8 Performance Assessment

The Department of Families, Youth and Community Care is involved in the provision of a wide range of services to the community, either directly or through funded agencies. Accordingly, there are two distinct aspects to the standards of service—the standards of the services provided directly to community members by Departmental staff and the standards of service provided by funded agencies.

Some work has been undertaken to define client service standards for staff with responsibilities for direct service delivery in the area of disability services and the standards are progressively being implemented. Such developments should be brought to completion, be used as a template for development of standards for other direct service delivery areas of the Department and be widely available to users of the Department's services

The Department's relationship with organisations it funds to deliver services is defined through service agreements, although the agreements do not create a legally binding relationship between funded organisations and the Department. The client outcome focus of the agreements could be enhanced considerably with standards of service clearly specified. In a more limited number of cases, the Department applies standards of service through a regulatory function (eg licensing child care centres).

Benchmarks

The 1995 report of the *Steering Committee for Review of Commonwealth/State Service Provision*, in its discussion of the effectiveness and efficiency of government funded social services, noted the significant limitations in making comparisons between jurisdictions based on the performance data currently available, due in the main to differences in policy variables between the jurisdictions. Cross-jurisdiction performance comparison should, at this stage, be considered indicative rather than definitive.

An example of the current limitations on comparison of data, and the extent of further work required, is the incidence of child abuse and neglect. The Australian Institute of Health and Welfare prepared the following table, Table 9.8, on the number of substantiated cases of child abuse and neglect. The data indicate that Queensland had the second lowest rate of substantiated cases of child abuse and neglect.

Table 9.8

Substantiated Cases of Child Abuse, Children Aged 0-16 years, Rate per 1,000 Children, 1993-94

State/Territory	Total
New South Wales	8.6
Victoria	4.8
Queensland	3.1
Western Australia	3.7
South Australia	5.4
Tasmania	3.0
Australian Capital Territory	5.7
Northern Territory	6.5
Australia	5.7

Source: Australian Institute of Health and Welfare (1994), *Australia's Welfare*.

However, the Institute then noted that the figures can not be taken as measures of the actual incidence of abuse and neglect due to variances between the jurisdictions. For instance, in Queensland the data do not include cases of child abuse by a person not living in the child's home. These are matters for police investigation rather than intervention by the Department of Families, Youth and Community Care. There are also different criteria used for substantiation in a number of the jurisdictions. Similar limitations arise in attempting to identify comparable measures for indicators such as unit cost and response times to commence and complete investigations.

While it is understood that significant progress has been made during the past year in revising performance indicators and data standards for the child protection area, Queensland should be pro-active in the development of agreed performance indicators between jurisdictions for the broad range of community services to enable comparable analysis of the State's performance in the community service area.

9.9 Resourcing

Key Points

- ***While Queensland has the lowest level of welfare services provision, as measured by the Commonwealth Grants Commission, it also has the lowest cost of service provision.***
- ***The Department's budget has increased significantly over the past six years and has been supplemented since 1994-95 with growth funding to address increased service demands arising from the growth in the Queensland population.***

Using the data collected for the Commonwealth Grants Commission's *Report on General Revenue Grant Relativities 1996 Update*, the level of service provision in Queensland, as at 1994-95, was the lowest of all states and territories at 69.9 per cent of the Australian standard. However, Queensland also had the lowest cost of service provision of any jurisdiction, at 97.5 per cent of the average.

The budget of the Department has increased, in nominal terms, from $159 million in 1989-90 to $479 million in 1995-96. Part of the explanation for this growth in resources relates to transfers of functions between government departments, transfers of funding which was previously held centrally (eg accommodation lease costs) and increases in Commonwealth funding for specific programs, most notably under the Commonwealth/State Disability Agreement.

However, there has also been a significant increase in State resources directed to child care, child protection, juvenile justice, responding to the recommendations of the Royal Commission into Aboriginal Deaths in Custody, pensioner and seniors concessions and the overall resource base of the Department.

As the population of Queensland has grown significantly in recent years, there will have been some impact on the demand for the services provided through the Department by this growth. Until 1994-95, a number of specific functions of the Department received additional funding based on the growth of specific sectors of the population (eg the Aboriginal and Torres Strait Islander population). However, since the 1994-95 budget, the Department has received additional funding for general population growth applied to a broad proportion of its budget.

Low occupancy rates in some of the Department's capital assets, such as the *Outlook* at Boonah, *Carramar* in Townsville, *Yungabah* and *Warialda* in Brisbane, suggest that such assets are not utilised cost-effectively.

9.10 Future Demand

There are no major variations expected to the expenditure patterns depicted in the Department's current forward estimates, and expenditure can be expected to grow broadly in line with gross state product. Apart from labour and related costs, the most significant cost drivers for programs are population growth and the impact of changes in Commonwealth policy.

It is expected that the Aboriginal and Torres Strait Islander population of Queensland will grow from approximately 70,000 (2.4 per cent of the population) in 1991 to 94,000 in 2001, an increase of 34 per cent, which is significantly faster than population growth overall. However, most direct service delivery functions for Aboriginal and Torres Strait Islander people (eg health, education, housing) have been mainstreamed and the population growth will have a more direct impact on the mainstream agencies.

As the Queensland population ages, the cost of Pensioner and Seniors Card concessions will increase, given a no change policy position. From 1986 to 1995, the percentage of the population aged 60 years and over increased from 14.6 per cent to 15 per cent. It is estimated to increase to 15.3 per cent by 2001.

In addition, children born with disabilities and people who sustain disabling injuries are increasingly likely to survive for longer periods and are likely to seek disability support services. Another growth driver in service demand in the disability area will be the ageing of principal carers currently providing informal care to people with disabilities living in households. This age group comprises more than 30 per cent of all principal carers aged over 15.

9.11 Options For Supply

Key Points

- *Scope exists to increase the use of the non-government sector to deliver services. Outsourcing would provide an effective means to reduce costs, and*

gain flexibility, while maintaining the quality of care to clients. There are other opportunities to achieve resource efficiencies, including rationalising under-utilised assets.

There is scope to cost effectively utilise the non-government sector to deliver services currently provided directly by the Department. The outsourcing of various functions would provide an effective means to reduce costs, create more flexibility within existing services and improve organisational performance, while maintaining the quality of care to clients.

A major proportion of the budget for direct service delivery of disability services comprises salaries, wages and related costs. The non-government sector has more flexible employment options. Significant potential cost savings are available in the area of accommodation support through outsourcing to the non-government sector those services currently provided through the Department's Alternative Living Service houses to people with an intellectual disability and low support needs. The Department has estimated that between 30 and 40 per cent of current clients (160 to 213 people) would be suitable for transition.

Other services currently provided directly by the Department, which could be outsourced to the non-government sector include respite care, community participation, disability resource and assessment team services, community corrections for juveniles and aspects of child protection services.

As the use of the non-Government sector and outsourcing increases, there needs to be a clear contractual relationship between the Department and the organisations providing the services to the various client groups. As previously discussed, service agreements are in use in a number of the Department's programs. These contracts should have a clear outcome focus with the quantity and quality of services specified such that the outcomes expected in exchange for the provision of funds are explicit. The outcome contracts would be a further enhancement of the current service agreements.

Outsourcing of Disability Services to the Not-for-Profit Sector

Background

The Division of Disability Services within the Department of Families, Youth and Community Care provides a range of community and residential services for children and adults who have an intellectual disability, their families and care-givers. Services include direct assistance with personal care and daily living tasks; counselling and support; family education; assessment; therapy and specialist intervention; training in life skills development; arrangement of respite accommodation including in-home and out-of-home support; assistance in arranging permanent accommodation; and activities to promote community inclusion.

Division of Disability Services provides services throughout the State from 19 area offices, 121 Alternative Living Service houses and units, a Rural and Remote Area Service, three villas, two residential centres and a range of respite care options, including 12 respite care centres.

Service provision is guided by the principles and objectives of the Queensland *Disability Services Act 1992* and a number of current philosophical trends in the disability field, which emphasise participation and inclusion in the community, developing potential for personal growth, individual choice and preferences, consumer participation in decision-making and the least intrusive service option. The previous Government endorsed the future directions of the then Division of Intellectual Disability Services and outlined the core services of the program.

The core services are reflective of the program's areas of expertise and are as follows:

- *accommodation support* for people with high and complex support needs, with a particular focus on people with seriously disruptive behaviours;
- *special intervention and therapy*, which addresses the impact of the person's intellectual disability on their functioning; and
- *individual and family/carer support*, which includes services such as counselling, family education, crisis management and the provision of information and advice.

Services to be Outsourced

A opportunity exists for the outsourcing of some of the direct services that are currently provided by Division of Disability Services. The Division is under pressure to meet increasing unmet need and to provide more flexible services and is, therefore, looking for opportunities to reduce costs. The outsourcing of various functions will provide an effective means to reduce costs, create more flexibility within existing services, improve organisational performance and address some of the unmet need issues.

The major proportion of the Division of Disability Services operating budget (ie greater than 80 per cent) is tied up in fixed costs related to salaries and wages. It is recognised that the not-for-profit sector has an increased capacity for more flexible employment options (eg sleep-shifts, part-time and flexible shift arrangements) and therefore has the capacity to operate with greater flexibility and efficiency.

As a part of the identification of Division of Disability Services core services, the following activities are considered as having the potential to be outsourced:

- accommodation support for people with low support needs;
- community linking and participation (ie the provision of day activities); and
- respite services.

The greatest potential for cost savings is in the area of accommodation support provided through the Alternative Living Service for people with an intellectual disability and low support needs. The cost for Division of Disability Services to provide the round the clock accommodation support for four to five people is $233,000 a year. The equivalent cost for providing the same level of service within the non-government, not-for-profit sector is $168,000 a year.

From a census of the Alternative Living Service that was completed in November 1995, it is anticipated that between 30 per cent (160 people) and 40 per cent (213 people) of the total current clients (534 people) could be catered for by the not-for-profit organisations. This is regarded as a conservative estimate. This translates to resource savings of between $2 million and $3 million.

The Division currently employs staff to provide day activities for Alternative Living Service clients. It is anticipated that all resources currently committed to these activities could be outsourced to the not-for-profit sector. This activity was not endorsed as a core service because of the legislative requirements of the *Disability Services Act 1992* regarding the provision of 'whole-of-life' services (ie one agency not providing all the services that a person requires).

The Division currently provides both facility-based and in-home respite services to clients who are living with their families. It is anticipated that all resources currently committed to the provision of respite services could be outsourced to the not-for-profit sector. Again, this activity was not endorsed as a core service as respite services are widely offered through the non-government sector and the provision of this service by the not-for-profit sector is well regarded.

At this point in time, it is not anticipated that there will be any savings to the budget from the transition of community linking and respite services to the not-for-profit sector, but rather, that savings from more flexible deployment of staff in the not-for-profit sector would be used to enhance the range and availability of such services.

Recommendations

9.3 ***Accommodation support for people with an intellectual disability and low support needs should be outsourced to the non-government sector, together with respite care and community linking/participation. Other functions currently directly delivered (eg resource and assessment of people with a disability, juvenile community corrections, and child protection) should also be reviewed to determine those elements which could be outsourced.***

9.4 ***The efficiency of all resource use should be reviewed, including disposal of under-utilised facilities (eg Carramar and Warialda). Contracts with funded service providers should be outcome-focused, specifying the quantity and quality of services, the basis of funding and resource management.***

Chapter Ten

Education and Training

Key Points

The State Government provides over one quarter of its budgetary resources to education and training. This is a major investment in the social and economic fabric of the Queensland community. The Commonwealth Government provides nearly all higher education funding.

Queensland school education is operating more efficiently than in other States, and there is no evidence of this being achieved because of lower output quality or standards. The State is, however, under pressure for services from school age population change, and concentration of that change in particular areas. The main issue in school education is how well and flexibly the available resources are managed to meet these pressures.

The State has for many years under-invested in training compared with other States and this has contributed to Queensland's low workforce skill profile and low productivity performance. This does not, however, necessarily translate into a case for increased public funding, and other opportunities to leverage additional training effort and contribution from the private sector, including both businesses and individuals, need to be pursued.

The higher education sector in Queensland needs more places overall, but particularly in fields of study which can contribute most to the State's competitiveness, given its industry profile.

School Education

Findings

- *Queensland was the lowest cost provider of government school education per student among the States and Territories in 1993-94.*
- *A comprehensive range of performance measures is being implemented and there is no evidence to suggest that the performance of the government school education system is any lower than that of other States and Territories, with some evidence that it is at the higher end of performance. Therefore, the State is an efficient provider.*
- *Expected growth in enrolments over the next ten years does not align with the location of schools, and new capacity is required while some existing capacity will be under-utilised.*

- *School based management approaches need to be introduced to deliver services appropriate to the diverse educational needs across the State.*

- *The low level of expenditure may be difficult to maintain with increased requirements for resource management at the school level as well as the demands of performance assessment, curriculum changes, behaviour management and access programs.*

- *The availability of funding for education will be maximised by the Department of Education, having responsibility for policies and resources required to deliver its services, including (within guidelines) its capital assets, maintenance, the provision of ancillary services such as cleaning, and school transport.*

- *The provision of school education across the State will be enhanced by processes for rationalisation of where schools are provided, and by effective planning and coordination processes, particularly in growth regions of the State, involving relevant service providers and authorities.*

Recommendation

10.1 The management and organisation of the Department of Education should be restructured around its core business of teaching and learning, through:

- *school based management of processes and resources to ensure that responsibility and accountability for the provision of educational services are placed at the point of delivery;*

- *development of appropriate resource allocation methodologies which provide an overall allocation that covers teaching and non-teaching staff, premises and ancillary and support services for school-based management;*

- *continued commitment to student performance measurement and the allocation of resources to students on a needs basis, as identified through these processes, and through access and equity programs;*

- *overall planning and 'contract budgeting' arrangements under which the Department:*

  - *receives authority for its total resources via a performance or service agreement setting specified outcomes;*

  - *has full management control over the allocation of those resources - including the purchase of school transport, building, refurbishment and maintenance of all assets, project management services and provision of ancillary services such as cleaning; and*

- *maximum flexibility and efficiency in the Department's internal allocation of resources through revenue retention and other incentives for disposal, reinvestment and reassignment of resources to achieve educational outcomes for students across the State, within effective planning and coordination frameworks, especially in growth regions.*

Training

Findings

- *Queensland's expenditure per measured student contact hour of publicly provided training has changed with the re-basing of its 1994 statistical collection. Subject to qualifications on data comparablity, Queensland remains one of the lowest cost providers, Victoria being the lowest.*

- *Queensland has under-invested in State training relative to other States and Territories for some years. This is the case both for government, which is dominant as both a purchaser and a provider of training, and users of training. Queensland (which has relatively fewer large enterprises compared with southern States) is also low in enterprise expenditure on training. As in other States, individuals contribute only a small proportion to the cost of their training.*

- *The State's workforce has the lowest qualification profile for vocational education overall of any State or Territory, and low skill patterns appear to be related to the State's low performance in labour productivity.*

- *Queensland need not precisely match the skill profile of other States, but even a moderate reduction of the gap in the highest priority areas would require the equivalent of $20 million additional resources to be found each year for about eight years, equivalent to a five per cent lift in productivity each year to be achieved with increased effort from both purchasers and providers of training.*

- *Resource or service agreements used to allocate funds to public providers of training need to be improved to replace the 'throughput' measure of student contact hours with more direct measures of skills formation outcomes, such as module load and course completion rates, and to ensure that pricing (on a full accruals basis) is constantly reviewed to competitive benchmarks.*

- *Management information systems need to be improved to provide reliable data on financial, throughput and output measures for the publicly funded vocational education and training system in Queensland, as the basis for benchmarking performance and for meaningful national comparisons.*

- *Competitive tendering processes need to be introduced for the provision of infrastructure and ancillary services in the TAFE sector.*

Recommendation

10.2 The Government needs to implement planning, budgeting and management processes for its role as purchaser and provider of vocational education and training, based on the principles set out in Volume I of this Report, with the aim of maximising productivity gains in the training system and leveraging greater contributions from all users of training, through actions which:

- *fund training providers on the basis of output measures specified in resource or service agreements;*

- *increase the proportion of public funds for training which is subject to competitive tender in a planned way, taking account of fields of study and location needs, with maximum expansion of the role of user choice;*
- *increase user contributions from enterprises including through pricing and delivery mechanisms which present stronger incentives to pay for improved services;*
- *review fees and charges to individuals in vocational education and training, and consider whether Higher Education Contribution Scheme type deferred payment is feasible, so as to introduce a system of user charge and pricing for training services which increases individual contributions, consistent with equity and access objectives;*
- *use planning models for training services based on outputs, in terms of objectives and priorities set (on an industry basis) for the qualification profile of the Queensland workforce;*
- *implement changes to deliver productivity improvements through appropriate industrial relations agreements and third party access regimes in a more open and competitive training market; and*
- *provide greater management autonomy at the TAFE Institute level, including the authority to engage in competitive tendering for the provision of infrastructure, maintenance and ancillary services.*

Higher Education

Findings

- *The degree profile of the Queensland workforce is the lowest of any State or Territory.*
- *The State Government's contribution to higher education is relatively small but, notwithstanding the strategic importance of higher education to economic and social development, Queensland continues to receive a low per capita share of national resources and the allocation does not necessarily match the State's priorities.*

Recommendation

10.3 The Government should use its involvement in the higher education sector to influence Commonwealth funding of places and to achieve greater leverage in obtaining resources in fields of study and research which advance the economic and social objectives of the State and its regions. Industry advisory input is desirable and greater contributions from users, particularly from enterprises, need to be encouraged.

Chapter Ten

Education and Training

10.1 Overview of Education and Training

Key Points

- ***This chapter describes and assesses the State's activity in school education, vocational education and training and, to a limited extent, higher education, where almost all of the public funding comes from the Commonwealth.***
- ***The Government invests in education and training services to meet a range of social and economic objectives, including enhancing the State's skills base and labour productivity performance, which has been low, detracting from the State's competitiveness.***
- ***These services are all provided at a low level of per capita expenditure compared with other States and Territories, but in general there is no relative deficiency in the quality of services. Queensland is a relatively efficient provider but, as a State, is under-investing in post-secondary education and training.***

Labour Productivity and Investment in Education and Training

The Government allocates resources to education and training because this investment:

- contributes to the pursuit of social welfare objectives of equality of access and opportunity, and ultimately, a more even distribution of income;
- promotes employment and assists the unemployed; and
- is a major contributor to skills formation, productivity enhancement and competitive economic success.

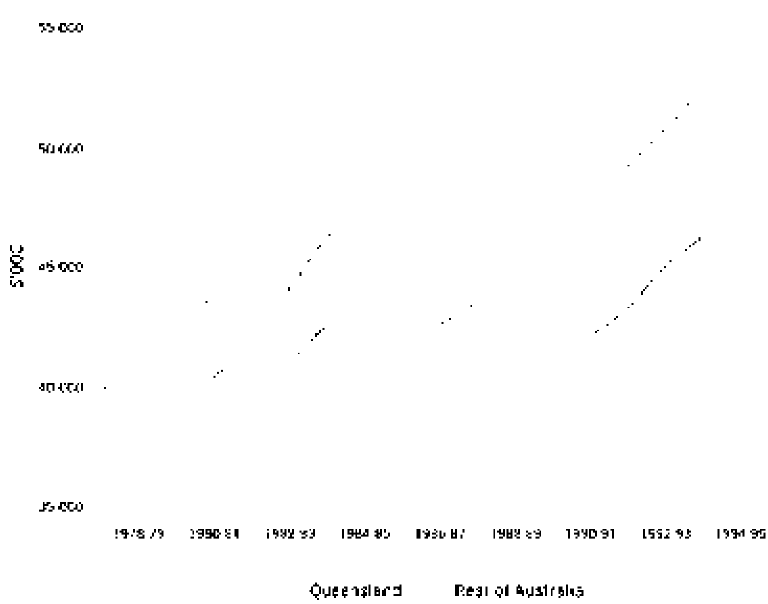
This chapter indicates that Queensland has under-invested in education and training, and has the lowest level of qualifications in the labour force, compared to other States and Territories. Therefore, Queensland is underachieving in terms of skill formation and labour productivity performance.

There is considerable empirical evidence that the policies that have proved most effective in building strong and sustainable economies include efficient and effective provision of education and training. In the last decade, the development of a better understanding of the drivers of economic growth has become known as the 'new growth theory'. The implications of new growth theory have recently been considered by the Economic Planning Advisory Commission.[1] The theory suggests that certain types of investment will generate more spillover benefits for society than others. The types of investment suggested as possible sources of growth include investments in plant and equipment, public infrastructure, research and development and human capital. There appears to be general agreement that the rate of return on research and development is high and that skills acquired through education will add to the human capital stock and enhance economic growth.

For many years productivity and per capita incomes in Australia have been growing relatively slowly, in comparison to the Organisation for Economic Cooperation and Development average and, in particular, to the dynamic Asian economies. Within Australia, Queensland has performed poorly compared to the rest of Australia with gross state product per employed person in Queensland declining from 94.0 per cent of the rest of Australia figure in 1979-80 to 88.6 per cent in 1994-95, with gross state product per employed person growing by only 14.8 per cent in Queensland over the period, compared to 21.8 per cent in the rest of Australia. The gross state product per employed person in Queensland compared to the rest of Australia is presented in Figure 10.1.

Figure 10.1

Real Gross State Product per Employed Person, (1989-90 constant dollars)



Source: Queensland Treasury

[1] Economic Planning Advisory Commission (1995) *Investment and Economic Growth*, Commission Paper No 9

While part of the explanation for these discrepancies may lie in differences in industry structure, capital stock, unearned income and proportion of part-time employment, it is clear that Queenslands response to changing economic circumstances has not been adequate. The human capital version of growth theory argues that human capital is fundamental to the growth process and that society depends on high value-added, high productivity jobs. Such jobs are increasingly dependent on innovative knowledge and information-intensive industries, or application of knowledge across industries. Overall, this suggests that economic success will be in large part be linked to the quality, extent and relevance of education and training in an economy, and to a framework which allows firms and individuals to make best use of available knowledge and skills.

Government Responsibilities

The Queensland Government has a constitutional responsibility for education at all levels and all levels are important to the State's community. The State Government provides the resources for State school education and, with the Commonwealth Government, provides significant funds for the non-government school sector. The State traditionally provided recurrent funding for vocational education and training services, with the Commonwealth providing capital assistance. The Commonwealth role has in the 1990s expanded further. It now provides increasing resources for recurrent and growth funds through resource agreements. While higher education has, in the post-war era, become almost solely the responsibility of the Commonwealth Government, the States retain concurrent powers. The Queensland Government has provided limited funding to facilitate an increase in higher education places in particular regions and fields.

Expenditure on Education and Training Services

Queensland's expenditure on education and training services was the second lowest on a per capita basis in 1994-95 among the States and Territories, as determined by the Commonwealth Grants Commission, and presented in Table 10.1 The level of expenditure on higher education is not included in this Table as it is presently a Commonwealth area of funding responsibility.

Table 10.1

Education and Training Services Recurrent Expenditure, Per Capita, 1994-95

State/Territory	Pre-school education $	Government education $	Non-government education $	Technical and further education $	Transport of rural school children $	Total $
Standard	17.35	547.73	47.21	143.26	25.60	781.34
NSW	12.54	543.70	47.98	161.38	26.91	792.51
Vic	13.98	480.73	48.87	120.82	26.94	691.35
Qld	24.90	545.14	43.52	135.71	26.23	775.50
WA	21.45	585.03	45.68	110.07	25.86	788.08
SA	15.64	614.83	42.84	136.90	14.91	825.12
Tas	26.19	616.72	33.88	128.01	47.40	850.19
ACT	25.35	667.73	58.74	261.58	0.76	1,014.15
NT	68.23	1,138.67	115.26	449.21	25.53	1,796.91

Source: Commonwealth Grants Commission, *Report on General Grant Relativities, 1996 Update.*

Notes: The organisation of Education and Training varies across States and Territories which may account for some of the differences when individual categories are considered, but the relativities in the total expenditure per capita are of interest as they are used to derive the standard expenditure for the Grants Commission's determinations of grant allocations.

Notwithstanding the relatively low levels of expenditure in Queensland, the level and quality of the services are, on all information considered in this chapter, of a comparable standard with other States and Territories.

Demand for education and training services over the next ten years will be strong and its pattern across the State changing—concentrating in areas of growth (particularly growth in the school age population). Resources to meet these demands can be provided by Government, industry and individuals. Resource needs can be minimised and the outcomes achieved maximised by ensuring that competitive pressures stimulate productivity and innovative delivery in the systems, and that planning and management processes can actively allocate and reallocate resources to achieve most. Additional investment is needed as one of the significant strategies to promote economic growth in this State.

School Education

Key Points

The State Government provides almost one quarter of its budgetary resources to school education which is a major investment in the Queensland community.

Queensland school education is operating more efficiently than in other States, and there is no evidence of this being achieved because of lower output quality or standards. The State is, however, under pressure from school age population change, and concentration of that change in particular areas. The main issue in school education is how well the available resources are managed to meet these pressures.

Findings

- *Queensland was the lowest cost provider of government school education per student among the States and Territories in 1993-94.*
- *A comprehensive range of performance measures is being implemented and there is no evidence to suggest that the performance of the government school education system is any lower than that of other States and Territories, with some evidence that it is at the higher end of performance. Therefore, the State is an efficient provider.*
- *Expected growth in enrolments over the next ten years does not align with the location of schools, and new capacity is required while some existing capacity will be under-utilised.*
- *School based management approaches need to be introduced to deliver services appropriate to the diverse educational needs across the State.*
- *The low level of expenditure may be difficult to maintain with increased requirements for resource management at the school level as well as the demands of performance assessment, curriculum changes, behaviour management and access programs.*
- *The availability of funding for education will be maximised by the Department of Education, having responsibility for policies and resources required to deliver its services, including (within guidelines) its capital assets, maintenance, the provision of ancillary services such as cleaning, and school transport.*
- *The provision of school education across the State will be enhanced by processes for rationalisation of where schools are provided and by effective planning and coordination processes, particularly in growth regions of the State, involving all relevant service providers and authorities.*

10.2 Introduction to the School Education Sector

This subdivision of this Chapter presents an analysis of school education in Queensland. School education is provided through preschool, primary, secondary and special schools, centres for continuing education and schools of distance education. The discussion focuses on primary and secondary education, provided through government schools.

The preschool system is not included in the discussion because of its lower budgetary significance. It is an area to which Queensland gives a relatively high priority: the State's per capita expenditure is $24.90 compared with the standard determined by the Commonwealth Grants Commission of $17.35 per capita for 1994-95. However, these figures reflect differences in the organisation of preschools across Australia. Approximately 65 per cent of the eligible client group receives a State preschool education. Services are also provided by both private providers, often in long day care centres, and the Creche and Kindergarten Associations, with the latter receiving State Government assistance of $15.4 million in 1994-95.

The discussion below describes the school education sector and assesses its relative performance, the adequacy of its resources, the future demand for services, and strategies to meet these demands over the next ten years. The focus is on government schools, but comparisons between the government and non-government school sectors are made to illustrate points of difference in service delivery issues.

10.3 Description of the School Education Sector

Key Points

- *Queensland provides services through a large number of often relatively small government schools in the 11 regions across the State, with around 60,000 enrolments in each of the largest four regions in the south east corner of the State and around 7,000 in each of the South Western and North Western regions.*

- *The government school sector has nearly 73 per cent of enrolments, but with the share of 27 per cent in the non-government school sector increasing over time. There has been a fall in the apparent retention rate of students to year 12, from the highest point reached in 1992 in the government sector, but retention has remained relatively constant for the non-government sector since that point.*

- *Programs to address access and equity and other social objectives are provided for students with disabilities, Aboriginal and Torres Strait Islander students,*

students from a non-English speaking background, and students who are disadvantaged because of gender, isolation or who are 'at risk'.

School Size and Enrolments

As at the July 1995 student census, the school student population in Queensland was 556,112, comprising 340,669 in primary schools, 212,845 in secondary schools (both numbers including students in continuing education and in schools of distance education) and 2,598 in special schools. There are 1,721 schools across the State with 1,308 in the government sector and 411 in the non-government sector, of which 278 in the non-government sector are Catholic, the largest group. The percentage of enrolments in the government sector is 72.8 per cent overall, with 77.3 per cent of primary and 65.6 per cent of secondary school populations.

The State education system provides a wide range of facilities, services and programs through 11 geographic regions. The distribution of government educational institutions by number, size of enrolment and mean school size varies across the regions at both the primary and secondary levels, with implications for the provision of services in both efficiency and effectiveness terms. This distribution is demonstrated in the Table 10.2.

Table 10.2

Number, Enrolment and Mean School Size of Government Schools, By Region, Queensland, 1995

	Primary Schools			Secondary Schools		
Region	**Number**	**Enrolment**	**Average Size**	**Number**	**Enrolment**	**Average Size**
Metropolitan West	140	40,928	292	25	19,168	767
Metropolitan East	107	38,443	359	28	23,524	841
South Coast	73	38,461	527	21	20,420	972
Sunshine Coast	79	37,038	469	22	20,006	909
Darling Downs	120	16,158	135	11	8,186	744
South Western	59	4,149	70	4	1,942	486
Wide Bay	123	21,391	174	16	12,249	766
Capricorn	146	27,260	187	21	13,779	625
Northern	73	16,877	231	13	9,131	702
North West	35	4,260	122	3	1,857	619
Peninsula	112	18,327	164	12	9,388	782
State Total	**1,067**	**263,292**	**247**	**176**	**139,660**	**789**

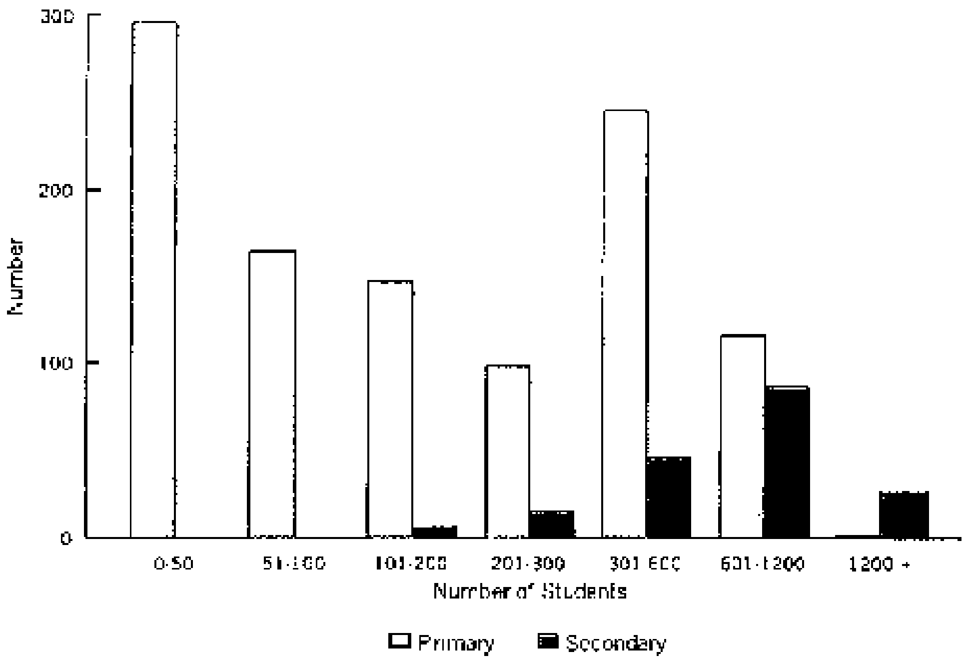
Source: Department of Education, July 1995 Student Census and *1995 Educational Institutions Statistics*.

Notes: 1. Enrolment figures include students enrolled at 8 schools of distance education and 55 primary schools which have a secondary department. As a result, average sizes for high schools will be overstated in regions with secondary departments.
2. Enrolment figures exclude 2596 students at 59 special schools but include 2741 students in special education units and classes or mainstream classes.

While the table indicates that the average is relatively small for primary schools outside the south east corner of the State, the distribution of schools by their actual size is an important factor in determining the allocation of recurrent outlays on schools. Figure 10.2 presents the distribution of schools by actual size.

Figure 10.2

Government School Size, by Level of Education, Queensland, 1995



Source: Department of Education, 1995 Student Census.

This figure demonstrates that a focus on the average size of schools is misleading; it does not reveal the fact that there are nearly 300 extremely small schools across rural, regional and urban areas—schools with an enrolment of 0-51 students. This is an important consideration when the growth areas for enrolments are not where capacity in schools is already available, especially in urban areas where access to alternative primary schools is typically available. New approaches to school management which can rationalise the numbers of schools through options from closures to clustering of schools and joint use of some facilities will be needed for the future to meet growing demands and changes in the spatial pattern of demand.

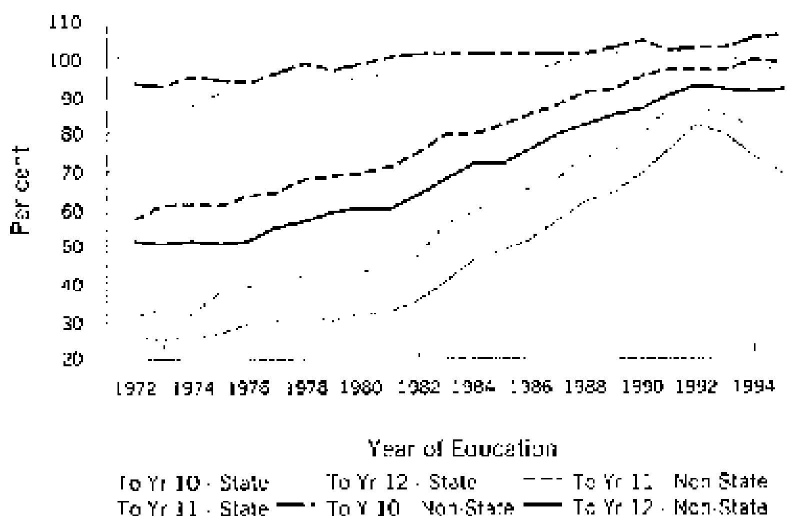
Retention Rate

There has been a significant increase in the apparent rate of retention of all secondary school students in year eight remaining at school until year 12. While the apparent retention rates are steady for year eight to year ten, the increase has been in the numbers of students completing to year 11 and year 12. Over the past 15 years, there has been an increase in the rates for years 11 and 12 to a peak of 82.1 per cent in 1992, followed by a decline in the following three years. Within this pattern of apparent retention rates, there is a significant difference between males and females with the rate for females being nearly ten per cent higher than the rate for males.

Figure 10.3 demonstrates a difference in the retention rates between the government and the non-government school with a relatively steady increase in the apparent retention rate for non-government schools in the past three years compared with a decline in the government school sector.

Figure 10.3

Apparent Retention Rates Using Year 8 Base, State and Non-State Schools, Queensland



Source: Department of Education.

Notes: The rates can exceed 100 per cent with an inflow of students into a particular year.

There are many reasons put forward for the decreasing retention rates in the government sector over the last few years, following the longer term substantial rise. These include increasing entry into the youth labour market, alternative assistance through labour market programs, perceptions of increasing employment opportunities, increased vocational education places, improving opportunities to obtain entrance into tertiary education as a mature age student from employment or through TAFE courses, and the trend away from students repeating year 12 to obtain an improved 'score' for tertiary and other training entrance. The reasons for the difference between the government and the non-government school sector include a drift from the government to the non-government sector in grades 11 and 12 and the perception that the non-government sector may provide a stronger base from which to obtain entrance to university.

Curriculum

The introduction of key learning areas across the primary and secondary school systems is part of the reforms being implemented by the Queensland School Curriculum Council. The existing Board of Senior Secondary School Studies is responsible for curriculum development in years 11 and 12. The Board's role in post-compulsory schooling includes accreditation, certification, registration and recognition responsibilities for vocational education in the secondary curriculum, under delegation from the Queensland Vocational Education Training and Employment Commission.

Part of the reforms to curriculum include the development in the senior school curriculum of a new approach called the convergence of general and vocational education. This development will expand the capacity of post-compulsory schooling to provide entry level training services for which students obtain credit in certification in school and this may have an influence on retention rates in future in the government sector. The resourcing of this development and the supply of qualified teaching staff is an issue for consideration by the Vocational Education Training and Employment Commission as well as State and Commonwealth Governments.

Social Objectives

The Department of Education has undertaken a range of programs under its draft Social Justice Strategy to assist in the provision of quality educational outcomes appropriate to the needs and circumstances of all students. This encompasses students who have particular needs because of their gender, their socio-economic circumstances, their language or cultural background, any impairment or special talents they have, or their location. Departmental structures have been established to address these issues, and these include the Queensland Aboriginal and Torres Strait Islander Education Consultative Committee. Queensland schools are assisted under the National Equity Program for Schools, with 16.3 per cent of schools assisted under its isolated area component and 14.8 per cent of schools assisted by the disadvantaged schools component. Parents and community representatives are involved in the management of these programs.

Resources have been developed for use in the school curriculum which are aimed at addressing some key issues in the promotion of access and equity in the school environment with respect to the social objectives of schooling, the statewide perspective of students is being gathered to provide data on school attitudes, interpersonal relationships, subject choice, student motivation and quality of learning experiences for school review and planning purposes.

10.4 Performance of the School Education Sector

Key Points

- *In terms of expenditure per student, Queensland was the lowest cost provider of government school education in 1993-94. Other States are seeking to reduce their expenditure on school education, on the presumption that the level of expenditure, per se, is not an indicator of quality in the 1990s.*

- *Effectiveness indicators for school education cover the categories of student learning outcomes, social and other equity objectives but no readily comparable data are available nationally and there is nothing to indicate that Queensland's performance in school education is of a different or lesser quality to those of other States and Territories.*

- *Queensland has maintained a relatively strong performance compared with other States and Territories in apparent retention rates to Year 12 over the past 10 years, and is implementing a comprehensive range of performance assessment measures to identify student learning outcomes.*

Cost and Efficiency Measures

Percentage of Gross Domestic Product

All advanced economies allocate significant resources to education. However, compared to the member countries of the Organisation for Economic Cooperation and Development, Australia is not a big spender on education, especially at the school level. In 1992, three per cent of the Australian gross domestic product was spent by government on schools, compared to 5.1 per cent in Sweden (at the high end), 4.1 per cent in Britain, but more than Japan's 2.8 per cent. The Organisation for Economic Cooperation and Development average was 3.5 per cent.[3] In 1992-93, the percentage of Queensland's gross state product spent on schools was 3.5 per cent, and was 3.2 per cent in 1994-95.

Expenditure per Capita

Attempts to reduce expenditure on government school education are reflected in some changes in the relative positions of the States and Territories in the per capita expenditure figures presented in the Commonwealth Grants Commission report for 1994-95. The most notable case is Victoria's re-positioning to be the only State/Territory to be under $500 per capita for government education for a number of years, at $481. This was followed by New South Wales at $544 and Queensland at $545.

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3 Marginson, Simon (1995) "The Economy and School Policy", in Lingard, B. and Rizvi, F. (eds), *External Environmental Scan*, Department of Education, Queensland

It must be said, that levels of spending, on a *per capita* basis or otherwise, do not on their own measure either effectiveness or efficiency. Lower spending may indicate greater efficiency, but only if quality of learning outcomes can be shown to be comparable.

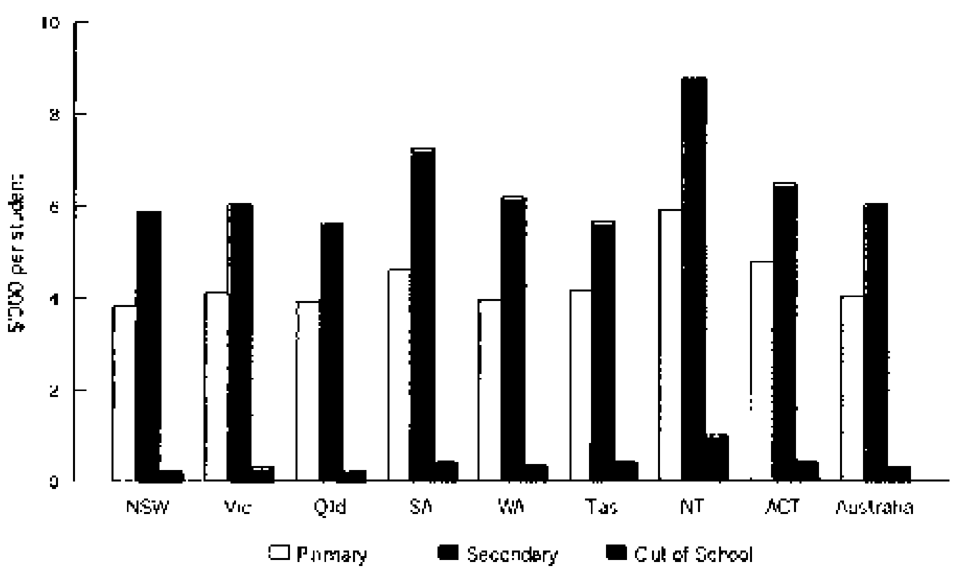
Expenditure per Student

Queensland's expenditure on government school education per student enrolment is the lowest in Australia. In 1993-94, the total cost per student in Queensland was $4,838, with the highest by some margin being the Northern Territory at $7,680 per student. The Australian average for total expenditure per student was $5,141.

Figure 10.4 demonstrates the relative position of the States by in-school primary and secondary school expenditure per student, and out-of-school expenditure. Out-of-school expenditure includes expenditure on non-school administrative centres and staff who spend less than 50 per cent of their time in schools.

Figure 10.4

Cost per Student, by Level of Education, by States/Territories, Australia, 1993-94



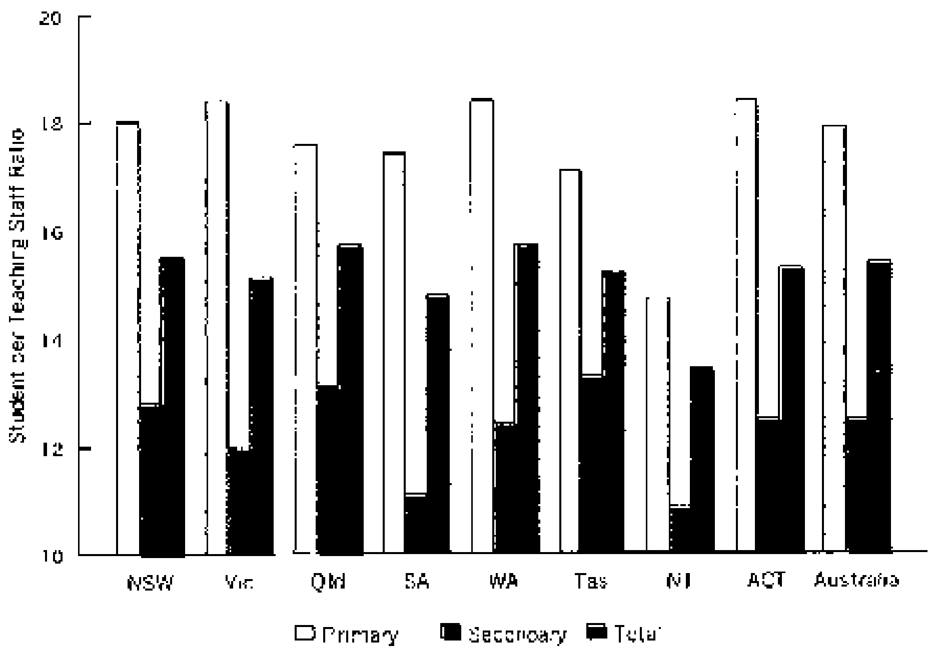
Source: National Schools Statistics Collection (NSSC).

One of the main cost elements in the school education system is the wage and salary costs for teaching staff. The salaries for teachers and principals in Queensland, as at April 1996, were at the higher level when compared with other States and Territories. For example, the average for a four year trained teacher was $29,158, with $30,253 being the rate in Queensland. At the maximum level on the teacher scale, the rates were $41,559 and $42,567 respectively. While movement in the salary scales will vary with the timing of enterprise bargaining agreements, Queensland's teaching salaries will remain around the average across Australia.

The student to teaching staff ratio will influence the size of the salary outlays for teaching staff. For Government schools in Queensland, the ratio of 15.7 is slightly higher than the national average, of 15.4, with further differences between primary and secondary schools. This is demonstrated in Figure 10.5.

Figure 10.5

Student per Teaching Staff (FTE) Ratios in Government Schools, by Level of Education, by States/Territories, Australia, 1995



Source: Department of Education.

It must be acknowledged that these ratios are not measures of educational outcomes and that average figures, which include all staff employed under the teaching award, do not represent the ratio of students to classroom teachers. On the cost per student expenditure measure, Queensland was the most efficient State based on 1993-94 data.

Effectiveness Measures

Given Queensland had the lowest average government expenditure per student in 1993-94, and slightly higher student/teaching staff ratios than some other States and Territories, the question is whether the outcomes from school education in Queensland vary relative to other States and Territories where expenditure is higher.

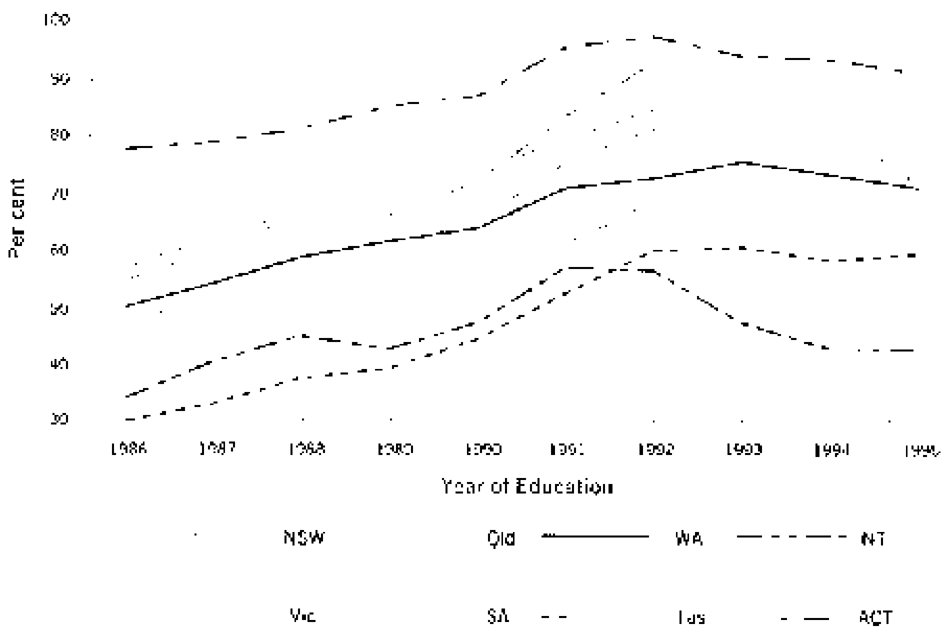
Performance measurement in school education is a complex task and considerable effort has been spent on it, but no nationally comparable information on student learning outcomes is currently available. However, some comparisons are relevant to the assessment of performance, such as the growth in retention rates. The data on student learning outcomes are for Queensland only.

Growth in Retention

The marked growth in retention rates over the past decade has been experienced in all States and Territories. The growth is the significant trend despite the fall off in recent years, except for Tasmania where it has levelled out. Queensland's experience in the level of apparent retention rates has been above that of all States and Territories, except for South Australia over a few years, and the Australian Capital Territory. The apparent retention rates of all States and Territories over the past 10 years are presented in the Figure 10.6 below.

Figure 10.6

Apparent Retention Rates of Secondary School Students to Year 12, by States/Territories, Australia, 1986-1995



Sources: Australian Bureau of Statistics *Schools Australia, Preliminary* 4220.0, Australian Bureau of Statistics, *Schools Australia* 4221.0

Apparent retention rates are the percentage of full-time students of a given year eight group who continued to year twelve of secondary schooling.

The source is the Australian Bureau of Statistics and it has warned that comparisons are affected by differences in the organisation of grades, policy on student intake and advancement, flows from secondary to vocational education and the recruitment and employment of teachers. The Australian Bureau of Statistics considers the rates are most useful as an indicator of changes over time within States.

Assessment of Learning Outcomes

Queensland has implemented a number of effectiveness measures related to the performance of primary and secondary students, including the newly introduced 1995 year two Diagnostic net and the year six test. The base data developed in the year two net and the year six test will provide a base for the future to identify performance trends. A significant element of the diagnostic tests is the allocation of resources to schools on a per capita basis for students who were identified by the Diagnostic net tests as not meeting set standards.

The Assessment of Performance Program has been in place for years five, seven and nine students in the areas of reading and writing (1990 and 1992), mathematics (1990 and 1993), and science (1987 and 1994). The Program demonstrates that, in the area of reading and writing, performance was higher in 1992 than in 1990, while the same was true of mathematics for years five and nine, with no change for year seven. The results for science were variable compared with results for years five and seven in 1987, with both increases and decreases in elements of the tests.

Very few studies have provided outcome performance information which allows comparisons among the States and Territories. One such study was the 1983 International Science Study where Queensland's performance was in the top three.

Conclusion

Queensland's performance in school education is characterised by low unit costs per student compared with all other States and Territories. However, it is concluded that there is no evidence to suggest that the outcomes from government schooling in Queensland vary significantly from, or, in particular, are of lower quality than, the outcomes achieved by States with higher expenditure. This seems to be accepted by other States, given their efforts to reduce expenditure in their education systems. Queensland has also performed strongly in apparent retention rates over the past ten years, providing a basis for skill formation via post-secondary education and training.

Data to compare learning outcomes from the school education system at a national level is required so that interstate comparisons can be made and benchmarks developed. As well, access, equity, and the social objectives of schooling need to remain in focus and some assessment of the data on social outcomes of schooling required for the 1996 Annual National Report on Schools across States and Territories should be undertaken.

10.5 Resourcing for School Education

Key Points

- *The Department of Education requires management control over all its inputs to maximise the achievement of educational outcomes from the resources available. Within guidelines, this should extend to capital resources—ie, reinvestment in infrastructure proceeds from sale of assets such as land and buildings that are no longer required.*
- *Moves towards an outcomes based global school budget process will assist the efficient use of resources, with ancillary services, such as cleaning and maintenance, and appropriate staff allocation methodologies, all devolved for schools to manage in a global school budget environment.*
- *With increasing management demands at the school level and increasing challenges in meeting the needs of particular groups of students, it would be appropriate to review the resource allocation methodologies for staffing of schools.*

Growth In Outlays

In 1994-95, the total outlays of the Department of Education were $2,375 million. This figure does not include the Department's one trust fund, the Commonwealth Education Fund, which had receipts of $299 million, and excludes the Department's carryover of $72 million. The distribution of these outlays across the Department's major activity areas is presented in Table 10.3.

Table 10.3

Department of Education Outlays, by Activity Area

Activity Area	$ million	Per cent of total
Assistance for Non State Education	177.4	7.5
Preschools	68.3	2.9
Primary	1,018.4	42.9
Secondary	764.7	32.2
Special	164.5	6.9
Distance	24.9	1.0
Continuing Education	3.9	0.2
Studies Policy and Development	55.6	2.3
Corporate Services	(106.2)	-
School Transport	84.7	3.6
Assistance to Tertiary Institutions	13.6	0.6
Total	**2,375.4**	**100.0**

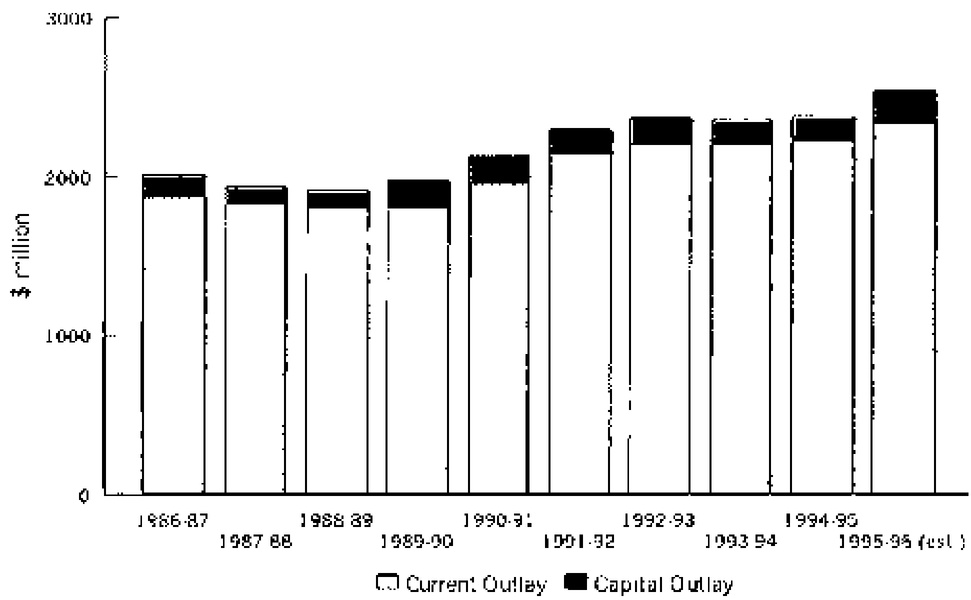
Source: Department of Education, *Program Statement 1994-95*.

Outlays for educational services have had a modest growth over the past ten years. The growth can only be estimated, as two major adjustments are required so that total outlays are on a similar policy base over the period. The first deals with changes in the method of payment of superannuation by the Department, and the second adjustment is to include the budget on school transport for the three years it was with the Transport Department.

When considered in 1994-95 values, the growth in total outlays is presented in Figure 10.7.

Figure 10.7

Education Outlays, 1986-87 to 1995-96 (in 1994-95 constant dollars)



Source: Department of Education, adjustments by Queensland Commission of Audit.

Over the 10 years, the compound growth rate for education outlays has been 2.5 per cent per annum. The main determinant of resources for educational services is enrolments, and the compound growth rate for the period 1986 to 1995 was 1.02 per cent for government school enrolments, 2.86 per cent for non-government school enrolments, with a rate of 1.5 per cent for total school enrolments. This compares with the total population compound growth rate of 2.5 per cent, and a compound growth rate for Gross Domestic Product of 4.5 per cent.

Components of Outlays

The main components of total outlays have remained relatively stable over the years, and the components for 1994-95 and 1995-96 (estimated) are presented in Table 10.4.

Table 10.4

Components of Department of Education Outlays 1994-5 to 1995-96

	1994-95		1995-96 (est.)	
Expenditure Component	**$ million**	**Per cent**	**$ million**	**Per cent**
Total Wages and Salaries	1,696.08	71.4	1,836.20	70.1
Other Current Outlays	255.63	10.7	259.19	9.9
Capital Expenditure	147.14	6.2	194.71	7.4
Assistance to Non Government Sector	177.38	7.5	203.60	7.7
Assistance to Tertiary Institutions	13.65	0.6	31.10	1.2
School Transport	84.71	3.5	93.70	3.5
Total	**2,375.38**	**100.0**	**2,618.50**	**100.0**

Source: Department of Education *Program Statement 1994-95.*

The following sub sections discuss the main outlays in the provision of education services.

Workforce

Wages and salaries represented just over 70 per cent of total expenditure in 1994-95, with teaching salaries just over 46 per cent, with both proportions being relatively stable at these levels for the past five years. The proportion on teaching salaries has remained almost constant over the past ten years with an increase in wages and other salaries from 15 per cent to 24 per cent in the same period.

The Education Department workforce numbered 37,855 full-time equivalents as at July 1995, although with a large and dynamic workforce there is some margin of error in quoting statistics at any point in time. It is estimated that this number will increase to 38,523 in 1995-96, with the main increase being in the primary school area of activity. The workforce comprises three categories of staff: the teaching staff employed under the Teachers' Award, those employed under the Public Service Award and wages staff.

The teaching staff are employed under the teaching award, and number around 29,000 or 77 per cent, in full-time equivalent terms, of the total workforce. The Department has developed methodologies for the allocation of staffing numbers to regions for allocation at the school level. There are primary, special, and secondary school staffing models which allocate class room teachers, teacher advisers, specialist and other categories of teacher, and management positions, largely based around enrolment numbers, by grade year group, and with the application of a target for the student to in-class teacher ratio. The models make adjustments for particular government priorities, such as behaviour management programs, curriculum development, and the needs of target group students.

The second category covers public servants under the structures of Central Office, Regional Offices, and some positions in schools. There were an estimated 3,978 establishment positions under the Public Service Award in 1994-95. For staff employed in schools, such as registrars and administrative assistants, the allocation methodology is based around enrolment numbers, or a per school entitlement.

The third category covers the wages staff who provide non-teaching and ancillary services to the schooling system. There were an estimated 4,708 wages staff which included grounds persons, cleaners and janitors, with allocation of staff numbers being on a per school basis or on enrolments.

The staff allocation methodologies have not been reviewed substantially for some years. They are also a major contributor to the lower cost per student, particularly in primary education, compared to other States. In New South Wales, a primary school with an enrolment of 430 is entitled to a non teaching principal, two assistant principals and two executive teachers while, in Queensland, the allocation would be only a non teaching principal and one deputy principal with a half-teaching load. For a Queensland primary school to have its principal free of teaching duties, enrolment must exceed 180 students but in Western Australia it is 106 students.

The management and teaching task for schools is increasing in the 1990s, with the demands of increased levels of student performance assessment, developments in the curriculum, changing delivery modes (eg key teachers, support-a-reader, reading recovery) and the need for behaviour management programs. A review of the staff allocation methodologies will need to be undertaken in developing school based management and resourcing models. Parents and the community are a significant source of unpaid support for schools working directly with students, in tasks supporting teachers, in committees, and in funding raising.

Information Technology

Information technology will facilitate management and curriculum reforms and provide the basis of school based resource allocation models. The School Information Management System being developed will provide a statewide electronic communications network for the collection, organisation, exchange and presentation of strategic information for student learning and teaching, school based management and accountability. This increasing use of information technology as both a management and learning tool requires both a capital outlay and an ongoing obligation for current outlays to meet the maintenance, support and training needs. The ongoing obligation for maintenance and support is a particular need in school-based applications given the life of computer equipment is three to five years. The development of school based resource allocation models will need to incorporate specifically an allocation for computer equipment on the basis that it improves efficiency and effectiveness for school management and student outcome reporting and monitoring.

Cleaning Services

It is estimated that cleaning services for government schools will cost $113 million in 1995-96, or the equivalent of 4.8 per cent of total outlays for the Department of Education. Cleaners were part of the wages staff of schools until 1994, when Q-Clean Services was established as a commercialised trading centre within the then Administrative Services Department. An estimated full-time equivalent of 3,950 cleaning positions were transferred to Q-Clean under an Enterprise Agreement effective January 1995.

The objectives were to relieve school principals from supervision responsibility for cleaners and to generate financial savings for the Department. An agreement has now been reached between the relevant Ministers to transfer the cleaning service back to the Department of Education from 1 July 1996. The primary reason was to return line responsibility to school principals to provide them with the flexibility to direct cleaners to perform other tasks associated with maintenance of the school not available under the Enterprise Agreement. An estimated 3,575 cleaner positions will return to the Department, the reduced number reflecting moves towards increased productivity per cleaner required by the Agreement. Efficiencies need to be maintained and improved through, initially, keeping the function together in the Department and managing it as a business unit.

Cleaning services are an ancillary service in a Department whose core business is education and therefore moves towards contracting out need to be taken, the Department retaining a central brokerage role in the purchase of outsourced cleaning services to ensure the benefits of economies of scale. Decisions on the extent, quality and management of cleaning, within guidelines, and control of the associated funding should rest at the level of schools in a school based management context.

Infrastructure

The Department of Education controls one of the largest asset portfolios in the State public sector. Current asset holdings comprise:

- more than 2,433 properties, school sites and vacant land, valued at around $5.5 billion;
- 16,020 buildings that include over 23,780 teaching spaces (classrooms); and
- more than 73,000 items of reportable plant and equipment (items over $1,000 each), with a total original cost of over $178 million.

An audit of capital needs completed in 1994 identified a requirement of $863 million for asset renewal. Consideration of this situation resulted in a special initiative called Building Better Schools. This provided a total of $262 million over five years to cover building new schools, the upgrade of the standard of classroom accommodation, the acceleration of maintenance activities and related tasks. The program commenced in 1995-96.

Capital investment, and facilities related recurrent expenditure, take up to ten per cent of the Department's outlays. The funding has mainly been on new schools and the expansion of existing schools to meet the demands of enrolment growth. This has resulted in an accumulated backlog of maintenance work required to maintain the functionality and capital value of the infrastructure. The Department has recently developed a strategy to manage its capital works program, asset maintenance and property management to make the most efficient use of resources available to provide education services.

For the most effective implementation of the strategy, changed arrangements in the existing processes for the building and maintaining of the infrastructure are required. Currently, the physical management of the Department of Education's assets is provided by the Department of Public Works and Housing. This involves the management of the Department of Education's capital works program, estimated at over $200 million in its budget this financial year and the management of all repairs and maintenance at schools, currently $53 million per annum, which appears in the Department of Public Works and Housing budget. Government policy currently ties all Departments to using this Department for all project management of capital projects although this situation changes from 1996-97.

From 1 July 1997, responsibility for the management of repairs and maintenance will transfer to Education, with the allocation of a budget based on historical allocations. However, Government policy will again tie the Department of Education to using the Department of Public Works and Housing as its provider for two to three years. This needs to be reviewed with the aim of returning full control of its inputs to the Department of Education itself.

School Transport

The objective of the School Transport program is to provide transportation services for eligible students through arrangements within the Department of Transport. The main clients are students who are disadvantaged in some way in obtaining access to educational services. The services include fully subsidised transport on public bus services for students residing beyond a reasonable distance from schools, concessional fares on metropolitan rail services and specific arrangements for students with disabilities.

In 1994-95, $84.7 million was expended on this function, with the estimate for 1995-96 being over $93 million. The Department of Education was responsible for policy and budget functions with the Department of Transport responsible for the operational aspects under an allocation from Education. A decision in March 1996 was made to transfer the policy and budget function to Transport, under a Memorandum setting out the roles of both departments with Education retaining only an advisory function, especially in relation to the transport of students with disabilities.

The transport of students is part of the overall management of the provision of education services to students. The Department of Education needs to have management control over the student eligibility criteria, the student body identified to be transported, the most appropriate locations for the provision of educational services, and the need for inter-school transport for curriculum and sporting purposes. This function works closely with other functions held by Education in terms of decisions about the options available for the provision of schooling to meet changing demands.

It is appropriate then that the Department of Education has the authority to enter into a purchase of service contract with the Department of Transport for the provision of transport services, with the allocation of resources from Education on an output basis, with additional measures relating to the requirement for efficiencies to be gained from transport providers in terms of cost structure and the pattern of transport routes. A new contractual arrangement would be needed to reflect this proposed allocation of responsibilities

Assistance to the Non-Government Sector

The Department of Education provides designated assistance to the non-State education community to support its provision of educational and education-related services. The program administers assistance from both State and Commonwealth Governments. The assistance provided to the program in 1994-95 was $475.8 million, with $176.8 million of this State Government funds. Assistance covers both capital and current expenditure.

The Commonwealth involvement in service provision in areas such as state education is currently under review regarding the relative roles of the Commonwealth and the States/Territories. The State has involvement with the non-government school sector currently in all aspects of policy and in the allocation of resources from its own funds as well as specific purpose payments from the Commonwealth. It would be appropriate for the Commonwealth to withdraw from school education and transfer the fiscal responsibility to the State at a real cost basis. This may also have efficiencies which derive from more cooperative arrangements emerging over development and use of school facilities across the government and non-government sectors.

Overall Adequacy of Resourcing

In terms of total expenditure per student, Queensland was the most efficient of the States and Territories on 1993-94 data without any evidence to indicate that students in Queensland have anything but a comparable level of education outcome. However, the low level of expenditure partly arises from a backlog of maintenance on schools, and from the current resource allocation methodologies used to determine the size of the workforce at the school level.

School management, curriculum developments and greater performance assessment have put increasing pressure on schools, and this will need to be addressed in future development of resource allocation methodologies for school budgets.

With the limitations on the State Budget, management processes are required so that the allocation of resources within the Department can be undertaken with maximum flexibility with the capacity to redirect resources. The Department needs, in short, to have responsibility for *all* policy and budget activities concerned with the management of its own resourcing, including its infrastructure, allowing it to make its own purchasing decisions on building, refurbishment and maintenance activities.

10.6 Demand for Services

Key Points

- ***The demand for school education services will grow across all the regions of the State over the next ten years at a slightly lower rate than the general population.***

- ***The management task is to align the future demand for services with the supply available through new and existing facilities.***

- ***The development of a better overall planning and coordination framework at the regional level in growth areas to provide some order and predictability to providers of infrastructure, such as the Department of Education, will be of benefit in meeting demand for services.***

Forecasting Demand

The Queensland population had a compound growth rate of 2.5 per cent per annum over the past ten years, and is forecast to grow at over two per cent per annum in the next ten years. Because of the age distribution of that growing population, the growth in student enrolments has been lower than in the general population.

The compound growth rate for government schools over the past ten years has been 1.02 per cent, with 1.6 per cent in the primary school sector, and 0.03 per cent for the secondary school sector. For the non-government sector, the rate was 2.86 per cent, with primary enrolments at 3.14 per cent and secondary enrolments at 2.56 per cent.

The past trends in enrolment growth are considered in the methodology for forecasting enrolment growth. The enrolment forecasts are prepared by accounting for factors influencing flows in and out of enrolments, such as births, migration, repeating and returning students, gains and losses to non-state education and students leaving school in post-compulsory years. Forecasts are prepared at the state, regional and individual school level.

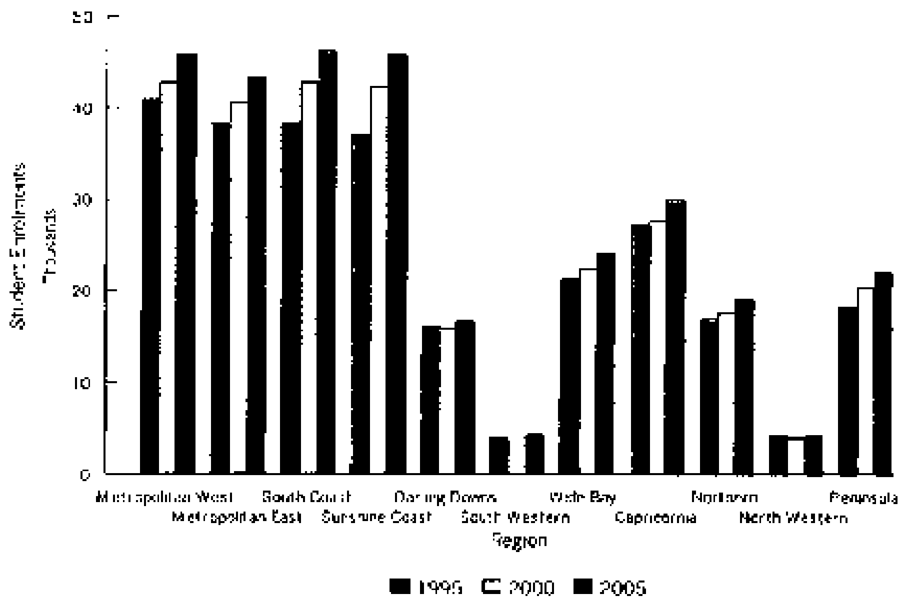
By 2006, enrolments in all primary and secondary schools are forecast to reach 666,000 students, with an annual growth of just under two per cent. The government sector is forecast to continue to decline to 70 per cent of total enrolments in 2006, compared with the current 73 per cent. Enrolments in State primary and secondary schools are forecast to increase to 468,000 students by 2006, with annual growth of over one per cent. Increases are largely due to larger age groups moving through the system.

Patterns of Demand Growth

Figures 10.8 and 10.9 use the data from the regional estimates to present the pattern of growth by the primary and secondary school sectors across the State.

Figure 10.8

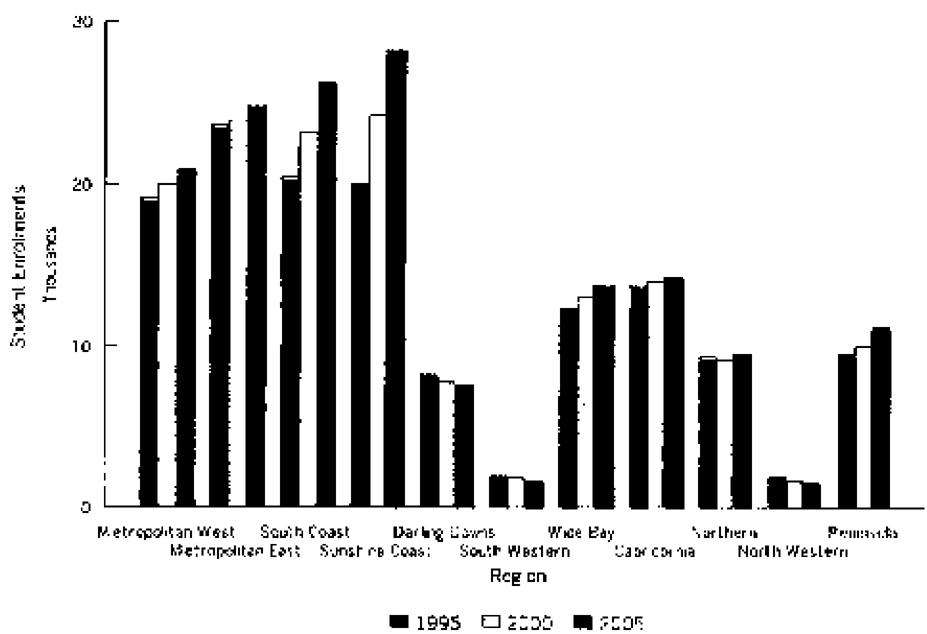
Queensland State Primary School Enrolment Growth, by Region, 1995-2005



Source: Department of Education.

Figure 10.9

Queensland State Secondary School Enrolment Growth, by Region, 1995-2005



Source: Department of Education.

The figures demonstrate growth in primary enrolments across all 11 regions as forecast for the next ten years, with growth in eight of the regions for secondary enrolments, with considerable variation in the growth in relative and absolute terms. There are also significant decline patterns within regional areas. The result is that during the period 1994-99, 547 government primary schools will increase enrolments, while 501 will decrease enrolments, and 147 government secondary schools will increase enrolments, while 93 will decrease enrolments. This has an impact on the new schools required and the need for the relocation of schools up to the year 2000. This regional distribution of the growth and decline is demonstrated in the Table 10.5.

Table 10.5

Growth and Decline Projections for Queensland Schools, By Region

		Period 1994 to 1999		Period 1996 to 2000	
Region	**Sector**	**Growth**	**Decline**	**New School**	**Relocation**
Metropolitan West	Primary	72	66	5	1
	Secondary	16	8	1	.
Metropolitan East	Primary	64	43	1	1
	Secondary	19	10	1	..
South Coast	Primary	43	30	5	1
	Secondary	9	12	2	..
Sunshine Coast	Primary	47	32	8	..
	Secondary	19	6	2	.
Darling Downs	Primary	51	67	0	
	Secondary	17	10	0	.
South Western	Primary	16	39	0	.
	Secondary	12	4	0	
Wide Bay	Primary	70	50	1	2
	Secondary	15	10	1	.
Capricorn	Primary	62	81	3	.
	Secondary	14	14	1	.
Northern	Primary	39	32	3	1
	Secondary	7	7	1	.
North West	Primary	16	17	0	.
	Secondary	8	3	0	.
Peninsula	Primary	67	44	2	2
	Secondary	16	9	1	.
State Total	**Primary**	**547**	**501**	**28**	**8**
	Secondary	**147**	**93**	**10**	**0**

Source: Department of Education.

Note: The 65 Secondary departments are included in the secondary figures.

The estimated cost of the new schools is $232.7 million.

Planning for demand in school education must include decisions about the location of new schools, refurbishment of schools to increase capacity, and rationalisation of schools to ensure that the distribution of schools enhances the provision of services and the educational outcomes of students. The Department's strategy for management of capital and asset maintenance should provide this framework.

Planning Processes and Demand Growth

The management of enrolment demand requires strategies both within the Department of Education and through the Department's involvement with regional planning processes with local authorities. The Department has, as already noted, developed management strategies to address infrastructure development and enrolment demands over the next five to ten years.

The process of development of land-use plans, with the allocation of locations for social infrastructure such as schools, should ideally provide a degree of certainty to public service providers. A planning and coordination process (or 'growth management framework') should ideally identify an appropriate sequence of development based around undeveloped areas that are already provided with, or represent a logical extension of, existing networks of roads, sewerage, water, and other infrastructure. 'Out of sequence' development will some times occur, and plans will evolve over time, but the process should provide the maximum degree of coordination among developers, service providers and relevant authorities.

The Department has developed processes for working with the Department of Local Government and Planning whereby major or controversial development proposals are referred to Education for assessment from the point of view of cost impacts upon it, particularly where the sequencing of the development will mean that it will need to provide educational facilities ahead of time by a number of years. Where development has proceeded ahead of time, the State government, and the Department of Education, have been successful in negotiating with some developers, a voluntary contribution to the 'out of sequence' costs incurred by the Department in bringing forward infrastructure plans. This includes the development at Springfield in Brisbane, where a judgment was made to the effect that additional costs imposed upon the State were in the order of $3.9 million.

The demand for education services will put pressure on the education system for the current and capital costs required to meet the dispersed pattern of enrolment growth. This is particularly so at the regional and sub-regional level, where growth and decline in enrolments will require rationalisation of facilities.

10.7 Future Provision of School Education Services

Key Points

- *Enrolment growth and decline at the regional and school level over the next ten years requires management processes to maximise the effective use of resources, while maintaining or increasing learning outcomes and access and equity objectives.*
- *School based management and resource allocation methods will be the most effective way to deliver services within budget constraints.*
- *The availability of funding for education services will be maximised by the Department of Education having control over all policies and resources required to provide its services, with resources allocated in relation to specific outputs determined in the planning and budgeting cycle.*

Infrastructure Management

Analysis by the Education Department indicates there is a considerable surplus of student places in many existing schools and a deficit in accommodation at growing schools, as well as a need to build new schools to meet the demand. As growth demands will need to be given priority for capital investment, there will be a continued expansion of the accumulated backlog in the need for asset refurbishment, renewal or replacement. Action is required to manage infrastructure in new ways, as any shortfall of funding will not be solved through an increase in budget funding. Priority for funding will remain focused on servicing growth.

Strategies to consider, both external and internal to Education, include:

- State-wide planning and coordination processes among developers, service providers and authorities which seek to 'manage' growth and the sequencing of development so as to allow the most cost-effective delivery of public services;
- a lease versus ownership policy which addresses the issues of whether the State needs to own all public school facilities, or whether the provision of education services could, in some cases, be provided through facilities which are privately owned, to reduce short term direct budgetary outlay and a more flexible provision of temporary facilities;
- innovative capital investment, including the sharing of facilities such as sports grounds and libraries with private schools, as has occurred in a number of instances with a contribution from developers negotiated in order to bring forward the school building timetable;
- designing schools for a specific lifecycle and, so, reducing over-engineering of design standards for construction to ensure the best result for each dollar spent;

- investigating the potential for new technology to change service delivery;
- greater rationalisation of schools to release capital for reinvestment, with policies which ensure retention of money from sales for reinvestment at terms which provide the incentives for disposal of under-utilised assets and equipment;
- redesigning schools, particularly in urban areas, to seek more cost effective use of land;
- clustering of schools to allow sharing of curriculum facilities;
- increased usage of school facilities, either for education purposes or after hours by a variety of users; and
- changed management arrangements with clear funder/provider relationships with direct management of the maintenance budget, and with capital works untied from government provision so alternative service providers can be approached to create a competitive market place. This also requires the development of appropriate contract management skills and implementation of information systems for contract assessment and monitoring.

School-based Management and Resource Allocation

This approach requires the devolution of decision making to schools, with the appropriate resource allocation. The role of parents and the community will be important in this approach. The Department has a partnership agreement with the peak parent organisation that will assist in this. Management of resources at the school level requires the development of a budget framework to identify all the cost elements and to determine a methodology for their allocation. The elements would include core items, such as salaries for management and teaching positions, training and professional development, costs associated with the premises and information technology maintenance, the provision of ancillary services, including cleaning services and school transport, and asset management and maintenance

The allocation methodologies for a school based budget will need to review the reasons for the low delivery cost in Queensland compared to other States so that the ability to maintain the current standards of educational outcomes is reflected in a school budget. The particular factors to consider revolve around the teacher allocation models, including the need for middle management positions in primary schools, the amount of non-contact time for teachers, particularly in primary schools, and the level of administrative assistance provided to schools.

Student Performance Processes

Resource allocation for schools will need to be in the context of defined sets of educational outcomes, which will be established around the current and planned procedures for student performance assessment. The students who are identified through the tests and the student performance standards process will require specific resources, but the interventions need to be assessed as to their effectiveness for the resources allocated. Students with special needs, such as students with disabilities, will require particular attention in the assessment of the cost of providing education services to these students in a school budget

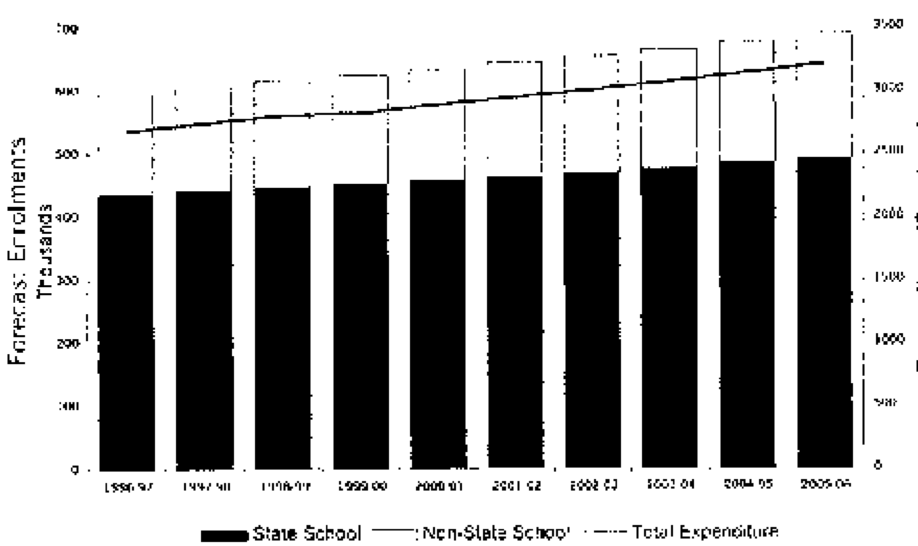
Outlay Projections Over Ten Years

Projections for outlays for Education over the next ten years have been estimated based on cost neutral assumptions about how the Department may change in line with structural and delivery changes through school based management models and the realignment of the non-school locations required to service this type of model. It is also based on the assumption that the Department will carry out a rationalisation of its asset base so that asset growth and maintenance requirements are largely funded through redistribution of the revenue raised and through efficiencies achieved by management control over its asset and maintenance budget and the use of competitive tendering.

The base allocation for the outlays is linked to enrolment growth in both the government and non-government sectors and the provision of new and upgraded facilities. Anticipated real growth in salaries/wages and non labour factors required to meet the main determinants of the change in base allocation has also been factored in Figure 10.10 presents the growth in outlays in 1995-96 constant prices required over the next ten years to meet enrolment growth.

Table 10.10

Queensland Education Expenditure and Enrolment Forecasts, 1996-97 to 2005-06



Source: Department of Education.

The projected outlays show a compound growth rate of 2.0 per cent, with enrolment growth in the government school sector of 1.4 per cent and in the non government school sector of 2.4

per cent. The projection for growth in outlays, at 2.0 per cent, is less than the growth over the past ten years of 2.5 per cent and is less than half the expected growth in gross state product. However, this rate will only be achieved if the management processes outlined in this section are implemented and the Department is able to realise efficiencies, particularly in managing the asset base, ancillary services and school transport.

The projections have not factored in any adjustment for the move to school based management and resource allocation methodologies which may require some upward adjustment of certain categories of staff at schools. The projections also assume no reduction to base funding.

Recommendation

10.1 The management and organisation of the Department of Education should be restructured around its core business of teaching and learning, through:

- *school based management of processes and resources to ensure that responsibility and accountability for the provision of educational services are placed at the point of delivery;*
- *development of appropriate resource allocation methodologies which provide an overall allocation that covers teaching and non-teaching staff, premises and ancillary and support services for school-based management;*
- *continued commitment to student performance measurement and the allocation of resources to students on a needs basis, as identified through these processes, and through access and equity programs;*
- *overall planning and 'contract budgeting' arrangements under which the Department:*
    - *receives authority for its total resources via a performance or service agreement setting specified outcomes;*
    - *has full management control over the allocation of those resources - including the purchase of school transport, building, refurbishment and maintenance of all assets, project management services and provision of ancillary services such as cleaning; and*
- *maximum flexibility and efficiency in the Department's internal allocation of resources through revenue retention and other incentives for disposal, reinvestment and reassignment of resources to achieve educational outcomes for students across the State, within effective planning and coordination frameworks, especially in growth regions.*

Training

Key Points

The State has for many years under-invested in training compared with other States and this has contributed to Queensland's low workforce skill profile and low productivity performance. This does not, however, necessarily translate into a case for increased public funding, and other opportunities to lever additional training effort and contribution from the private sector, including both businesses and individuals need to be pursued.

Findings

- *Queensland's expenditure per measured student contact hour of publicly provided training has changed with the re-basing of its 1994 statistical collection. Subject to qualifications on data comparability, Queensland remains one of the lowest cost providers, Victoria being the lowest.*
- *Queensland has under-invested in State training relative to other States and Territories for some years. This is the case both for Government, which is dominant as both a purchaser and a provider of training, and users of training. Queensland (which has relatively fewer large enterprises compared with southern States) is also low in enterprise expenditure on training. As in other States, individuals contribute only a small proportion to the cost of their training.*
- *The State's workforce has the lowest qualification profile for vocational education overall of any State or Territory, and low skill patterns appear to be related to the State's low performance in labour productivity.*
- *Queensland need not precisely match the skill profile of other States, but even a moderate reduction of the gap in the highest priority areas would require the equivalent of $20 million additional resources to be found each year (progressively) for eight years, equivalent to a five per cent lift in productivity each year, to be achieved within increased effort from both purchasers and providers of training.*
- *Resource or service agreements used to allocate funds to public providers of training need to be improved to replace the 'throughput' measure of student contact hours with more direct measures of skills formation outcomes, such as module load and course completion rates, and to ensure that pricing (on a full accrual basis) is constantly reviewed to competitive benchmarks.*
- *Management information systems need to be improved to provide reliable data on financial, throughput and output measures for the publicly funded vocational education and training system in Queensland, as the basis for benchmarking performance and for meaningful national comparisons.*
- *Competitive tendering processes need to be introduced for the provision of infrastructure and ancillary services in the TAFE sector.*

10.8 Introduction to the Vocational Education and Training Sector

Key Points

- ***Queensland is relatively efficient in its use of resources to deliver training output, but for some years past has under-invested in training relative to other States.***
- ***Queensland has the least skilled workforce and this helps explain why its economic growth has been low productivity growth.***
- ***Higher public funding is not necessarily the answer, and other means are required to lever greater private effort.***

Government funds training to promote skill formation and as a result, competitiveness to assist job seekers and the unemployed; and to pursue social objectives such as equality of opportunity. Queensland is under-achieving against these objectives because its investment in training *(per capita)* has been lower than in other States. It has a relatively low skilled workforce (reflected in the qualifications profile of that workforce) and this helps explain why the State's economic growth (based on population increase) has been low productivity growth. This is not a recipe for long-term competitive success.

Queensland need not have precisely the same level or pattern of workforce skills as other States, but lifting the skill profile towards the national level would bring significant benefits over time.

This does not imply that public funding of the vocational education and training sector should necessarily increase. There is scope to leverage greater private effort, and a better response from providers, by creating a more competitive market driven more by needs of the users of skills, enterprises and their employees, eg, through wider use of 'user choice' (users assisted by public funds free to choose a provider and services). However, recognition is needed that markets may be difficult to promote in some situations, eg, because of the infrastructure requirements in particular fields of study, and particularly in rural and remote locations. There will continue to be a major public role in vocational education and training, and a major role for TAFE.

10.9 Profile of the Sector

Key Points

- ***A complete breakdown of the vocational education and training market in Queensland by purchaser (who pays) and provider (who delivers) is not available, but government is dominant on both sides. It is estimated that 60 per***

cent of TAFE revenues comes from the State Government, 23 per cent from the Commonwealth and only nine and four per cent from enterprises and individuals respectively.

- ***Government is involved in vocational education and training provision through TAFE agricultural colleges and secondary schools.***
- ***There are several hundred other providers, including commercial, community and enterprises funded by Government, industry and individuals, indicating a good basis for a competitive training market.***

The sector has been defined as that part of the education and training system which provides individuals with the skills and learning expressly required by enterprises and industry.[3] The sector delivers services in two main areas, entry level training and workforce training, as well as through labour market programs variously targeted at the unemployed and other special groups. Training may include some general education and may take place on or off the job, up to and including the level of para-professional.

Training providers include TAFE institutions, community, commercial or other non-TAFE training institutions as well as enterprise training arms. TAFE is the dominant provider nationally, with about half the sector (in revenue terms). The principal purchasers are State Government (the main source of TAFE revenue), the Commonwealth Government, enterprises and individuals. The products of the vocational educational and training sector, skills recognised in qualifications or gained in unrecognised enterprise or other training and activities, contribute to the common skill pool for Australian industry.[4]

Government Responsibilities

The Minister for Training and Industrial Relations has responsibility for the Government's purchase of training services and for the allocation of resources which come from the Commonwealth under the Australian National Training Authority Agreement. The Minister receives advice on the State Training Profile from the Vocational Education Training and Employment Commission, a statutory authority with responsibility for strategic policy advice on the training market, employment and the allocation of resources to training activities. It also has responsibility for:

- regulation of training, including apprenticeship, traineeship and other training systems;
- accreditation of vocational education and training courses;
- registration of the providers of accredited training courses; and
- recognition of establishments as approved training organisations.

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3 The Allen Consulting Group (June 1994) *Successful Reform. Competitive Skills for Australians and Australian Enterprises*

4 The Allen Consulting Group (December 1994) *Establishing an Effective Australian Training Market.*

It comes under the umbrella of the Department of Training and Industrial Relations, the responsible division being known as Training and Employment Queensland.

Purchasers of Training Services

Government is the main purchaser of training, purchasing an estimated 49 per cent of the dollar value of the national training market, estimated at $6,544 million for the year ended 1992. The funding sourced from enterprises is estimated at 43 per cent, and seven per cent is from individuals, with one per cent unattributed.[5] Information is not available for Queensland on a comparable basis, covering the training market as a whole. Information is available only on the pattern of purchase of training from the public provider, TAFE Queensland, and this does not encompass all costs (eg pay to employed trainees while training). For the year ended December 1994, $435 million in training services was purchased from TAFE Queensland by the State Government (60.4 per cent), the Commonwealth Government (23.6 per cent), enterprises (9.1 per cent) and individuals (4.3 per cent) and 2.6 per cent unattributed. The State Government also purchased $36.955 million for services from non-TAFE providers.[6] This does indicate, however, how low a proportion of the cost of training investment is funded by the main beneficiaries—the individual trainees and the enterprises within which they use their skills.

The Australian Bureau of Statistics, Employer Training Expenditure Survey for July to September 1993 indicated that organisations in Queensland recorded the lowest training expenditure of the States and Territories, with 2.4 per cent of gross wages and salaries and $150 per employee, with the Australian average of 2.95 per cent and $192 per employee. At the same time, Queensland recorded the largest increase in total training expenditure, increasing 30 per cent from $112.8 million in 1990 to $146.5 million in 1993.

Training schemes are largely publicly funded although, under 'user choice' initiatives which are being piloted, there is a transfer of command over funds to the employer and trainee to make the decision on the provider, and hence on aspects of the services. Training of existing employees may be provided in-house by internal trainers or by outside trainers.

Another development in purchasing arrangements is a move to joint ventures between a provider, usually a TAFE institute, and an enterprise which provides the location for the training. This is also being expanded for entry level training. Industry purchased training services also include training provided by equipment suppliers as part of their own client service.

Individuals are themselves purchasers to the extent that they pay fees and charges. TAFE fees and charges are very low, compared with those applied in higher education under the Higher Education Contribution Scheme, but private providers' fees and charges can be much higher. TAFE itself can also operate in the commercial or 'fee-for-service' area. Even in this area, most fees and charges are paid by enterprises in exchange for a customised service, rather than by individuals.

5 The Allen Consulting Group (December 1994) op cit.

6 Figures provided by the Department of Training and Industrial Relations.

Providers of Training Services

TAFE is the predominant provider of training in the country with an estimated 45 per cent of the training by dollar value. The next largest provider group is the enterprise sector, with 32 per cent, and the remaining 23 per cent of training is provided by a range of commercial, industry-based, community and adult education centres. Training provided (as distinct from purchased) by enterprises breaks down between in-house provision (17 per cent) and bundled training provided by suppliers and equipment manufacturers (15 per cent).[7]

In Queensland, while the main Government provider is TAFE Queensland, publicly funded training is also carried out by agricultural colleges and secondary schools. The non-government providers constitute a variety of commercial, enterprise-based and community organisations.

TAFE Queensland

The TAFE system in Queensland is the main provider of accredited and recognised courses. TAFE Queensland is the organisational name which covers a State office coordinating function and the network of service providers in the 16 Institutes of TAFE.

The Institute model involved the amalgamation of the former 32 Colleges into 16 Institutes, and was completed for the 1994-95 financial year. The aim was to achieve increased efficiency and effectiveness; including greater capacity for client ownership; improved responsiveness to demands for training; improved quality of curriculum; flexibility in delivery mode; more effective use of facilities and broader career opportunities for staff. It involved the devolution of State office functions to the Institutes. Over the past three years, staffing levels in the State office have accordingly decreased from 537 to less than 160, with a redirection of resources to the Institutes of $44.4 million in 1994-95. The State office retains strategic planning, management and coordination roles, as well as performance standards and monitoring.

The Institutes are located in the major population centres in the south east corner and in regional and some rural areas of Queensland. Each is provided with a budget through a Resource Agreement with the State office of TAFE Queensland which specifies the training to be provided by field of activity and stream.

Agricultural Colleges

The four Agricultural Colleges were established originally as rural training schools under the *Rural Training Schools Act 1964*, and now operate under the *Agricultural Colleges Act 1995*. The Colleges are located at Dalby, Longreach, Emerald, and in the Burdekin. They operate as independent statutory bodies, each governed by a 12 member college board.

7 The Allen Consulting Group (December 1994) op cit.

The colleges will receive $11.052 million of State Government funding in 1995-96 to provide for 523 students through grants in the budget allocation of the Vocational Education Training and Employment Commission.

The colleges contribute to the cost of their operations through student fees and from farm operations. In 1993-94, this amounted to over $7 million, but the extent of the revenue from farm operations varies with seasonal conditions.

For the purposes of national reporting and, subsequently, for inclusion in maintenance of effort calculations under the Australian National Training Authority Agreement, the agricultural colleges have been defined as part of the vocational education and training sector, and are allocated part of the State Training Profile to be delivered.

State Secondary Schools

Secondary schools have been registered to provide training courses to their students which receive recognition under the vocational education and training system. This has been an increasing area of activity, with the objective of increasing the options provided at the post compulsory level of schooling. There were 350 TAFE subjects for which year 12 students had results recorded on their 1994 senior certificates. During 1994, 44 per cent of year 11 and year 12 students in government schools and 26 per cent of students in non-government schools were enrolled in one or more vocational education and training subject. The majority of this activity, 90 per cent, was for courses accredited by the Vocational Education Training and Employment Commission and leading to a major award, certificate or qualification. In May 1994, there were 58 schools registered to provide training and, in 1995, this number had increased to 128 schools (107 government and 21 non-government) registered as private providers of 268 training programs. Most of these programs were in business and hospitality areas.

There are also schools that do not seek direct registration with the Vocational Education Training and Education Commission but want to provide vocational education and training subjects as an option and do so under the extended registration of a TAFE Institute or private provider. The provision of vocational education and training within schools is growing, with the Department of Education planning to offer basic level training certificates as part of increased options for students. However, currently such effort is not included in the assessment of State effort for the purpose of the Australian National Training Authority Agreement.

Non-TAFE Providers

Information on the range of non-TAFE providers of training is based on those who are registered to provide training courses. The non-government training provider market continues to grow and as at May 1995, there were 279 non-government providers registered to deliver accredited or recognised courses, compared with 127 in 1994, as detailed in Table 10.6.

Table 10.6

Category on Non-TAFE Providers Registered to Deliver Accredited/Recognised Courses, Queensland

	1994	1995
Skillshare/Community Providers	16	44
Private/Commercial Colleges	87	197
Government (other than TAFE)	18	18
Enterprise Providers	6	20

Source: Training and Employment, Queensland. *State Training Profile 1996*.

There were 549 accredited courses, short courses and training programs which were developed or being developed by these providers in 1995. The main areas of these courses were 24.2 per cent in business, 10 per cent in aviation, 7.3 per cent in community services and welfare and then 7.2 per cent in each of health and hospitality.

The first Australian Bureau of Statistics survey of commercial training providers in 1994 indicated that there were 3,174 private training providers Australia wide, with 469, or 14.8 per cent, in Queensland. These Queensland providers indicated that they delivered 8,061,000 training hours to participants, that 22.6 per cent of them conducted courses under Government labour market programs, compared with a national average of 23.1 per cent, and that 19.2 per cent of providers conducted accredited courses, as against a national average of 12.9 per cent.

Outputs from Training Providers

The traditional output measures from the providers of training include student contact hours and enrolments for the courses. However, these are really throughput measures rather than direct measures of outcomes. Measures such as module load completion rate and completion of qualifications are closer to capturing outcomes from training (especially for competency based training programs, where completion must involve skills acquisition). Such measures are more relevant to Government in terms of its investment of resources in training, through its roles of purchaser and provider of training.

These measures of performance are considered in the next subsection in reference to that part of the system which is publicly funded and provided through TAFE Queensland. However, a significant direction for the future is the general trend to the introduction of competition in the purchase of training services through competitive funding mechanisms, where public funds go direct to providers, and for wider use of 'user choice' in shifting decision-making power to the ultimate user. Over time, such initiatives should improve performance of all providers and encourage more private effort.

10.10 Performance of the Vocational Education and Training Sector

Key Points

- ***While data problems make comparisons across jurisdictions difficult, Queensland appears to be relatively efficient (although not the most efficient) in resource use for given 'throughput' in the publicly funded vocational education and training sector.***
- ***Queensland ranks relatively low in respect of key measures of skill formation outcomes module completion rates and the overall vocational education and training qualifications (skill) profile of the workforce.***
- ***There is no available evidence to indicate that Queensland performs differently to other jurisdictions, either on overall quality of training or against equity and access goals.***

Measures of Performance

The comparative performance of the training sector in Queensland is considered through measures around the common and agreed national goals for vocational education and training based on work reported in the *Report on Government Service Provision*[8] with:

- effectiveness indicators centred on industry outcomes in terms of skill formation, increased participation (access) and improved student outcomes in terms of quality of training and achievement of employment objectives involving use of the skills acquired; and
- efficiency measures expressed in terms of unit costs.

Comparisons between States and Territories must be approached with considerable caution because of differences in the scope and boundary of the costs and the activities measured, and because of the extent different organisational arrangements and characteristics of each State or Territory influence the cost of delivery. For example, population densities, provision of vocational education and training to Aboriginal and Torres Strait Islander people, the types of courses provided, dispersion of delivery sites, and community obligations influence the cost structure.

The States and Territories provide information to the Australian National Training Authority on training effort and the allocation of resources, which is published[9]. Information from this source and the *Report on Government Service Provision* have been mainly used in this section.[10]

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[8] Steering Committee for Revenue of Commonwealth/State Service Provision (1995) *Report on Government Service Provision.*

[9] Australian National Training Authority (1995) *Directions and Resource Allocations for 1996.*

[10] Steering Committee for Review of Commonwealth/State Service Provision (1995) op cit.

A significant limitation to the comparability of data is the fact that an audit of the preliminary 1994 Queensland statistical collection has led to a revision of the database, and has had the effect of changing Queensland's relative position from the lowest unit cost of any State to second or third, on the assumption that the results of audits in other States and Territories have also been undertaken. This also effects the relative position in terms of some of the effectiveness measure which use student contact hours, as the size of this measure has been revised downwards from around 47 million to an estimated 40 million.

A national effort has been made to develop management information standards which require States and Territories to ensure that their management information systems provide the data required for meaningful comparisons. The effects of the implementation of the standard are apparent for the first time in the national reporting of 1995 performance data.

Efficiency Measures

The efficiency measures used for comparison are the average unit cost per student contact hour for total government funded activity, and for growth funding, and are presented in Table 10.7.

Table 10.7

Average Unit Cost per Student Contact Hour: Total Government Funded Activity and Commonwealth Funded Growth Activity

	1994		1995		1996	
	Total	Growth	Total	Growth	Total	Growth
New South Wales	9.03	6.95	8.93	6.92	9.14	7.83
Victoria	8.01	6.41	8.12	6.85	8.13	7.31
Queensland	7.92	8.56	8.52	8.40	8.28	8.20
South Australia	12.78	11.54	12.09	9.65	11.98	8.68
Western Australia	11.77	7.32	11.62	8.04	11.81	10.03
Tasmania	16.49	8.53	15.48	9.02	15.31	8.89
Northern Territory	20.77	7.82	19.77	8.19	19.43	10.63
Australian Capital Territory	12.94	6.75	12.37	5.88	12.18	8.43
National Average	**9.27**	**7.09**	**9.33**	**7.44**	**9.37**	**8.05**

Sources: Unweighted data from Training and Employment, Queensland, *State Training Profile 1996*; Financial information supplied by States, presented in Australian National Training Authority, *Directions and Resource Allocations for 1996*.

Table 10.7 was compiled from data collected on projections made before the audit of 1994 performance data and the subsequent rebasing of Queensland performance. Table 10.7 indicates that Queensland had the second lowest average unit cost after Victoria for *total* government funded activity. Queensland has had one of the lowest average unit costs of all the States and Territories in the growth funds over the period, and is well below the national average. It is expected that the situation will remain relatively similar when the 1995 data are released by Australian National Training Authority.

Queensland's re-based figure for 1995 including student fees collected and total head office expenses is estimated at $10.15 for TAFE Queensland's expenditure per student contact hour. If student fees and charges are excluded and head office charges are apportioned between government funded and fee-for-service activities, then the rebased figure is estimated at $9.37 per student contact hour. How this compares with other jurisdictions depends on revisions to their data.

Effectiveness Measures

The preliminary framework of indicators for effectiveness in the vocational education and training sector covers three areas. The first area is *industry outcomes* where the indicators cover employer satisfaction surveys, actual versus planned activity from the State Training Profile, and unmet industry demand. The second area is *access* where the measures are participation rates, including rates for the target groups. The third area is *student outcomes* with the measures being graduate destination and graduate satisfaction levels, and module load completion rates.

Industry Outcomes

Industry outcomes cover employer satisfaction with the quality and relevance of training received by employees, and the extent to which the State Training Profiles are achieved given that these Profiles are developed through a process of consultation with representatives of industry. More fundamental to the State's economy are skills formation outcomes, best measured by the distribution of qualifications in the workforce, discussed later in this Chapter. Data on employer satisfaction which are comparable are expected later in the year from a national survey undertaken by the Australian Bureau of Statistics. A study prepared for TAFE Queensland, as part of a client services project, resulted in an overall business client satisfaction rating of 75.4 per cent, which is considered a reasonable result given a lack of resources devoted to building client relationships. The report commented that it would seem that competitors have not as yet made significant inroads into this purchaser market. The overall government client satisfaction rating was 82.3 per cent.

The data available on the actual versus the planned load of student contact hours are set out in the State Training Profile as required for the Australian National Training Authority Agreement. This is a significant measure for industry as the demand from industry for training load is always greater than the training available with public funds. The results for 1994 tabulated prior to rebasing are presented in Table 10.8.

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1 Service Management Australia (1996) *A Report on the Standards of Client Service Project Business and Government Clients, conducted for TAFE Queensland*

Table 10.8

Industry Outcome by States and Territories and Australia: Actual vs Planned Load (Student contact Hours)

Load (000)	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Australia
Actual	93,384	60,141	38,898	13,648	17,323	3,496	2,405	4,118	233,413
Planned	92,395	57,574	38,048	13,850	17,304	3,458	2,383	4,134	228,946

Source: Steering Committee for Review of Commonwealth/State Service Provision (1995) *Report on Government Service Provision.*

This table demonstrates that the planned student contact hours were achieved, within a small margin, in every jurisdiction—suggesting, perhaps, that the plans have been framed with supply availability given considerable weight. This reinforces the focus placed later in this chapter, on the ultimate outcomes to be achieved in terms of the skill patterns in the State's workforce.

Access

Overall national participation in vocational education and training has improved over the last decade, rising from 7.5 to 8.7 per cent of the 15 to 64 year old population between 1985 and 1994, although international comparisons of Organisation for Economic Cooperation and Development countries indicate a rate of around ten per cent. A key national goal of vocational education and training systems reiterated under the Australian National Training Authority Agreement, is to increase the opportunities and improve the outcomes for disadvantaged groups, including women; people without social and functional skills in English language literacy and numeracy; people with disabilities; Aboriginal and Torres Strait Islander people; the unemployed; and people in rural areas.

The National Centre for Vocation Education Research uses module hours as the comparative basis for participation rates, and Table 10.9 presents participation rates for the 15-64 year old population as at 30 June 1995.

Table 10.9

Access: Module Hour Participation Rates (TAFE and other Tertiary) by Age by States and Australia, 1995 (Per cent)

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Australia
15-64	26.3	22.6	20.5	14.3	17.8	15.7	20.8	24.0	22.1

Source: National Centre for Vocational Education Research.

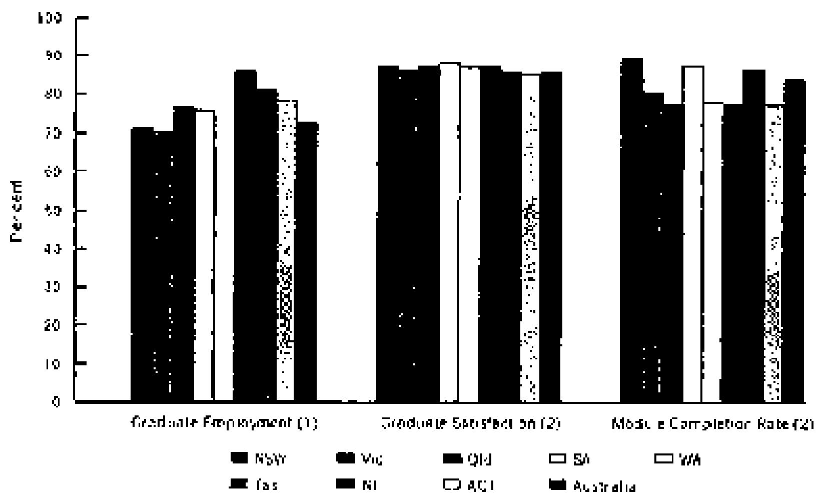
This table demonstrates that Queensland has one of the lower participation rates, and lower than the national average.

Student Outcomes

Nationally comparable data are available on the measures for student outcomes. The outcomes for students in terms of employment and satisfaction with the provider are measured in a survey conducted for the Australian Committee for Vocational Education and Training Statistics. Module load completion rates were calculated by States for the first time in 1994 and this required estimation in some systems. This rate broadly measures the extent to which modules that are started are successfully completed by students. Thus it is an important measure of success in skills formation, reflected in acquisition of qualifications. The Australian National Training Authority declined to publish measures of module completion rates on the grounds that they lacked sufficient comparability to be meaningful. The results, which should be treated with caution, are shown in Figure 10.11.

Figure 10.11

Interstate Comparisons of Student Outcomes, 1994



Source: (1) Australian Bureau of Statistics *Graduate Outcomes. Technical and Further Education*, 1995, State Publication

(2) Steering Committee for Review of commonwealth/State Service Provision (1995) Industry Commission, *Report on Government Service Provision*

The figure shows that Queensland is above the Australian average for graduate employment, and that all States and Territories are within one per cent in terms of the subjective measure of graduate satisfaction. The figure shows that Queensland is one of four States and Territories which share the lowest rate of module load completion.

Within Queensland, the performance of the Institutes of TAFE for student outcomes is presented in Table 10.10.

Table 10.10

Performance Benchmarking, TAFE Queensland, 1995

	Student Outcomes		
Institutes	Employment Rate After Course Completion Per cent (1)	Graduate Satisfaction Survey Per cent (1)	Module Load Completion Rate Per cent (2)
Barrier Reef	52.60	92.91	73.19
Bremer	57.00	92.84	76.74
Brisbane	72.70	86.39	81.32
Central Queensland	61.90	90.60	79.81
Cooloola Sunshine	77.90	82.09	78.64
Far North Queensland	50.40	88.28	74.95
Gold Coast	75.40	90.48	80.74
Logan	49.30	91.18	76.15
Moreton	69.40	89.58	73.31
Mount Isa	n.a.	n.a.	76.12
Northpoint	n.a.	n.a.	80.71
Open Learning	67.90	93.98	91.18
Southbank	65.70	87.53	79.07
Southern Queensland	57.60	87.96	76.22
Wide Bay	56.40	91.79	74.86
Yeronga	52.10	83.10	76.71

Source: (1) Australian Committee for Vocational Education and Training Statistics/Australian Bureau of Statistics, 1993 Graduate Destination Survey;
(2) Australian Vocational Education and Training Management Information Statistical Standard data 1994.

Note: n.a. Not available.

The table shows that there is considerable variation across the Institutes. There are Institutes which performed above the Australian average for graduate employment and the majority performed at a better level than the Australian average for graduate satisfaction as presented in Figure 10.11. For the module load completion rate, only the Open Learning Institute of TAFE achieved a higher rate than the Australian average.

Qualification Profile of the Labour Force

The most important outcomes for industry and for students from the vocational education and training system concern the attainment of qualifications representing acquisition of skills. Success in these terms equates to a more skilled and productive workforce for employers and the prospect of higher earnings and better jobs for graduates. The level of attainment of qualifications from the vocational education and training system is thus a good proxy measure for skills and competencies. *The Organisation for Economic Cooperation and Development*

Jobs Study 1995[12] made this claim for educational attainment when expressed in terms of years of schooling completed or the completion of different stages of education and training, and that, measuring skills and competencies in this simplified way has the advantage of allowing comparisons within countries.

A report prepared for this Commission[13] indicated that the proportion of the Queensland workforce with formal qualifications is lower than the rest of Australia. The 1995 data show that although Queensland has a higher than average proportion of employed persons with skilled vocational qualifications, it has the second lowest proportion of employed persons with qualifications in the diploma/associate diploma and the lowest proportion of employed persons with basic vocational qualifications. The comparisons are presented in Table 10.11.

Table 10.11

State Qualification Profiles, Employed Persons, 1995: (Age 15 to 64) with a Vocational Education and Training Qualification (Per cent)

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Australia
Skilled Voc Under-Graduate	15.85	14.02	15.63	13.71	15.68	16.16	17.07	8.49	15.05
Dip/Ass Dip	8.46	7.18	6.44	7.18	6.62	6.02	5.95	9.89	7.46
Basic voc	9.61	5.71	5.98	7.17	7.47	6.5	7.75	7.42	7.43
Total VET	**33.93**	**26.92**	**28.05**	**28.06**	**29.77**	**28.68**	**34.08**	**25.79**	**29.94**

Source: Cullen, R.B. (1996) *Planning for Improvement in the Skills Base and Qualification Profiles Level of the Queensland Workforce.*

Note: The qualifications are the categories used by the Australian Bureau of Statistics.

Conclusion

The data for the States and Territories are currently not sufficiently robust for comparisons of performance across the States and Territories without some degree of caution. However, Queensland's relatively low vocational education and training qualification profile and module load completion rate indicate that Queensland is under-performing in these outcome terms, although it appears to be relatively efficient in resource use. There are no measures to indicate that the publicly funded vocational education and training system in Queensland produces a lower (or higher) quality training than other jurisdictions, or that the State provides training services which are more or less accessible to groups with special needs.

12 *The Organisation for Economic Cooperation and Development Jobs Study: Evidence and Explanations* (1995) Organisation for Economic Cooperation and Development

13 Cullen, R.B. (1996) *Planning for Improvement in the Skills Base and Qualification Profiles Level of the Queensland Workforce*

10.11 Resourcing of the Vocational Education and Training Sector

Key Points

- *Queensland has the lowest level of training effort, indicated by the gap between its contribution to national training expenditure and its share of the national population. The funding 'gap' on that basis is 3.5 per cent.*
- *The division in the Department of Training and Industrial Relations which undertakes the role of purchaser must negotiate, agree and sign-off before the end of each calendar year resource agreements with all agencies to which it allocates funds, including TAFE Queensland, the agricultural colleges, the Competitive Funding Program and Traineeships. The agreements need to develop better measures of skill outcome, such as module load and course completion, and include incentives for productivity improvements.*
- *Given Queensland's high population and employment growth rates, the State has not been able to lift funding significantly relative to population. The State needs to increase its effort for vocational education and training, and introduce initiatives to obtain greater contributions from users with greater use of competitive funding and user choice.*

Comparability of Effort

Commonwealth funds for the training system are allocated to the State through the Australian National Training Authority Agreement on the basis of a table of training activities contained in the State Training Profile. The Profile is negotiated with the Australian National Training Authority on the State's behalf by the Vocational Education Training and Employment Commission. The Profile specifies activity tables for the TAFE sector, the agricultural colleges and for the Competitive Funding Program.

The Australian National Training Authority has signalled its intention to examine comparability of effort between States in 1996. Its Resource Allocation document indicates that the underachieving State in terms of effort is Queensland. Table 10.12 presents this information.

Table 10.12

Population, Activity and Expenditure Share by State/Territory (Per cent)

	Population Share (a)	Student Contact Hours		Enrolments (b)		Total Funds (c)	
State/ Territory	1996	1995*	1996	1995*	1996	1995*	1996
New South Wales	33.62	39.81	39.41	34.29	34.01	38.09	38.45
Victoria	24.26	25.75	25.70	29.35	28.94	22.43	22.30
Queensland	18.38	16.28	16.84	17.77	18.36	14.87	14.89
South Australia	8.01	6.05	5.94	5.69	5.61	7.84	7.60
Western Australia	9.75	7.71	7.70	6.69	8.88	9.60	9.71
Tasmania	2.54	1.54	1.56	1.70	1.73	2.55	2.55
Northern Territory	1.02	1.04	1.03	0.88	0.84	2.19	2.14
Australian Capital Territory	1.82	1.83	1.82	1.62	1.63	2.43	2.36
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Australian National Training Authority, *Directions and Resource Allocations for 1996*.

Notes: * Refers to 1995 Revised Estimates
(a) 15 to 64 year old population
(b) Refers to course based enrolments
(c) Includes all Commonwealth and State vocational education and training funds excluding expenditure on Capital, Interstate Cooperative Projects and National Projects.

The table indicates that there is a funding gap of 3.5 per cent between Queensland's contribution to national training funds and its share of the national population, a proxy measure of level of training effort of a State. The Table, which is based on pre 1994 audit data and the subsequent rebasing of Queensland performance, indicates that Queensland achieved a measure of efficiency in that with a share of current expenditure of 14.87 per cent, the State delivered 16.27 per cent of national curriculum hours and 17.77 per cent of national enrolments.

Each year Queensland receives less than its population share in the base funds allocated by the Australian National Training Authority, although the State does receive its population share of growth funds from the Authority, which are an increasing proportion of its total disbursements each year.

The difference between Queensland's receipt of national funds and its population share traces to the relatively low funding base in place in Queensland at the time of the first Australian National Training Authority Agreement. The States Grants arrangements up to and including 1992 were calculated from a formula which depended on the size of each State's own-funds contribution to vocational education and training delivery. Queensland's share of the national total of States own-funds expenditure was less than its population share in 1992, as it has been in every year for which the data are available.

These data do not reflect total training across both public and private providers and Queensland has a relatively large private training market compared to other States. However, the Australian Bureau of Statistics *Employer Training Expenditure* from 1993 indicated that, after the Australian Capital Territory, Queensland has the lowest private sector expenditure on training as a percentage of gross wages and salaries at 2.2 per cent, compared with a national average of 2.6 per cent. The public sector had the equal lowest percentage of expenditure with the Northern Territory at 2.7 per cent compared with an Australian average of 3.4 per cent.[14]

Resource Agreements

The State's contribution to funding the Training Profile is formally provided through the budget process to the Department of Training and Industrial Relations. In 1994-95, outlays for the Further Education and Training Program were $427 million. This Program has three components: TAFE Queensland ($375 million); Training and Employment Queensland ($33 million); and the Vocational Education Training and Employment Commission ($19 million). On top of these outlays were the receipts from revenue raising activities of TAFE Institutes, which totalled $78.3 million in 1994-95. There are currently two levels of resource agreements which allocate funding in the sector.

The first level of resource agreement is between Training and Employment Queensland and TAFE Queensland, as the separate divisions within the Department that perform the purchaser and provider roles respectively. Agreements have been negotiated and drafted. However, for each of the last three years there have been a number of differences which have not been resolved and TAFE has subsequently declined to sign the agreement. This agreement must be finalised as the basis for the delivery of the TAFE component of the Profile. It needs to incorporate performance standards for TAFE based on the ones required in the Australian National Training Authority Agreement on expenditure, student contact hours, enrolments and module load completion rates, with an emphasis on the latter, as a measure of skills outcome. Incentives to encourage productivity gains from the TAFE system as a whole.

From this performance agreement flows the plans for each Institute's delivery of its part of the State Training Profile. Draft plans are produced during the preparation of the Profile prior to its approval and form the basis for resource agreements. The price for a student contact hour in resource agreements is based on an internal pricing model which incorporates standardised delivery costs covering labour, materials and overheads, weighted by the retail price index and a locality allowance. There are no facility charges, although the introduction of accrual accounting will change this.

The funding base also includes non profile funding, Commonwealth tied grant funding, special allocations and capital works. The agreements contain performance indicators, including for client satisfaction, student employment, participation by special groups, quality and efficiency. The agreements also cover adult and community education provision and commercial activities.

[14] Australian Bureau of Statistics *Employer Training Expenditure, Australia* 6353.0.

The current resource agreements use student contact hours as the measure of activity (or throughput). There is no incentive for Institutes to deliver training in ways which achieve better results, in skill outcome terms, in relation to resources used. The Vocational Education Training and Employment Commission decision to develop a proposal for a resource allocation process more explicitly aligned to system outputs, including those associated with course entry, the skill development process and certification, is a positive step in obtaining a more efficient use of the resources available. Such an output based model should encourage alternative delivery modes, and provide an incentive for Institutes to focus on successful skill acquisition outcomes. Output measures most closely related to skill outcomes should be the funding basis

Competitive Funding Programs

The Competitive Funding Program was established to create a more industry driven and responsive vocational education and training system. The budget of the Competitive Funding Program has grown from an initial allocation in 1993-94 of $2 million to $21.65 million in 1995-96 of which $18.52 million is from the Commonwealth and the remainder from the State Budget, with most of the money being growth funds for the vocational education and training system.

Between, 1993 and 1996, $31.5 million has been allocated to promote competition in the training market, an amount which is estimated to be significantly more than other Australian States and Territories.

There are two categories under the mechanisms developed by the Competitive Funding Program, namely competitive funding initiatives and user choice initiatives. The competitive funding of providers initiative enables training providers to tender for the delivery of training in areas of need identified by industry. This category includes a preferred supplier arrangement which establishes long term contracts of one to three years with training providers to deliver training in market segments where there is currently little or no training effort.

The user choice initiatives are aimed at enabling employers and employees being assisted by public funding to select the training provider most suitable to them. There are currently three user choice initiatives being trialed:

- client purchase arrangements which allow employers to select and buy training for their staff through an application process which requires a contribution by the employers themselves small business has been a particular target for this initiative;
- a food processing industry project this is an important industry for Queensland and has been the target for the provision of funds to purchase recognised training; and
- the Apprenticeship Training Pilot under which the employer and apprentice can choose the off-the-job training provider; this covers the areas of cooking, engineering (electrical) and engineering (mechanical) and hairdressing.

Since its inception during 1993-94, the Competitive Funding Program has awarded over 400 contracts. The range of the training providers who have received contracts is estimated to be the TAFE Institutes for around 59 per cent, private training providers 37 per cent, joint ventures between TAFE and private providers around 3.5 per cent, and 0.5 per cent going to schools. (Note that for some initiatives, funds are paid directly to the employers with no record received as to the training provider.)

Traineeships are a significant area of user choice, which have been operating in Queensland since 1986. Recent initiatives for traineeships which have been introduced through the Competitive Funding Program include the delivery of the off-the-job component of office skills traineeship in the workplace, through flexible materials and workplace trainers or by teachers from TAFE institutes. This has made traineeships more appealing to employers.

Currently, the competitively funded element of the program is estimated to be 3.8 per cent of the Queensland Vocational Education Training funds, from a level two years ago of 0.4 per cent. A preliminary estimate for the average cost per student contact hour for the courses provided through the program in 1995 is $6.70. Estimates have been developed on the comparability of the profile delivered by the program to TAFE's overall profile of student contact hours by stream and field of activity. This indicates that the Competitive Funding Program profile, had it been delivered TAFE, would have a unit cost of 94.4 per cent of TAFE's total average unit cost. That is, if TAFE had delivered the Competitive Funding Program profile it could be expected to have cost $9.58 per student contact hour (including all overheads) or $8.85 if central office costs and student fees are excluded. While the estimate from the program is on a relatively small amount of training, it is indicative of the potential efficiencies to be achieved from this process.

The budget for the Competitive Funding Program is likely to increase to $37 million in 1997. The evaluation of the initiatives under the program in 1996-97 will provide direction for its funding and the future increases in the proportion of public funding to it. The pricing models used under the Competitive Funding Program need to be examined and revised to reflect accrual accounting when available, and to obtain the fullest benefits of competition. Currently, the pricing for the apprenticeship user choice pilot is based on the pricing structure for TAFE off-the-job apprenticeship training. This price must be replaced by some regularly reviewed best practice benchmark if greater productivity from the allocation of public resources is to be obtained through competition. Alternative funding approaches, should incorporate some contribution from both industry and the individual, along with greater scope for users to obtain customised or additional services.

Revenue Raising Activities of TAFE Institutes

The actual revenue retained by the TAFE Institutes in 1994-95 was $78.3 million, of which their commercial activities were nearly 30 per cent, the amount received under competitive funding was 6.3 per cent, and from student charges nearly 9 per cent. These three sources in particular will be subject to change over the coming years as TAFE Institutes expand their commercial activities, more funding is put out through competitive funding, and the present level of student tuition fees is reviewed.

TAFE Institutes receive revenue from training activities purchased by enterprises where the commercial activities are based on *de facto* full cost pricing, although there is no facilities charge included at this stage. This will change with the introduction of accrual accounting. While currently a small funding base, it is important in terms of leverage from the private sector.

There is a schedule of course fees and charges for TAFE provided training, although an exemption policy applies. Data indicate that Queensland has one of the lowest fee structures and one of the most generous exemption policies in Australia. Based on the duration of an average program of study by a TAFE Queensland student being 166 hours, the Australian average cost for this duration of course would be $197 with the fees payable in Queensland being $141.10. With the exemption policy in Queensland, the fee payable would be $31.54, with an Australian mean of $65.06. These data indicate that the contribution of individuals as purchasers needs to be reviewed to increase the contribution from this source of revenue.

Infrastructure for the Vocational Education and Training System

The infrastructure for the vocational education and training system is a significant proportion of the physical assets of the Department of Training and Industrial Relations. There is an estimated $601 million in physical assets dispersed across the State, including 35 campuses within 16 Institutes and in State office locations. The Physical Asset Strategic Plan of the Department is yet to be finalised and the asset base has not been documented in any detail.

There is a Capital Works Program for the publicly funded vocational education and training system. For 1995-96, the Program had an allocation of $39.4 million of Commonwealth funds and $27 million of State funds, including carried over funds. In 1996-97, these figures are estimated at $32.4 million and $17.2 million respectively. The Australian National Training Authority Agreement requires a planned capital works program. Under the State Planning and Development Council of Vocational Education Training and Employment Commission, an assessment process has been developed for establishing priorities for capital works programs within resources.

Asset maintenance for the vocational education and training system is carried out by the Department of Public Works and Housing. For 1994-95, $5.2 million was expended on the Departments behalf. Clearly, control over such resource expense should be returned to the vocational education and training system at Institute level. TAFE Queensland will spend an estimated $5.6 million in 1996 on the maintenance of plant and equipment through the Institute programs.

The Department's Physical Asset Strategic Plan covers TAFE Queensland and shows that a resource planning cycle is being introduced. The objective is to identify demand over a ten year horizon and analyse the options for meeting the demand, so that the infrastructure needs can be planned in the most cost effective manner, taking account of flexible service delivery modes and open learning methods. The Plan is still being developed to conform to Government guidelines and, overall, a more concerted effort is required to identify the extent to which assets are being used effectively for the provision of training services through the Institutes.

In this process, the Institutes need to have access to competitive tendering for building and maintenance activities to obtain efficiencies in the resources available for their use.

Adequacy of Resourcing

Changes have been introduced into the vocational education and training system in Queensland to achieve improvements in productivity, particularly through the competitive funding program and user choice initiatives, the organisational separation of the funder and provider roles within the Department, the introduction of resource agreements, moves towards output based funding, and some forward planning over a ten year horizon.

However, more reforms are required to improve the efficiency of public funds allocated to training, including:

- reliable management information system for monitoring and evaluation;
- processes for keeping prices and services competitive;
- 'real' output measures, and not only throughput measures;
- a much increased role for the ultimate user to make choices;
- a serious review of the level of user pays;
- more effective autonomy of TAFE Institutes; and
- increased use of competitive tendering mechanisms.

10.12 Future Demand for Training

Key Points

- ***The demand for vocational education and training is driven by population and employment growth, and industry needs, although the existing pattern of resources in the TAFE sector, the supply side for training services, will influence its responsiveness to the demand for services.***
- ***The demand for training services is currently identified through the planning process producing the State Training Profile, although other models are now being developed, by the TAFE Institutes' Training and Employment Queensland for the vocational education and training system as a whole.***
- ***These planning processes need to be revised to develop a model which takes as its starting point the outcomes required in terms of the level of qualifications in the Queensland workforce on an industry basis.***

The demand for vocational education and training is driven by population growth, particularly in relevant age groups; availability of other post-secondary places; public support for training for particular groups (eg at entry level); regional economic development, skill shortages, and enterprise and industry needs. The demand for training services is, strictly speaking, artificial in that users of the publicly funded system (individuals and enterprises) do not face the full costs—or even a substantial part of those costs and moreover typically do not have access to good information on quality of providers and their services. For the time being, planning processes are essential.

State Training Profile

Under the Australian National Training Authority Agreement, the State and Territory training authorities are required to prepare a Training Profile each year that outlines the training activity to which State/Territory and Commonwealth funds will be applied in the following year. The Profile is a plan for the provision and support of vocational education and training in terms of level and type of courses provided, opportunities for special needs groups and infrastructure development. It is for a calendar year with an indicative plan for the following two years. The Profile builds on the achievements of the recent year and is based on needs identified after extensive consultation across the State, with industry input coordinated through the Industry Training Advisory Bodies. It aims to meet the current and future skill requirements of industries and enterprises across the State, recognising the particular needs of small business, and the building of a training ethos in the State.

Factors considered in setting training activity levels include expected training needs and skills shortages, forecasts of relative growth of sectors in the industry, demographic forecasts and profiles of the qualifications currently held within industries. The Profile identifies 16 occupational groups, reflecting industry groupings but not directly comparable with the Australian Bureau of Statistic industry classification. Priorities are identified in the State Training Profile for particular industries for both new entrant level training and training for the existing workforce. Clearly, the process for shifting resources across occupational groups is an incremental one, and the Profile, by building on the previous year's achievements, is giving a high weight to the pre-existing pattern of supply at each planning period. This reinforces the need for initiatives to give more weight to demand driven methods of resource allocation.

Institute Resource Needs Analysis

All 16 Institutes of TAFE have undertaken the first stage of a Resource Needs Analysis. This analysis provides an estimate of projected demand in student contact hours for vocational courses, based on population projections, regional participation rates relating to the latest enrolment data and discussions with local industry, Government, and community representatives. The analysis also provides an estimate of the total number of student contact hours that could potentially be provided from existing facilities in the Institutes. This is determined by field of study and derived from campus Institute sources. Overall, the demand based on this methodology across all Institutes is 63 million student contact hours by 2001, excluding adult and community education. The overview document[11] indicated that this was in comparison to a 1994 total of 45.4 million student contact hours. However, an audit of the 1994 data reduced the figure closer to 37 million hours, implying a similar adjustment to the 2001 figure.

The methodology for the analysis is based around the existing pattern of student contact hours. This process has limitations if it is not informed by predictions for industry and occupational growth and Government priorities. While the methodology will need to be refined, it provides a start to the process of identifying demand and developing options for the services required to meet the demand.

Statewide Vocational Education and Training Demand Projection Model

A model for the analysis of vocational education and training demand for the State as a whole, and for the vocational education and training sector as a whole, is currently under development. The objective is to ensure that the return of the finite recurrent and capital resources for investment by the Government is maximised in training effort and outputs.

The model forecasts on the basis of occupational or industry growth in employment and the skilled new entrants required (on present patterns of skills in the workplace). This growth plus attrition equals the sum total of positions to be filled in the forecast period. Some of these positions will be filled by those coming from other occupations or industries, by people coming from interstate and overseas, by the unemployed and by school leavers. Modelling assumes that the remainder will be filled by vocational education and training graduates, some modelled to other providers and the balance to TAFE, from which is derived projected TAFE resource usage, both recurrent and infrastructure related. In the case of infrastructure usage, a classification structure is being developed for the different types of training facilities in TAFE.

Table 10.15 shows projections from a preliminary application of the model.

11 TAFE Queensland (1996) *Resource Needs Analysis Statewide Review*

Table 10.15

Vocational Education and Training Demand Projections

	Student Contact Hours (million)		
	1996	2001	2006
Entry level	21.084	31.040	34.006
Existing workforce	2.836	7.314	8.007
Access and Preparatory	8.750	8.573	9.390
Total	**32.670**	**46.927**	**51.403**

Source: Department of Training and Industrial Relations.

Assumptions have been made for each category of training with entry level hours being what is required to meet the Finn targets by 2001.[16] Existing workforce projections are based on an occupational knowledge half life of 6 years, on 40 per cent of the workforce attaining Australian Standards Framework Level 3 or better, the gross intake of new workforce entrants trained to Finn target levels, and population increase as per Australian Bureau of Statistics projections. Access and preparatory projections are based on presumed growth in the existing participation rate of 1 per cent per year.

The model provides a different picture for the amount of training required by 2001 when compared with the preliminary analysis from the Institutes' Resource Needs Analysis. It is based much more explicitly on skills and related outcomes desired, in terms which relate closely to the State's competitiveness and other priorities. This methodology represents an advance, but it would be more desirable still if a larger role were developed for users of training to express their own demand directly to providers, who would make their own planning decisions to meet those categories of demand. This can clearly apply for example to all 'user choice' and commercial training.

Qualification Profiles and Demand Projections

The report prepared by Mr Ron Cullen for this Commission, *Planning for Improvements in the Skills Base and Qualification Profiles Level of the Queensland Workforce*[17] provides a methodology for identifying the demand for training by working back from a desired level of qualification profile for the workforce. As an example, a desired profile for Queensland is defined as the same qualifications profile as the rest of the Australian labour force, the profile in question covering all post-secondary qualifications.

16 The Finn Targets, agreed by all States in 1991, provide that by 2001, almost all 20 year olds would have either an Australian Standards Framework (ASF) level 2 qualification or progress towards an ASF level higher than this, and at least 60 per cent of all 22 year olds would have either an ASF level 3 qualification or progress towards a qualification beyond this level.

17 Cullen, R.B. (1996) *op cit*

The model estimates that the gap between the overall profile for the rest of Australia and Queensland was 6.15 per cent in 1995, with two-thirds being in degree qualifications from the higher education sector and the remainder from the vocational education and training sector. A refinement in the model is that the the industry profile for the rest of Australia is modified to use the Queensland industry mix.

The gaps shown by the model are significant in absolute terms, and also are more significant for some industries than others. For vocational education and training qualifications, industries with major shortfalls are electricity, gas and water, agriculture, transport and storage, wholesale and retail trade, and community services. Major shortfalls by field of study are in science, secretarial, engineering and business administration.

The gap in post-school qualifications between the rest of Australia and Queensland, applying the Queensland industry by industry profile for the labour force age 15 to 64 in 1995, is estimated to be 34,594 for vocational education and training qualifications, and 56,146 for degree qualifications. The quantum of the Vocation Education and Training target profile from the model is influenced by the fact that Queensland does have a higher profile in skilled vocational qualifications than the rest of Australia, so that it is implied that effort can be reduced in that area, with a somewhat higher target (of 41,000) for the other vocational education and training categories.

The report advises a strategy of targeting segments of the gap for immediate attention, including those areas most related to competitiveness and particularly the gap for those age 25 to 34 years. As well, it is suggested that as some of the over-representation of skilled vocational qualifications may reflect real needs of industry in Queensland, the number of these qualifications should not, in practice, be reduced. These considerations point to a need for 8,492 vocational education and training qualifications to close the gap in these areas measured in 1995. The cost of closing this gap is estimated to be approximately $160 million, which could be spread over a period of years. With assumptions for the completion rates and the employment take up of graduates into the labour force, additional student commencements of around 15,000 would be required. Within these figures, there are considerable variations according to the field of study, and industry.

This work provides some broad directions for approaching the Vocation Education and Training planning task. These are:

- the outcome measure of a more skilled workforce, viewed as an element of Queensland's competitiveness, is an appropriate objective, and Queensland should in each industry seek a proportion of qualifications broadly similar to that for each industry in the rest of Australia, translating back into implied vocational education and training effort;
- the resources required for meeting the 1995 gap, as discussed above, if spread over eight years, are $20 million per annum (progressive), which could be achieved by a productivity increase of less than five per cent each year, but with increased user contributions reducing that; and
- industry needs to be engaged in discussions about the relative demand for qualifications predicted by the model across industries and fields of training.

The work provides the basis of a planning model for training which is built around the output of actual qualifications used by each industry group in Queensland. This model requires the development of targets and priorities for outputs on an industry by industry base to improve competitiveness.

The targets are the basis for ongoing monitoring and evaluation by both the training system and by industry. They require effective industry input in this process. As a first step, the existing level of training by industry, and the gaps in training forecast in the work by Cullen, should be discussed with industry advisory bodies in the development of the next State Training Profile. The current planning processes particularly the one for the State Training Profile, need to be modified to include the elements of the model proposed by Cullen.

10.13 Directions for the Vocational Education and Training Sector

Key Points

- ***Increased effort and contributions are required from the major beneficiaries of training, enterprises and individuals, through increased incentives and better user pays mechanisms consistent with access and equity objectives.***
- ***Productivity improvements are required from providers through the implementation of pricing models on a full accrual basis within a competitive funding market to achieve an increase in the outputs from the vocational education and training sector.***
- ***Output-based resource allocation processes must be implemented on a purchaser-provider basis where outputs are based on measures which are more strongly related to skill formation processes and the achievement of labour productivity.***

The findings set out in the previous sections are, very broadly, that Queensland is relatively efficient in vocational education and training but under-investing. The extent of that apparent under-investment is such that in the most important respects it could be rectified over less than a decade, possibly via productivity gains within the vocational education and training sector and via greater user contributions, ie, without injections of substantially more public funds.

However such an outcome is unlikely to come about under the present model of government involvement in the sector—in planning and financing, public provision and regulation. It requires more substantial implementation of a competitive framework in which all providers operate; maximisation of the domain in which users exercise their own choices; and examination of means to leverage greater contributions from users and indeed a greater degree of 'user pays'.

Increased Effort and Contributions from Users

Given that enterprises and individuals are the major beneficiaries of training, there is a case for a greater degree of 'user pays' consistent with equity and access objectives—given that user contributions have been low in the vocational education and training sector. However there is also evident scope for leveraging greater *voluntary* user effort and contribution, particularly from enterprises. Many enterprises around Australia are paying at full commercial rates for training which is customised or enhanced to their needs, and delivered when and where they want it, but which is in content similar to an (almost) free product available at a TAFE campus. This indicates that many enterprises may be willing to pay significantly more for a service which is more responsive to their needs. (The nature of wage arrangements, especially in respect of whether they allow trainees to make a contribution by being paid less, eg to the extent they are off the job, are also important in setting the incentives for employers to train, but are outside the scope of this report.)

Some of the options[18] for greater private contribution and effort are:

- User fees and charges including course fees, material and equipment. In the vocational education and training sector these are at nominal levels for many of the courses with exemptions reducing this revenue base still further. While community service obligations should apply to meet the objective of access and equity, a review of the user charges in the TAFE sector is needed. The objectives of applying a user charge regime is to increase the revenue base for the TAFE sector and to provide price signals to students and to staff that will increase pressure for efficiency and lift module load completion rates. While a separate scheme would be difficult to administer at the State level, an extension or analogue of the Higher Education Contribution Scheme could be considered.
- Increased contributions required from employers eg by setting 'user pays' funding at levels which require a co-payment form the employer, or a co-payment for anything other than a basic service; or industry-based levies where all employers actively use a common skill pool (eg in building and construction).
- Increased commercial, including export, activity by Institutes generally.
- Increased use of contract training with customised packages to employers, and greater us of employer facilities (minimising public infrastructure requirements).
- In areas where there has been public funding, subsidies to employers who provide in-house training programs (using employer facilities) ideally incorporated within the competitive funding framework.

These directions will require strengthening management autonomy at the TAFE Institute level, with responsibility for planning particularly in commercial and 'user pays' areas shifting to increased levels over time.

[18] Maglen, L and Chris Selby Smith (1995) *Pricing Options in New South Wales TAFE*, Monash University, ACER Centre for the Economics of Education and Training.

Productivity Improvements from Providers

Paralleling such demand side initiatives, the Department of Training and Industrial Relations must consider how productivity improvements can be obtained from providers and particularly TAFE, by:

- pricing models which are transparent and based on the full cost of providing the base training load, although allowing providers to sell training at marginal cost where there is idle capacity;
- full application of competitive neutrality, and third party access regimes, to accredited curriculum and common facilities (eg on-line library resources);
- limited initial assistance to private providers to stimulate a market for training in particular fields which have been exclusive to TAFE;
- generally increasing the size, range and application of the competitive funding program;
- industrial relations arrangements for TAFE Institute staff which support the provision of more flexible training arrangements and customisation of services; and
- moving to effective management autonomy of Institutes over time, ie to corporatisation.

Output-based Resource Allocation Processes

For the foreseeable future, the State will need to play a large planning and financing role, and indeed regulatory role (although the form of that will change, eg to access regime issues, as competition extends). What is needed is for planning to be more focused on the strategic issues for the State and to be integrated with budgeting. Obvious directions are:

- ensuring purchaser-provider agreements are in place;
- paying a large proportion of the base load funding through resource agreements based on the most meaningful available measures of outputs strongly related to skill formation processes and the achievement of labour productivity, with strong accountability for delivery; and
- paying for a specified training load at prices which are actively and regularly re-set to competitive benchmarks, and reducing the subsequent allocation if the agreed output is not achieved.

Recommendation

10.2 The Government needs to implement planning, budgeting and management processes for its role as purchaser and provider of vocational education and training, based on the principles set out in Volume I of this Report, with the aim of maximising productivity gains in the training system and leveraging greater contributions from all users of training, through actions which:

- *fund training providers on the basis of output measures specified in resource or service agreements;*
- *increase the proportion of public funds for training which is subject to competitive tender in a planned way, taking account of fields of study and location needs, with maximum expansion of the role of user choice;*
- *increase user contributions from enterprises including through pricing and delivery mechanisms which present stronger incentives to pay for improved services;*
- *review fees and charges to individuals in vocational education and training, and consider whether Higher Education Contribution Scheme type deferred payment is feasible, so as to introduce a system of user charge and pricing for training services which increases individual contributions, consistent with equity and access objectives;*
- *use planning models for training services based on outputs, in terms of objectives and priorities set (on an industry basis) for the qualification profile of the Queensland workforce;*
- *implement changes to deliver productivity improvements through appropriate industrial relations agreements and third party access regimes in a more open and competitive training market; and*
- *provide greater management autonomy at the TAFE Institute level, including the authority to engage in competitive tendering for the provision of infrastructure, maintenance and ancillary services*

Higher Education

Key Points

The higer education sector in Queensland needs more places overall, and the State needs to set broad economic development goals which identify key industries and industry sectors for targeted support, so providing a strategic vision on which to base its efforts to influence Commonwealth funding, and to guide its own efforts.

Findings

- *The degree profile of the Queensland workforce is the lowest of any State or Territory.*
- *The State Government's contribution to higher education is relatively small but, notwithstanding the strategic importance of higher education to economic and social development, Queensland continues to receive a low per capita share of national resources and the allocation does not necessarily match the State's priorities.*

10.14 The State's Role in Higher Education

Key Points

- *The State Government must ensure that the growth in higher education places already negotiated with the Commonwealth Government is achieved.*
- *The State Government should also seek to influence the pattern of growth in places, in terms of discipline areas and the needs of industry having regard to the State's areas of competitive advantage and industry profile.*

The State Government provides capital assistance to higher education institutions with the objective of improving access for Queenslanders. The main provider of funds is the Commonwealth Government and it is estimated that in 1995-96, $625.7 million in specific purpose payments will be received, or 17.2 per cent of Commonwealth payments for higher education.

The State's allocation in 1994-95 was $13.6 million and was provided as capital support for the establishment of new regional campuses of higher education and to increase Commonwealth-funded student places for Queensland equal to its proportion of the national population share for the 15 to 24 year cohort. The allocation is through the budget of the Department of Education.

Over a period of 20 years, Commonwealth Government funding of higher education opportunities in Queensland has failed to keep pace with the rate of population growth in the State. As a consequence, the proportion of people in the workforce in Queensland with degree-level qualifications (14.5 per cent) is well behind the comparable figure for the rest of Australia (18.3 per cent). Bridging this gap, which is more significant than that in vocational education and training and requires action on two fronts: one involves lifting the output of new graduates, and the other involves upgrading the skills of the existing older workforce (25 years and over).

The report prepared for this Commission, *Planning for Improvements in the Skills Base and Qualification Profiles Level of the Queensland Workforce* identifies a requirement for 35,000 new graduates annually to be available to the workforce to bring the level of degree qualifications in Queensland up to the Australian level. There are also major differences in the gap across industries. Industry groups with major shortfalls in degree qualifications are finance, property and business services, electricity gas and water, manufacturing, food beverages and tobacco, communications, community services and education. The major shortfalls by field of study are in science, business and education, as in the vocational education and training sector.

The current output of graduates annually in Queensland is around 20,000. With new growth in higher education places already negotiated with the Commonwealth for the period 1997-2001, this figure will rise to around 25,000 by the year 2001. On this basis, the gap in degree level qualifications between Queensland and the rest of Australia will continue to widen over the next five years. This means that it will remain a priority for Queensland to attract Commonwealth-funded higher education growth, and that any cuts to the higher education funding base must be resisted.

Any gap in funding will obviously not be able to be met from State sources. The State Government needs to concentrate its limited efforts in higher education on the development of courses and infrastructure in areas of relevance to the State's economic development and to seek to shift Commonwealth resources, as well as any it provides itself, into undergraduate education into those areas. However, the capacity of the higher education sector in Queensland to redirect undergraduate growth into such areas is constrained by the low of funding per student provided to Queensland. Historically, Queensland has the lowest rate of funding per Equivalent Full Time Student Unit, which is reflected in the discipline mix offered by the institutions, which is skewed towards the 'cheaper' discipline areas of arts/humanities/social sciences, law, education and general business.

Without specific State intervention, the distribution of promised growth beyond 1996 will continue to follow this pattern, which, from the work of Cullen, only partly reflects the significant gap areas in field of study. In providing additional growth places to Queensland the Commonwealth has specified that they must be allocated to undergraduate courses, and have allocated $8,700 per Equivalent Full Time Student Unit, net of capital. The Commonwealth has given no general directions as to which field of study the places are to be assigned. It has also not provided any basic infrastructure funding or course development costs where new courses are required or should be provided, to best meet the needs of the Queensland community.

On the Commonwealth's own relative funding model, the costs which apply to the fields of study identified by Cullen as exhibiting a significant gap are science and engineering at $13,248 average unit cost and business administration and secretarial at $6,023 average unit cost. Institutions have little financial incentive and limited capacity to assign new places to courses categorised as areas of significant gap in labour force qualification profile. This is particularly the case where institutions are also funding the costs of new basic infrastructure on a new campus, as all Queensland universities are currently doing. With the development costs of new courses often of the order of $500,000 together with a major investment in infrastructure (libraries, equipment, etc) and new staff, it is a very difficult financial exercise to attempt to diversify an institution's offerings even when a demonstrable need for new courses exist.

The State Government requires a three year strategic plan from the universities through the requirements of the financial administration and audit legislation. In this process, it has the opportunity to provide strategic input in directions for courses in areas of economic importance to the State. However, the State Government will need to facilitate some contribution to new infrastructure and course development costs to enable new, relevant courses to be offered in areas which are relevant to the State's competitive advantage.

In the existing workforce, the qualifications gap occurs both at degree level, and in vocational education and training level qualifications, and is present in all the major sectors of private sector employment. To meet these needs, enterprise-specific, rather than generic training, designed in conjunction with enterprise management, and delivered in the workplace, will generally be the preferred and most economic option.

Because of the productivity benefits to industry associated with improved skills in the workforce, a significant share of the cost of upgrading this component of the skill base is appropriately borne by industry. The high proportion of small businesses and family based enterprises in the Queensland economy, however, frequently means that the capacity to identify longer-term skills needs, and the financial capacity to invest in appropriate training, are limited.

There is a major role for the State Government to play, in partnership with industry and education and training providers, in accelerating this improvement process by providing a mechanism to seed fund the development of education and training directed to specified industry needs, and in support of the State's strategic development goals.

10.15 A State Industry Education Initiative

Key Point

- ***There is a need for the State Government to work more closely with industry on broadly identifying the priority areas for education and training which will contribute most to the State's economic and social objectives.***

A Government convened group made up of leaders from a range of industries could be asked to develop, in dialogue with education and training leaders, and Industry Education and Training Initiative with these elements:

- identification of broad workforce education and training priorities in areas of importance to the State's economic development;
- identification of broad priority areas for teaching and research infrastructure in higher education institutions which are developing programs in those areas;
- identification of areas of State priority and industry need, where there are prospective opportunities for industry contributions;
- promoting cooperation between Queensland industry and Queensland education and training institutions; and
- providing advice to Government to assist it in negotiation with the Commonwealth and in allocating its own contributions to the sector to best effect.

As in the vocational education and training sector, there is scope to leverage more private effort and contribution to higher education. While the undergraduate area is presently 'out of bounds' to universities in the national system, considerable scope exists in postgraduate and other areas. There is also scope for increased export revenue, including in areas where the State itself has needs for expanded provision.

Recommendation

10.3 The Government should use its involvement in the higher education sector to influence Commonwealth funding of places and to achieve greater leverage in obtaining resources in fields of study and research which advance the economic and social objectives of the State and its regions. Industry advisory input is desirable and greater contributions from users, particularly from enterprises, need to be encouraged.

Chapter Eleven

Transport

Key Points

An efficient transport system underpins the economic and social development of the State. The transport sector contributes 5.8 per cent to gross State product. Despite State transport expenditure in 1993-94 of nearly $3 billion, significant deficiencies are evident.

The allocation of resources within the transport sector is of particular concern with insufficient planning, or the integration of planning between modes and across regions and, the absence of comprehensive and consistent investment assessment approaches. Investments with significant benefits are sometimes unable to be undertaken due to the rationing of public funding and priorities skewed by the need to maintain uneconomic services. User charges or equivalent, (eg zonal road fuel levies used wholly to finance well distributed investments in the same zone) have the potential to bring such investments forward, to the benefit of the users paying them.

To achieve higher levels of service provision and efficiency, greater competitive pressures are necessary in this sector—through third party access to infrastructure, structural separation of service delivery, and greater private sector involvement through franchising, complementary or competitive investment, or the sale of public assets.

The combination of externalities, poorly identified welfare concerns, and past commitments has created a patchwork of pricing approaches, subsidies and community service obligations in the sector. Greater recourse to markets and market mechanisms (eg user pays) is necessary to ensure more effective resource allocation, and is a precursor for sustained investment.

Transport Planning

Findings

- *Regional transport planning processes along the lines initiated in South East Queensland should assist investment in the State, and should be extended to other high growth areas.*
- *Direct contributions from developers and payments by users benefiting from infrastructure investment are appropriate means of ensuring that specific transport needs are met.*
- *Individuals affected by planning and development of infrastructure which is in the broader public interest should be fairly compensated.*

Recommendations

11.1 The Department of Transport should, as a matter of priority, initiate a strategic planning process which:

- *takes account of the full benefits and costs of travel, including time costs for consumers and the costs of associated infrastructure;*
- *identifies key priorities for State transport infrastructure provision and assesses them using methodologies which allow them to be ranked against other State investments;*
- *identifies priority infrastructure projects and services which might attract participation from the private sector; and*
- *coordinates and integrates investment priorities between modes and across regions.*

11.2 All community service obligations should be the subject of contracts which should be detailed in Queensland Transport's annual report, including the results of that Department's review to:

- *ensure that they are aimed at specific social needs rather than acting as general subsidies to the sector;*
- *increase transparency and the opportunity for funds to be redirected to higher service priorities;*
- *identify market segments or rail lines to be explicitly funded and criteria for evaluation of performance; and*
- *ensure annual community service obligations are charged against the appropriate government expenditure category (eg education, social welfare, industry assistance, etc) where these can be clearly identified.*

11.3 With respect to developer contributions to transport infrastructure and services:

- *the provisions of the State Transport Act in respect of restricted goods should be revised to ensure that a consistent approach is taken for all commodities and transport tasks;*
- *public guidelines should be provided outlining the assessable impacts, levels of contributions, provisions for ensuring that beneficiaries pay a fair share (but not necessarily that the first user pays the total cost), and the responsibilities of local and State authorities; and*
- *existing legislation should be extended to include contributions for impacts on rail and pipeline corridor infrastructure.*

Road Network

Findings

- *Investment in roads in Queensland will provide substantial benefits to the economy. Nevertheless, not all of the road needs of the State can be accommodated in the short term with the available level of funds.*
- *The full resource implications of all decisions must be considered. Projects which promise the greatest benefit to the economy must be undertaken as a matter of priority.*
- *Improved planning and asset management (including the establishment of standards of service required) are essential. Greater emphasis should be placed on improving efficiency in road construction and maintenance, and the introduction of user pays mechanisms.*
- *Investment in the South East corner of the State, as the road system in this region stands now, would yield up to five times the economic benefits of investment elsewhere, largely as a result of the amelioration of congestion.*

Recommendations

11.4 *Within the wider context of transport planning, the Departments of Transport and Main Roads should adopt planning processes whereby the full economic and resourcing implications are taken into account, including:*

- *mechanisms to prioritise expenditure according to the benefit to the State economy from the corresponding road investment;*
- *specific recognition of all future maintenance costs associated with the building of new roads;*
- *detailed standards of service that are required from the State's road network (in terms of carrying capacity, quality etc); and*
- *recognition of the resource implications of road investment on other modes of transport, and vice versa.*

11.5 *Road construction and maintenance activity should be fully and effectively privatised to maximise efficiency in the sector.*

11.6 *To realise potential benefits from road investment more fully, there should be greater emphasis on user pays mechanisms, including toll charges for new roads where appropriate, increased charges for heavy vehicles, and a road fuel levy, limited to the South East corner of the State—the Gold Coast/Brisbane/Sunshine Coast catchment—and used wholly to fund road investments in that catchment.*

Public Transport

Findings

- *There is a lack of consistency across modes in urban areas, yet 'seamless' transport has been identified as important in increasing usage of public transport.*
- *Current reforms involving contracting with private operators and local authorities for the provision of bus services, moving to five year, exclusive franchise contract arrangements are worthwhile. Brisbane Transport has exclusive rights to the Brisbane area, which raises significant competition policy issues (including concerns regarding competitive neutrality).*
- *Significant subsidies and community service obligations (estimated at $700 million for 1995-96) are paid to the bus and rail transport sectors in Queensland.*

Recommendations

11.7 Progressive allocation of bus service contracts throughout Queensland by competitive franchise should continue, and the contract service framework for the metropolitan area should be restructured to ensure Brisbane Transport and private sector operators provide an integrated public transport system, and bid for contracts on a competitively neutral basis.

11.8 Contracts for passenger rail services should be used as a mechanism for fully reflecting the subsidies for such services.

Rail

Findings

- *Queensland Rail is one of only two integrated state rail systems and has a monopoly of Queensland rail services.*
- *Recent estimates of productivity indicated that Queensland Rail had to reduce costs by around $200 million to reach world best practice targets. While best practice in coal haulage operations may be achieved by 2000, it may not be achieved in current general freight haulage services.*
- *Productivity improvements required to meet world best practice will result in a lower staff requirement and necessitate higher community service obligations. Community service obligation payments represent a major cost to the Budget and require review to ensure 'value for money'.*

- *Infrastructure projects of at least $2 billion have been identified to meet growth, upgrade the system, and overcome deficiencies. Rigorous assessment of investment proposals needs to be accompanied by greater (inter and intra modal) competition, and the involvement of the private sector.*

Recommendations

11.9 *In order to drive efficiency through competition, Queensland Rail's track operations should be separated from rail service operations, which would then be provided by separate commercial providers. Consideration of the appropriate means of promoting competition in service delivery, whether by the private sector or incorporated entities (under the Government Owned Corporations Act) is also necessary. Private sector involvement in the industry would be enhanced through third party access across the entire network on a non-discriminatory basis, franchising (eg some rural and urban services), direct competition (eg in workshops), complementary investment, or the sale of assets.*

11.10 *Regulations which restrict traffic to either rail or road should be removed, and charges introduced which reflect the true costs of each sector, provided that environmental, safety and public amenity levels can be maintained.*

11.11 *Upon development of detailed community service obligation contracts, the nexus between community service obligation payments to Queensland Rail and distributions of dividends and tax equivalents from Queensland Rail should be discontinued.*

11.12 *Welfare concessions should be reviewed to ensure these meet genuine social needs. Concessions should be provided by vouchers for any mode of travel to a limited value per annum per entitled person.*

Ports

Findings

- *Queensland's eight port corporations make a positive contribution to the States' finances, although rates of return on port assets are quite low.*

- *Some ports are involved in non-core activities such as airports, stevedoring and city development. Boards should focus ports on their core business activity and the return they provide to their shareholders.*

- *Many port activities are privately managed, with port authorities primarily performing a landlord function. Further private sector management and ownership of ports (particularly non-core assets) should be pursued.*

Recommendation

11.13 The Government should, in respect of its ports corporations:

- *evaluate non-core activities such as airports, stevedoring and city developments with a view to enhancing competition in their delivery, and selling these assets;*
- *evaluate the ownership of airports in the context of a Statewide aviation infrastructure and services plan;*
- *assess the opportunities that may exist for rationalisation and amalgamation of ports and their activities;*
- *assess board representation to ensure that appropriate commercial expertise is available; and*
- *examine the privatisation of ports (and pilotage and conservancy services), and their capital structure to determine the relative merits of them remaining publicly owned.*

Chapter Eleven

Transport

11.1 Overview of the Transport Sector

Key Points

- ***Transport contributes to the economic and social development of the State in a significant way, representing 5.8 per cent of gross State product. Despite an annual expenditure of almost $3 billion, significant deficiencies are evident.***
- ***To achieve higher levels of service provision and efficiency, greater competitive pressures are necessary in this sector—through third party access to infrastructure, structural separation of service delivery, and greater private sector involvement through franchising, complementary or competitive investment, or the sale of public assets.***

The Queensland transport system includes public transport, roads (175,000 kilometres), rail (about 10,000 kilometres), ports (16), pipelines (2,170 kilometres) and 14 major airports. Transport contributes to the economic and social development of the State in a significant way, representing as it does 5.8 per cent of gross State product.

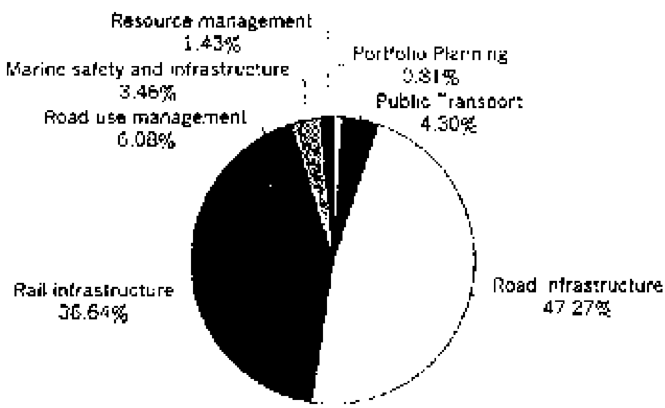
Transport is very capital intensive. Despite expenditure of nearly $3 billion per annum, however, of which 70 per cent was invested in physical infrastructure, significant deficiencies are evident, with existing public funding levels unable to promote further improvements. The proportion of outlays allocated to each sector is detailed in Figure 11.1 below.

Major State public organisations in the Queensland transport sector include the Departments of Transport and Main Roads, eight port authorities and Queensland Rail. Local governments contribute with roads, airports and public transport. This system is augmented by a range of private sector freight carriers and passenger transport (mainly taxis and buses). Scope for increased competition is evident in service delivery, as are further significant opportunities for private sector involvement.

The predominantly public provision of transport services (at less than real costs to users) has resulted in the maintenance of unnecessary services based on past needs, and a lack of response to new demand in some significant cases. Projects with high benefit/cost ratios are often unable to be progressed due to skewed priorities in the sector based on historical commitments and limited public funds.

Figure 11.1

Total Transport Outlays, 1994-95



Source *Transport Portfolio Program Statement, 1995-96.*

Transport systems are instrumental in accommodating and shaping development. Infrastructure investment decisions are affected by decisions about land use (eg shopping centres and mining projects). In turn, the physical characteristics, pricing and control of transport infrastructure and services will determine movement patterns, accessibility, the rate of future development and economic growth. Integration of planning between transport modes and between the State and regions is essential for effective transport planning.

The transport sector is also characterised by substantial externalities, the most obvious of which are congestion and pollution. In addition, investment decisions in one sector impact upon other sectors (both of which may be funded or subsidised by government). Subsidies may also unduly distort usage of services.

These externalities are complicated by the extensive welfare effects of the transport system (which are neither well measured, nor always transparent). The combination of these effects has created a patchwork approach, with interventions sometimes based on the interests of particular groups rather than whole of sector merit.

Increasingly, a strategic framework is required which is cognisant of whole-of-economy effects, which directs investment to areas of greatest need, and which, to the maximum appropriate extent, confronts users with the cost of provision. User charges which reflect the direct benefit received ensure that demand for services realistically values the scarce resources used in providing them. Markets and market processes are the most effective means of achieving these ends.

Key components of such a strategic framework include:

- clear specification of the role and functions of government (at each level of government) which are relevant to the transport sector (eg planning activities, integration of transport modes through transport chains and regional planning, ensuring provision in a contestable environment);
- clear specification of standards and requirements (outcomes) as a substantive basis for the benchmarking and assessment of public and private service providers' performance;
- prioritisation of public sector expenditure based on a comprehensive and consistent assessment of the relative benefits, costs, and returns of proposals (including their impact on the transport system);
- the provision of special needs and accelerated requirements for transport by the private sector where a financial contribution from users is appropriate (through privatisation or franchising, or in part by direct contributions) or the application of beneficiary pays principles (eg where conditions for their appropriateness are met, toll roads);
- provision of infrastructure and services made contestable in all cases, extending from planning and design to construction and maintenance;
- the introduction of third party access in monopoly transport activities (eg rail tracks), as an essential means to promote efficiency through competition and contestability; and
- separation of responsibilities for strategic planning, regulation and provision of services and, at the level of providers, the separation of monopoly infrastructure providers from (competing) service providers.

In such an environment, subsidies and community service obligations require particular attention to ensure that they are focused upon specific social needs and do not operate as subsidies which have no particular welfare benefits, but which maintain the status quo for service providers. Compensation of genuine adverse impacts of planning decisions forms a legitimate means of removing impediments to growth and further reform (where community benefits exceed their costs).

Transport Planning

Key Points

Greater coordination and integration of planning and transport chains would assist in achieving effective outcomes at the lowest overall cost.

Transport services are amenable to market forces in the same manner as most other services. Investment in transport infrastructure and operations should be guided by comprehensive and consistent analysis of overall economic costs and benefits regardless of whether consumers face the full costs.

Findings

- *Regional transport planning processes along the lines initiated in South East Queensland should assist investment in the State, and should be extended to other high growth areas.*
- *Direct contributions from developers and payments by users benefiting from infrastructure investment are appropriate means of ensuring that specific and transport needs are met.*
- *Individuals affected by planning and development of infrastructure which is in the broader public interest should be fairly compensated.*

11.2 Current Status of Transport Planning

Key Points

- *There is only one modal (roads) strategy, no State strategic transport plan integrating key elements of infrastructure, no regional transport plans and few statutory and fiscal linkages to coordinate actions.*
- *Current transport legislation, however, requires such plans. An aviation focus is also required.*
- *Regional transport planning commenced in South East Queensland should assist investment in the State, and should be extended to other high growth areas.*

Several statutory mechanisms are currently available to the State to influence transport planning:

- The *Transport (Planning and Coordination) Act* establishes a framework for transport planning. It has not been fully implemented.
- The *Transport Infrastructure Act 1994* and *Transport Operations (Passenger Transport) Act 1994* require that local governments refer to the state, those development applications which may have a significant impact on state controlled roads or passenger transport services. Local Government, as the approving authority, is liable for ensuring that any impacts are offset and to this end, it will usually impose conditions on behalf of the State on its approval. To encourage consistent application of the legislation, the State should provide guidelines to local governments which detail the responsibilities of all parties and the issues which the State considers may contribute to any adverse impacts.
- The *State Development and Public Works Organisation Act* provides that the approval of major developments may be subject to conditions about, amongst other things, transport infrastructure.
- The *State Transport Act* provides limitations on the movement of certain bulk commodities (generally referred to as restricted goods) by road without a permit. The issue of a restricted goods permit by the State may be subject to conditions such as monetary compensation for accelerated pavement damage.

The existing relationships between the State and local governments under its umbrella emphasise collaboration and cooperation. There is, however, only one modal (roads) strategy, no State strategic infrastructure plan integrating key elements of infrastructure, no regional transport plans and few statutory and fiscal linkages to coordinate actions.

Through the use of developer contributions, the Government can also use financial incentives to influence the pattern of development. Public expenditure on transport infrastructure and services is generally directed towards meeting the requirements of the 'normal' growth of the State, with only limited capacity to meet additional or accelerated demand. The diversion of resources from the wider transport network to meet the needs of a specific development has adverse impacts on the wider community.

The Commission considers that contributions by beneficiaries (private or public sector) are appropriate to ensure that the costs of transport are explicitly allocated to the activities generating the demand. The establishment of liability for impacts and the quantum and use of contributions, however, must be consistently applied and transparent, with guidelines which are publicly available, and which are consistent with access and other social objectives. Monetary and in-kind contributions to State road infrastructure in 1994-95 totalled approximately $33 million.

South East Queensland 2001

A lack of planning in the past may have created significant barriers to transport investment, particularly in South East Queensland. The South East Queensland 2001 project, including the development of an Integrated Regional Transport Plan, emphasises community consultation and involvement, and public accountability for investment in major transport infrastructure. In effect, the draft Integrated Regional Transport Plan for south east Queensland represents a shift from the incremental notification of individual transport infrastructure projects towards the development of longer term regional transport strategies based on well understood and accepted transport objectives.

This should provide greater certainty to service providers in their investment planning, and assist in resolution of competing interests. The views of particular interest groups should be balanced against an analysis of transport demand and a thorough examination of the options required to satisfy that demand.

Land Acquisition and Compensation

The Commission notes that the level of compensation paid by the State is confined to the value of the acquired land and the direct expenses incurred by the property owner. Provisions are not readily apparent for dislocation, inconvenience and related effects, yet a solatium of this nature, whilst not likely to be more than 10 per cent of the property value, would ensure that the intangible costs of being forcibly moved are acknowledged.

Furthermore, there are no statutory provisions for the State to undertake or provide for mitigating works on private property. Where properties have not been acquired but are likely to be adversely affected then transport planning should include mitigating works in project design and funding, where externalities such as noise and visual pollution, can be addressed through the modification, by agreement, of private properties.

Of course, compensation should be limited to actual losses, or it may create an incentive for land speculation.

11.3 Issues and Directions for Transport Planning

Key Points

- ***Transport services are amenable to market forces in the same manner as most other services, and investment in transport infrastructure and operations should be guided by analysis of overall economic costs and benefits, and net returns, regardless of whether consumers face the full costs.***

- ***Greater coordination and integration of planning and transport chains would assist in achieving effective outcomes at the lowest overall cost.***

- ***Direct contributions from developers and payments by users benefiting from infrastructure investment are appropriate means of ensuring that specific transport needs are met.***

- ***Individuals affected by planning and development of infrastructure which is in the broader public interest should be fairly compensated.***

Coordination of Planning

Currently, the State's consideration of a new transport corridor does not necessarily inhibit the continued submission to local governments of development proposals in that corridor. Any resultant approvals can jeopardise route viability or dramatically increase compensation payments.

Coordination of planning at all levels of government and between State government agencies is essential to effective infrastructure and service delivery, with the promulgation of regional development objectives, plans and growth management strategies likely to assist effective transport planning.

In the absence of regional plans, there are few statutory or fiscal linkages to coordinate actions which may otherwise have a significant impact on transport planning. It is clear that intergovernment cooperation and coordination will work up to a point. Robust statutory and fiscal planning provisions are required beyond that point, particularly in relation to the rapidly developing regions of the State.

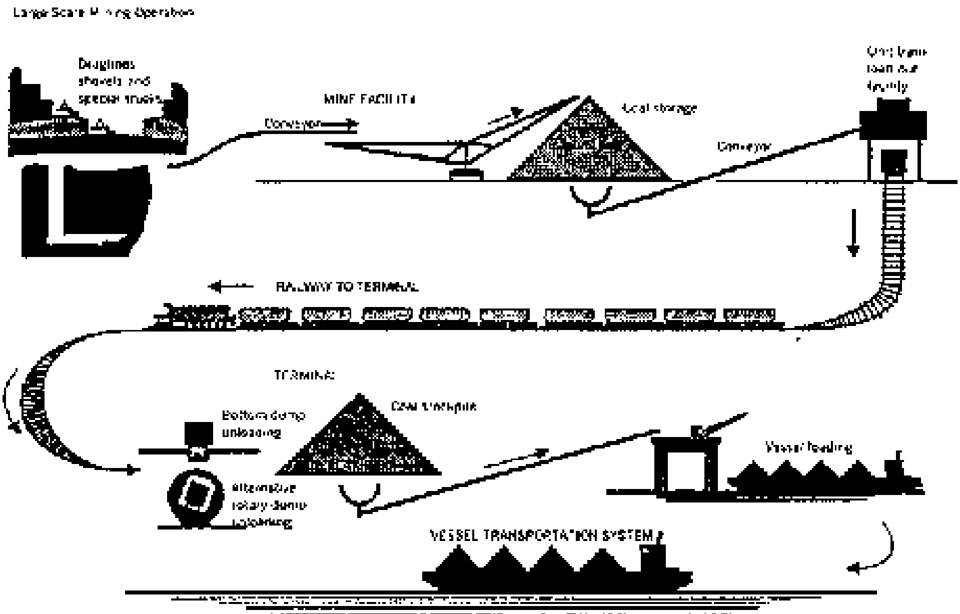
Transport Chains

While each link in a transport chain can often be seen as an independent activity, the total cost of moving a commodity is dependent on the interlocking and interacting nature of all links in the chain. The analysis of transport chains is particularly useful in determining future infrastructure requirements, where substantial savings are possible if the capacities of individual links are optimised and no links are unnecessarily duplicated. A holistic approach to transport chains will ensure greater utilisation of existing infrastructure, enhanced planning for future requirements and improved communication between the operators of individual links, resulting in the minimisation of those arbitrary and isolated decisions which have a negative impact on the total chain (see Figure 11.2 below).

The Commission noted that informal mechanisms have not always been successful in encouraging cooperation and coordination when the links in a transport chain are in separate ownership, including State ownership. Investigation of the appropriateness of more formal approaches to the integration of public, private and different modes of transport is most desirable.

Figure 11.2

Export Coal Transport Chain



Source: Department of Transport.

Community Service Obligations

The Commission noted a wide variety of subsidies to private providers, and community service obligation payments to government owned corporations. However, may of these arrangements are poorly defined and targeted, and do not identify standards of service.

Payments made to transport providers under any community service contracts should be charged against the appropriate government expenditure category—education, social welfare, industry assistance, etc and be subject to budgetary review. Community service obligation contracts should be for periods of three to five years to facilitate greater certainty in planning and service delivery.

Potential Funding Sources

The following sub-chapter on Road Transport concludes that investment in roads in Queensland will provide substantial benefits to the economy. Nevertheless, not all of the road needs of the State can be accommodated in the short term with the available level of funds.

Noting the projected revenue gap identified in Chapter Five, moreover, it is highly likely that any boost in public sector funding of roads and other transport infrastructure can only be undertaken to the detriment of other sectors unless other sources of funding are identified.

As outlined in Volume I, Chapter Two, the role of government might be viewed as a continuum ranging across:

1. 'pure' public goods—often provided directly—funded from general taxation revenue;
2. mainstream social services with a significant public good element—traditionally provided by government, but which may be purchased from other providers on behalf of clients (see Chapters Nine and Ten)—funded from general taxation revenue and/or levies on beneficiaries;
3. social services with a relatively smaller public good element, usually focused on a specific group or geographic area—where government involvement in planning and purchasing is required, but which may be provided by government or non-government providers—funded from user or geographically based levies (eg vehicle registration, local government services, fire levies); and
4. general services with little or no significant public good element—provided either by government or other services providers, but with some government regulation—funded from specific user charges.

To ensure that planning and investment in transport infrastructure and operations does not unduly distort economic development, it is imperative that such investment take account of market signals. This will be most feasible where the benefits of a service can be completely captured in its finances. Here there is a significant role for private investment. There is also an opportunity for the application of user pays (eg tolls, where conditions are met for their appropriateness, or direct contributions).

However, where the benefits and costs imply attractive net benefits to the community, but can be only partially captured in the finances, a good case for private investment can be made if the Government offers subsidies in some form equivalent to the 'public good' component to all service providers on the basis of competitive tenders.

Recommendations

11.1 The Department of Transport should, as a matter of priority, initiate a strategic planning process which:

- ***takes account of the full benefits and costs of travel, including time costs for consumers and the costs of associated infrastructure;***
- ***identifies key priorities for State transport infrastructure provision and assesses them using methodologies which allow them to be ranked against other State investments;***
- ***identifies priority infrastructure projects and services which might attract participation from the private sector; and***
- ***coordinates and integrates investment priorities between modes and across regions.***

11.2 *All community service obligations should be the subject of contracts which should be detailed in Queensland Transport's annual report, including the results of that Department's review to:*

- *ensure that they are aimed at specific social needs rather than acting as general subsidies to the sector;*
- *increase transparency and the opportunity for funds to be redirected to higher service priorities;*
- *identify market segments or rail lines to be explicitly funded and criteria for evaluation of performance; and*
- *ensure annual community service obligations are charged against the appropriate government expenditure category (eg education, social welfare, industry assistance, etc) where these can be clearly identified.*

11.3 *With respect to developer contributions to transport infrastructure and services:*

- *the provisions of the State Transport Act in respect of restricted goods should be revised to ensure that a consistent approach is taken for all commodities and transport tasks;*
- *public guidelines should be provided outlining the assessable impacts, levels of contributions, provisions for ensuring that beneficiaries pay a fair share (but not necessarily that the first user pays the total cost), and the responsibilities of local and State authorities; and*
- *existing legislation should be extended to include contributions for impacts on rail and pipeline corridor infrastructure.*

Road Network

Key Points

Similar spending per capita on road maintenance relative to other States has not overcome significant deficiencies in the road system. With strong growth forecast for demand during the next ten years, it is essential that improved road planning processes are adopted, that there is greater emphasis on improving the efficiency of road construction and maintenance and, greater recourse to users contributing according to their benefits (via tolls or other user charges, such as a road fuel levy collected in a particular catchment to fund road investments in that catchment).

Findings

- *Investment in roads in Queensland will, as the road network stands now, provide substantial benefits to the economy. Nevertheless, not all of the road needs of the State can be accommodated in the short term with the available level of funds.*
- *The full resource implications of all decisions must be considered. Projects which promise the greatest net benefit to the economy should be undertaken as a matter of priority.*
- *Improved planning and asset management (including the establishment of standards of service required) are essential. Greater emphasis should be placed on improving efficiency in road construction and maintenance, and the introduction of user pays mechanisms.*
- *Investment in the South East corner of the State, as the road system in this region stands now, would yield up to five times the economic benefits of investment elsewhere, largely as a result of the amelioration of congestion.*

11.4 Description of the Road Network

Key Points

- *The State Government manages 20 per cent of Queensland's public road network, but these roads carry in excess of 65 per cent of all road traffic in the State.*
- *Queensland's per capita spending on road maintenance is at comparable levels with other major States.*

There are approximately 175,000 kms of public roads in Queensland, of which 33,600 kms are categorised as State controlled roads, with the remainder the responsibility of local governments. Although the State Government only manages around 20 per cent of the State's road network, these roads carry more than 65 per cent of all road travel.

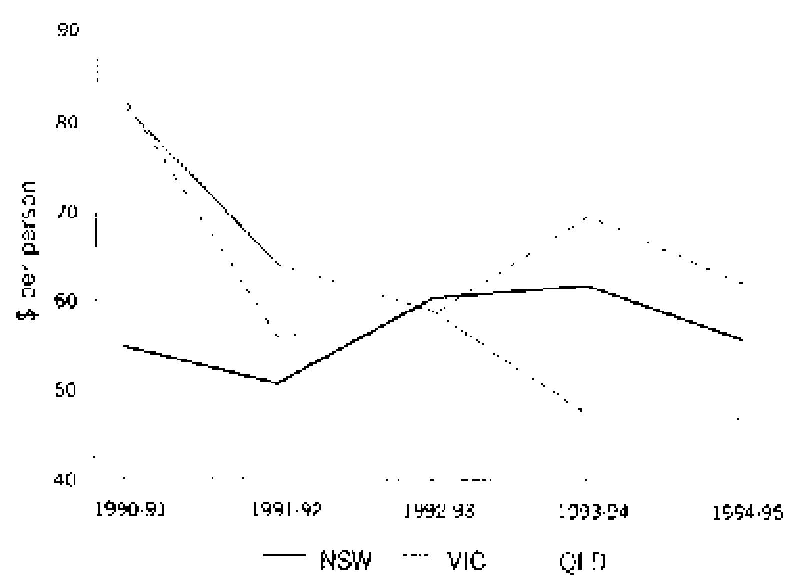
The roads network is a unique part of the State economy, providing an essential connection throughout the State. Investment in the construction of new roads will offer significant economic gains:

> "... a quicker and more reliable road system can bring about a reduction in warehouse and inventory costs, an increase in service from commercial firms, the use of larger trucks and the introduction of just-in-time retailing, wholesaling and manufacturing systems. These net savings from changes in inventories, logistics, operations and technological change can increase the benefits in normal cost-benefit analyses of road projects by 24-105 per cent."[1]

The roads system is the responsibility of the Department of Main Roads, while integrated transport planning is the responsibility of Queensland Transport. Outlays (State and Federal) on road infrastructure in Queensland were $770.9 million in 1994-95, representing 47 per cent of Queensland's total transport outlays and approximately seven per cent of total consolidated fund outlays.

Figure 11.3

Road Maintenance per Capita



Source: Commonwealth Grants Commission (1996), *Report on General Revenue Grant Relativities, 1996 Update*. AGPS.

[1] Cox J.B. (1993), "The Macroeconomics of Road Investment", in *Business Council Bulletin*, No 96, April 1993, pp 7-18.

As Figure 11.3 shows, Queensland's per capita spending on road maintenance is at comparable levels with other major States.

11.5 Performance of the Road Network

Key Points

- ***Despite a large improvement in the standard of Queensland's roads in recent years, the average standard of the road network in the State is still below that of most other States.***

Measures of Performance

A State's road network imposes increased costs on road users if it has inadequate capacity or if it is in a worse condition than in other States. As the standard of the road network in Queensland is lower than in most other states, it follows that vehicle operating costs are higher (both through increased fuel consumption and through increased wear and tear on vehicles), transit times are longer (as travelling speeds must be reduced to accommodate poorer road surfaces) and the overall reliability of the road transport system is lower.[2]

The standard of Queensland's roads has greatly improved in recent years. This has been partly due to an increase in annual State funding of around $60 million per annum in the early years of the decade. It is difficult to make direct comparisons between the state of Queensland's road network relative to other States because of the vast differences in the composition of the networks.

The Commission has been informed, however, that while the average roughness of the roads has improved in recent years, the standard is still below than in many other states (see Figure 11.4).[3] In addition, while road safety is a function both of the standard of road infrastructure and the enforcement of road safety rules, it is likely that the lower standard of Queensland's roads compared to that in most other states has contributed to a relatively higher rate of serious road accidents per 100,000 population in the State during recent years.[4]

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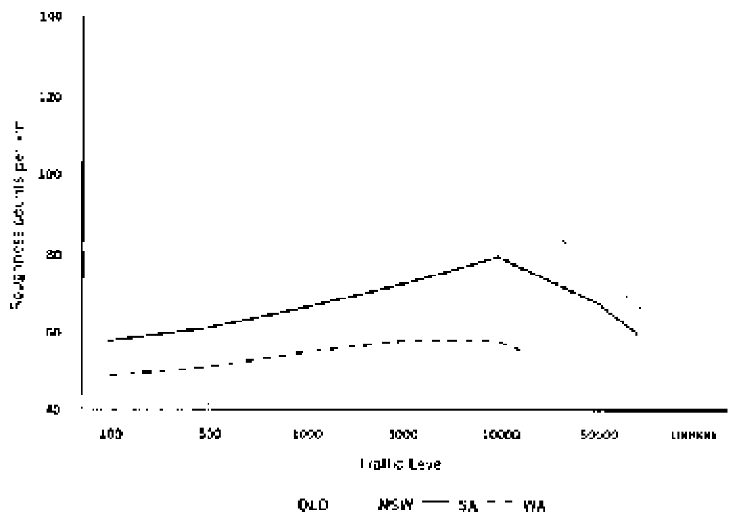
2 National Association of State Road Authorities (1987), *The Australian Roads Outlook Report*

3 National Association of State Road Authorities, *The NAASRA Roads Study*, various issues.

4 Steering Committee for Review of Commonwealth/State Service Provision, *Report on Government Service Provision, 1995*, AGPS

Figure 11.4

Average Roughness of Australia's Road Network, 1994



Source: AUSTROADS (1994), *State Databases*

Notes: Roads with roughness less than 100 roughness counts per kilometre are considered to be in "good" condition. The horizontal axis measures the traffic level on the roads being assessed using annual average daily traffic volumes (AADT).

Importantly, the Department of Main Roads has advised that much of the road network in the State is currently handling traffic beyond its design capacity (particularly in the south east corner). A recent AUSTROADS survey of user satisfaction with roads[5] revealed that the satisfaction of road users with Queensland roads is significantly below the Australian average, being below all other mainland States except New South Wales. This finding was reinforced by a recent analysis of inter-regional freight efficiencies in which the National Planning Transport Taskforce assigned scores to the major road corridors in Australia.[6] This study found that the road corridors in the high growth regions of coastal Queensland and northern New South Wales were performing at the lowest levels of service of all inter-capital city routes.

Performance Benchmarking

The Commission has been informed that one of the factors contributing to the inadequacy of the roads network in Queensland relative to other states may well be that inadequate funding has meant that construction of new roads has sometimes been undertaken at the expense of maintenance on existing roads. The Commission considers that an asset management program whereby decisions are made with regard to their full resource implications, including all future maintenance costs, is required.

5 *Road User Satisfaction Survey*, unpublished, undertaken on behalf of AUSTROADS by AGB McNair, 1995.

6 National Transport Planning Taskforce (1995). *Building for the Job. Commissioned Work Volume 1.*

This in turn would require detailed performance benchmarking processes for operational purposes. The Commission notes that the Victorian Government details the standard of service that is required from its roads network (in terms of carrying capacity, quality etc), and this is used to provide a benchmark against which the adequacy of the network in meeting the needs of its users is assessed. It also provides a means for assessing the performance of road providers.

11.6 Future Demands on the Road Network

Key Points

- ***Average annual growth in the demand for road usage in the State is expected to be around 5 per cent per annum during the next ten years, with growth rates as high as 10 per cent per annum in some of the coastal areas.***
- ***Not all of the road needs in the State can be accommodated in the short term with the available level of funds, and therefore, projects which promise the greatest benefit to the economy must be undertaken as a matter of priority.***
- ***Analysis suggests that investment on roads in Queensland will provide substantial benefits to the economy as long as there are significant improvements to be made. Further, it has been shown that investment in the South East corner of the State would yield up to five times the economic benefits of investment elsewhere, largely as a result of the magnitude of congestion that has accumulated in that part of the State.***

Future Demands

Even with greater travel demand management and increased investment in public transport during the next ten years, over 80 per cent of person trips will still be undertaken by private vehicle. The Commission has been advised that by the year 2011, the number of vehicles on south east Queensland roads is expected to increase by about 36 per cent. These trends equate to average annual growth in the demand for road usage in the State of around 5 per cent per annum during the next ten years, with growth rates as high as 10 per cent per annum in some of the coastal areas.

Average speed on south east Queensland roads will be cut from 46 to 26 kilometres per hour during the morning and afternoon peak periods in the absence of any improvements. Estimates of the funding that will be required over the next ten years to maintain and upgrade existing infrastructure in order to ensure that the standard of service provided by the roads network is at least as effective as current provision appear in Table 11.1.

Table 11.1

Estimated 10 Year Funding Needs for Roads Infrastructure in Queensland ($ 1995-96 million)

	State Funded Road Need
1996-97	709
1997-98	789
1998-99	818
1999-00	829
2000-01	844
2001-02	959
2002-03	992
2003-04	988
2004-05	1,015
2005-06	975
Total	8,917

Source: Department of Main Roads.

As can be seen from Table 11.1, spending on roads infrastructure is required at average current levels for the next two years, followed by an increase in average per annum spending of around 8 per cent for the following three years, with spending of around 28 per cent per annum higher than current levels planned from 2001-02 onwards.

Options for Meeting Demands

Not all of the needs in the State can be accommodated in the short term with the available level of funds. Planned projects which promise the greatest benefit to the economy must be undertaken first.

The Commission engaged Economic Insights (et al) to undertake an analysis of the returns from Queensland's current commitment to road investments. For a number of years, the Queensland Government has had in place a rolling five year investment program. The next five years of this road investment program is worth a total of approximately $2.2 billion. The projects comprise the current five year investment program and five year's worth of the $1.25 billion increase in road funding over ten years recently committed to by the Queensland Government.

The Economic Insights analysis found that, from the base of the road system as it stands now, the $2.2 billion of planned road investment would offer substantial net benefits to the economy, in excess of $3 billion. The Commission notes that this finding was consistent with earlier Australian studies, such as the Kelty report[7] on regional development and the 1994 study undertaken by the Allen Consulting Group for the Australian Automobile Association.[8]

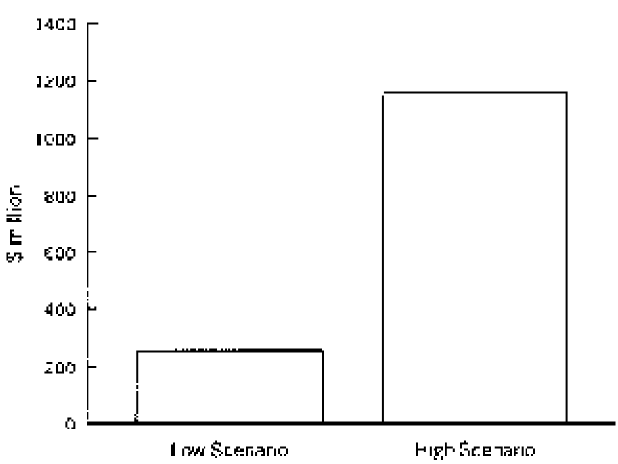
The construction phase was found to impose net costs on the economy (due to funding by tax revenue).[9] However, there is a substantial expansion in the Queensland economy in the operation phase, with exports, the real wage and the capital stock growing.

Analysis was also conducted of the effect of varying the assumption regarding the allocation of road funds. The current five year spending program is allocated across the State and has objectives other than to reduce congestion. Consequently, there are some (typically large) projects in south east Queensland that are not in the current program but yield very high productivity benefits by focusing on the reduction of traffic bottlenecks. The effect of allocating additional funds to these bottlenecks was evaluated by considering a hypothetical $110 million road investment under a low and a high scenario. In the low scenario, it is assumed that, as above, the $110 million would be allocated to projects providing similar productivity benefits to investment in major rural and urban roads. In the high scenario, it is assumed that the $110 million would be allocated to alleviating bottlenecks in south east Queensland.

Figure 11.5 shows the net benefits of the low and high scenario. Both offer substantial net benefits to the economy. However, the net benefit offered by the high scenario is around five times the net benefit of the low scenario.

Figure 11.5

Net benefit of a Hypothetical $110 million Road Investment



Source: Economic Insights (1996), *The Return to the Queensland Economy from Transport Expenditure*.

Note: Based on a real discount rate of 8 per cent

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7 Regional Development Taskforce (1993), *Developing Australia: A Regional Perspective*.

8 Allen Consulting Group (1994), *Land Transport Infrastructure, Maximising the Contribution to Economic Growth*, study prepared for the Australian Automobile Association.

9 The tax used in the analysis is a general tax on business, which is interpreted as a composite payroll tax, property tax and stamp duty.

Economic Insights concluded that there is currently potential for substantial returns to the State economy from road investment, and that decisions on the allocation of road investment funds has a major impact on the size of the return. Of course, the study is only a partial cost-benefit analysis in that it does not recognise some non-monetary effects such as the benefits of private travel time savings or all environmental and social impacts. Furthermore, the high returns from road investment in South East Queensland are related to rapid growth in the region, and would probably moderate once the current backlog in road investment is addressed.

It is true that in a free road system, for any given 'catchment', new roads may result in a diversion of traffic from existing roads on to new, higher quality roads. It is unlikely, however, that new roads will result in a significant change in overall utilisation in the catchment as a whole, and indeed if there are no user charges, it will be some re-emergence of congestion (at lower levels than before) which again brings demand and supply into balance. In effect, overall road use in a catchment is relatively insensitive to price changes (including the costs associated with congestion of greater wear and tear on vehicles, time costs, and so on). However, a user charge or other pricing mechanism can manage demand more efficiently by presenting users with prices which relate to the congestion costs they impose on other users.

The Commission considers that there are currently long term economic benefits associated with road investment in Queensland, and that these benefits can be maximised by the use of planning processes which take comprehensive account of the full resource implications of road investment. Such a planning process for roads infrastructure, within a consistent process for all transport infrastructure, would facilitate the integration of planning between all modes of transport, providing a framework which would recognise the full resource implications of road investment on other modes of transport, and vice versa.

11.7 Issues and Directions for the Road Network

Key Points

- *Improved planning processes are required to enhance integration, competition and the application of user pays*
- *User charges or equivalents (eg zonal fuel levies used wholly to finance well distributed road investments in the same zone) have the potential to bring such investments forward, to the benefit of users paying them.*

Planning Process

For the future provision of roads, the Commission considers that a planning process should be adopted whereby the full resource implications of decisions are understood, including:

- detailed standards of service that are required from the State's roads network (in terms of carrying capacity and quality etc);
- recognition of the resource implications of road investment on other modes of transport, and vice versa;
- specific recognition of all future maintenance costs associated with the building of new roads, and
- mechanisms to prioritise expenditure according to the benefit to the State economy from the corresponding road investment.

Such a planning process would ensure that the net longer term economic benefits of continued road investment are maximised, and that new roads are not built at the expense of maintenance on existing roads. It would also facilitate the integration of planning between all modes of transport.

Competition

While the Commission acknowledges recent efforts to expose the State's road construction and maintenance activities to competition, it has been advised that current practices do not allow for contestability of all contracts. The Commission nevertheless considers that maximum improvements in the efficiency of road maintenance and construction could be achieved by *fully* exposing road financing, maintenance and construction activities to competition.

User Pays

The Commission notes that heavy vehicle registration fees in Queensland are approximately half the average of such fees in other states, and car fees are between five and ten per cent lower than in other states.[10] The Commission considers that the potential benefits to be derived from road investment would be more fully realised if there was a greater emphasis on user pays mechanisms. Therefore, the Commission suggests the use of:

- toll charges, where appropriate conditions are met, for travel on new roads to support the necessary investment;
- increased charges for heavy vehicles to reflect their impact on roads; and, if necessary
- the application of a State fuel tax, or a zonal fuel levy, hypothecated to funding of transport infrastructure.

An appropriate strategy for user pays funding of roads infrastructure would focus on new roads which provide significant additional services and charge a toll which reflects only the premium of this added service (ie the congestion which is avoided by using the new road), thereby

[10] Based on Annual State Government registration fees and State Fuel Charges

avoiding diversion to adjacent roads—and spreading the benefits to users of those roads. Importantly, as there are different magnitudes of congestion at different times of the day, or days of the week etc, the toll that is charged should ideally be flexible enough to reflect this. The toll that is charged on a road to which there are alternative routes may not fully cover the funding requirements, and any shortfall could be made up by other user charges (eg a fuel levy targeted on the region concerned) or from general revenue if justified by the project's overall returns.

A Zonal Road Fuel Levy

In investigating potential sources of funding for road investment, the Commission noted the prevalence elsewhere in Australia, of state based fuel taxes which are, to some extent hypothecated to road funding (and which can proxy for direct user—or wider beneficiary—charges).

Queensland does not have the fuel taxes payable in other States, but rather has relied on a combination of general taxation revenue, vehicle registration fees, and direct user charges (ie tolls) to fund essential road infrastructure. Tolls, in particular, have resulted in considerable public resistance, at least in some conspicuous cases. In part, this may be due to a perception that, for historical reasons, other road users in similar circumstances have had free access to major roads. In addition, tolls have typically been set to recover the full cost of the infrastructure, whereas other road users in the same geographical area may also benefit significantly from reduced congestion but pay nothing.

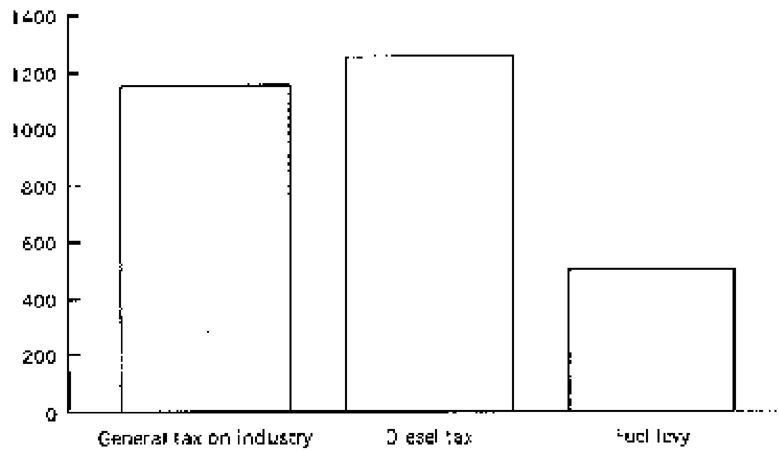
The Commission considers that, in the case of defined groups of beneficiaries, it is desirable to extend the repertoire of funding approaches to include geographically based (and usage related) road fuel levies, with the revenue hypothecated for transport infrastructure in the relevant area. Tolls will remain appropriate in those cases where the 'premium service' offered by the toll road, over nearby alternatives, allows a toll commensurate with that premium to be collected without inducing significant diversion.

In 1993-94, fuel consumed by road based vehicles in Queensland totalled 3,327 million litres of petrol and at least 800 million litres of diesel. A State-wide fuel tax of 7.5 cents per litre, about equal to that levied in New South Wales, would net approximately $310 million per annum on these figures, with a substantial fraction of this collected in the South East Zone—where (see above) congestion problems are currently worst, and returns to road investments greatest. Hypothecation of this revenue to investment in transport infrastructure in the same zone would, in time, substantially redress current inadequacies and ensure future requirements are met.

Accordingly, the Commission assessed the relative suitability of funding additional transport infrastructure in Queensland through road fuel levies. The potential net costs of constructing $1 billion of road investments over a ten year horizon with revenue from a road fuel levy were assessed against the net costs associated with financing from a general business tax. The estimated net costs for these alternate forms of taxation are shown at Figure 11.6.

Figure 11.6

Net Cost to Industry of Constructing a Hypothetical $1 billion road with Funding from Different Taxes



Source: Economic Insights *The Return to the Queensland Economy from Transport Expenditure.*

The use of a fuel levy as the funding mechanism more than halves the net cost to industry associated with a general tax on business. This is attributed to the relatively lower share of tax revenue paid directly by business.

Of course, the broader impacts should also be taken into account, not merely the impacts on industry. For example, the cost of the tax to households and time savings for private vehicle passengers are significant impacts not typically included in benefit/cost analysis of road investments and their financing. Also, it is not generally desirable in the general community interest to shield business from the full resource costs of the services it uses.

The Commission also considered a *zonal* fuel levy applied only in South East Queensland, analogous to a user charge to all beneficiaries of reduced congestion across the overall road system in that region. That is, if a program of road investments were undertaken distributed across the region, benefits would flow to all users in the catchment, not merely users of the new roads.

The Commission notes that the Gold Coast/Brisbane/Sunshine Coast area of South East Queensland is a natural catchment comprising the coastal plain from the New South Wales border, west to the Great Dividing Range, and north to, and including, the Sunshine Coast area.

The New South Wales border would not present any problem because application of a road fuel levy on the Queensland side would actually simplify the graduation of the fuel tax near the border within New South Wales. Further inland, within Queensland, fuel prices rise with higher transport costs and reduced competition among providers, so that a South East Queensland road fuel levy (applied only in the catchment just defined) would actually reduce the present differences between fuel prices in that region and those in country areas. There would of course be some problems around the boundaries and possibly a need for 'stepping' on some fronts.

A zonal levy would need to be implemented so as to exempt non-road uses of the same fuels—eg used solely in primary production, in mining, for heating, and so on. Such exemptions would present administrative problems as well as some leakage of revenues. Nevertheless, it should be possible to collect the levy in respect of a high proportion of road fuel use in the catchment concerned—where the benefits of the road investments financed will emerge.

Recommendations

11.4 Within the wider context of transport planning, the Departments of Transport and Main Roads should adopt planning processes whereby the full economic and resourcing implications are taken into account, including:

- *mechanisms to prioritise expenditure according to the benefit to the State economy from the corresponding road investment;*
- *specific recognition of all future maintenance costs associated with the building of new roads;*
- *detailed standards of service that are required from the State's road network (in terms of carrying capacity, quality etc); and*
- *recognition of the resource implications of road investment on other modes of transport, and vice versa.*

11.5 Road construction and maintenance activity should be fully and effectively privatised to maximise efficiency in the sector.

11.6 To realise potential benefits from road investment more fully, there should be greater emphasis on user pays mechanisms, including toll charges for new roads where appropriate, increased charges for heavy vehicles and a road fuel levy, limited to the south east corner of the State—the Gold Coast/Brisbane/Sunshine Coast catchment—and used wholly to fund road investments in that catchment.

Public Transport

Key Points

Public transport needs vary widely in different areas across the State, although the major focus is the rapidly growing south east corner. By the year 2005 many of the major roads in South East Queensland will be heavily congested for long periods each day.

Private sector participation in public transport service provision and investment should be encouraged. The limited available evidence (for private bus operations) indicates that private operational costs are significantly less than those of the best public providers.

Findings

- *There is a lack of consistency across modes in urban areas, yet 'seamless' transport has been identified as important in increasing usage of public transport.*
- *Current reforms involving contracting with private operators and local authorities for the provision of bus services, moving to five year, exclusive franchise contract arrangements are worthwhile. Brisbane Transport has exclusive rights to the Brisbane area, which raises significant competition policy issues (including concerns regarding competitive neutrality).*
- *Significant subsidies and community service obligations (estimated at $700 million for 1995-96) are paid to the bus and rail transport sectors in Queensland.*

11.8 Structure and Resourcing of Public Transport

Key Point

- *Public transport needs vary widely in different areas across the State, although the major focus is the rapidly growing south east corner.*
- *Recent reforms in contract service delivery need to be continued in most areas. In the Brisbane City area increased competition would be enhanced by a competitively neutral bidding process.*

The 1995-96 Budget Papers identify approximately $700 million which was directed towards bus and rail transport services in Queensland. In addition, a further $85 million was provided by the State to fund specific school transport services.

Public transport is provided by buses, trains, taxis and ferries. The Brisbane metropolitan area has the highest concentration of the States population and is served by the Citytrain passenger rail system, as well as buses operated by Brisbane Transport and private operators.

Bus services (generally privately owned) play a major role in providing school and general public transport outside of the greater Brisbane area. In 1992-93, over 8.6 million public passenger journeys were undertaken using 677 buses and over 90,000 school students were transported every school day by nearly 900 operations.

State wide, there are also 93 operators providing regular passenger transport ferry services which carry over 62,000 passengers per week during peak periods.

The relative proportion of travel made on public transport has declined rapidly since World War II. This has chiefly been the result of increasing community affluence and availability of private cars, which are able to offer higher levels of flexibility and convenience. In addition, the predominant pattern of urban development has been based on car travel, making effective public transport operations increasingly difficult.

In recent years, there has been increasingly vocal support in the community for better public transport.

Public transport has significant social benefits in providing transport for those who do not have access to a car, or who are too young or too old to drive. It is also a more efficient way to move passengers in terms of road space, and has significant environmental benefits through reduced emission of pollutants. Government has a significant obligation to ensure that as many members of the community as possible can access essential services and recreational activities without having to rely on car transport.

Nevertheless, public transport should not be regarded as a social service providing a basic level of service at a subsidised rate, but rather as a commercial business aimed at pursuing and attracting maximum patronage. The public interest will be best served by ensuring that the providers of public transport, be they government or private sector interests, operate within a system characterised by greater competition, contestability and reduced need for public subsidies.

Recent Reforms

Reforms under new legislation in 1994 introduced commercial competition to what was previously a very protected industry. The basis of the reforms was the issuing of service contracts, generally for five years. While competition was recognised as a key factor in efficient business operations, the high levels of investment needed to establish public transport operations in a fully competitive market were considered a significant obstacle to new entrants. Accordingly, the contracts are being issued on a geographically restricted basis so that operators will have a guaranteed service monopoly for a fixed period, in return for meeting higher standards of service than may have been attained in a fully competitive market.

The contract areas are generally much larger than the previous licence areas and this means, in effect, that many operators have either to combine with others, or leave the industry. A major constraint on the full implementation of competitive tendering in the reform process was the inability of the government to compensate the existing operators who may be forced out of the industry. As a result, many existing operators were given first preference at contracts in their previous areas of operation.

In other cases, the preferred tenderer was unwilling to compensate other operators whose licence areas were subsumed by the new contracts.

There was also a difficulty in establishing a consolidated public transport contract within the key metropolitan area of Brisbane. The contract framework is a large central contract area allocated to Brisbane Transport, and some 12 service contract areas dispersed around the urban fringe. Despite the improvement of service standards and rationalised bus contract areas, the situation remains that many operators are required to pass through the Brisbane City Council area without being able to pick up passengers. This means that buses may run a very significant distance back to their contract area after unloading passengers in the city. It also works very obviously against the establishment of a seamless metropolitan public transport system since almost none of the dozen or so operators share ticketing or fare structures, and appear to lack incentives to coordinate services, either among themselves or with rail services

In essence, the system presents to the intending passenger as a poorly coordinated range of different operations which are restricted to journeys within a designated geographic area. In many respects, this must reduce the attractiveness and competitiveness of public transport travel relative to the car.

It is clear, however, that the reform process has delivered significant improvements and resulted in the entry into the industry of new operators.

11.9 Performance of Public Transport

Key Points

- *There exist few assessments of the effectiveness of the public transport system.*
- ***Private operators' costs per kilometre are significantly less than those of Brisbane Transport. Brisbane Transport is the second most efficient public transport bus operator in Australia.***
- ***The Commission notes that Brisbane Transport has exclusive rights to the Brisbane City Council area. This raises significant issues in relation to competition policy, and specifically competitive neutrality.***

Efficiency of Services

There exist no performance benchmarking systems and few assessments of the effectiveness of the public transport system

The average cost per kilometre for a Brisbane Transport bus operation in 1993-94 was $3.85, whilst the 1992-93 costs for private urban bus operators in Queensland were $1.88 per kilometre. The 1994 Industry Commission Report on Urban Transport notes that on average, public operators' unit costs per vehicle kilometre are 50 per cent higher than those of private operators. These figures, however, do not necessarily take into account qualitative factors such as service standards

Qualitative Issues

There is a lack of consistency across modes in urban areas, yet "seamless" transport has been identified as important in increasing public transport utilisation. The total door to door journey is important to the user of public transport.

In particular, the factors which encourage greater utilisation of public transport include:

- punctuality of service;
- frequency of service, weekday peak and off peak, evenings and weekends;
- travel time;
- fare levels and ticketing procedures;
- comfort of vehicles such as seating availability;
- safety;
- ease of transfer to, from and between transport modes; and
- ease of use of supporting infrastructure (eg availability of safe park and ride facilities).

There would appear to be a lack of integration or coordination of transport within South East Queensland. For example, there is very limited integrated ticketing (apart from between Brisbane Transport buses and Brisbane Transport ferries, and some rail/private bus arrangements). The decisions by Brisbane Transport and Queensland Rail to have electronic but not integrated ticketing do not contribute to the perception by users that there exists an easily accessible, seamless travel system within the area.

11.10 Future Demand

In South East Queensland, public transport journeys account for less than seven per cent of all travel. This is expected to decline to around six per cent in 2011 under current trends.

By the year 2011, the population will be around 3.1 million. As a result:

- the number of car trips will increase 70 per cent;
- trips to work which are major contributors to peak hour congestion will increase by 110 per cent with about 200,000 commuters entering the Brisbane city area each day; and
- the amount of freight carried is estimated to increase by between 80 per cent and 120 per cent.

With travel growth of this magnitude, and without significant investment in additional public transport capacity, the region's cities would be almost grid locked by 2011. However the Government is about to release a draft Integrated Regional Transport Plan for South East Queensland which includes actions to increase the proportion of trips made on public transport by 50 per cent, to 10.5 per cent of all travel. Because the regions population is expected to increase by 60 per cent between 1992 and 2011, this would mean public transport journeys would have to increase by 154 per cent on the 1992 level. Daily ridership would have to increase from 489,000 to 1.24 million in 2011.

For the balance of Queensland, ridership is much smaller but is still an important element of the transport system. Even without formal strategies to increase the proportion of travel on public transport, growth in key provincial areas including Cairns, Hervey Bay and Townsville will also result in growth on public transport ridership at around two per cent per annum.

11.11 Options and Directions

Key Points

- ***Planning reforms need to be accompanied by greater use of market mechanisms to ensure users are aware of the full costs of travel (particularly between various modes).***
- ***User pays revenues will also be necessary to augment infrastructure.***

Planning

The draft Integrated Regional Transport Plan prepared for South East Queensland aims to increase by around 50 per cent the share of total trips in the region made on public transport by the year 2011. One of the key issues arising from the Integrated Regional Transport Plan is how the targeted increase in usage would be achieved. Increased usage is more likely to result from a relative improvement in the attractiveness of public transport relative to other modes, where attractiveness needs to be broadly defined to include the full costs of travel (ie including travel time, parking, access time, and interchange costs).

The main options for increasing the relative attractiveness of public transport include:

- to increase the relative 'speed' and reliability of public transport through increased frequency (that reduces waiting times) or providing more efficient infrastructure (eg bus lanes, upgraded rail lines);
- to introduce public transport to new areas (eg new rail lines, extended bus services);
- reducing the supply of car parking (or increasing its costs);
- to reduce public transport fares; and
- to directly increase the cost of car travel (eg through road pricing).

Reduction in fares is of doubtful benefit because the fare only represents a small fraction of the total cost of using public transport. Time costs are generally much more significant, particularly for commuters during peak periods. However, given that the costs of congestion are 'spillover' costs (ie they not fully borne by individual motorists), the impetus to use public transport from congestion alone is probably insufficient to optimise use of public transport. Increased parking, access and interchange costs are indicated as being necessary to allocate resources more efficiently.

Investment

Based on discussions with Queensland Transport more efficient infrastructure for South East Queensland would probably include as a minimum:

- additional rail rolling stock and buses;
- increasing rail track capacity and realigning tracks in key areas;
- bus priority systems, including busways, bus-only lanes, and transit lanes; and,
- upgrading passenger interchanges and kerbside infrastructure.

The Department estimates that to cater for increased demand over the next 25 years around $6 billion is needed for such additional infrastructure. Greater recourse to user charges (ie through higher parking fees, and even access fees to urban areas) may be worthy of further consideration in such circumstances.

Specific Sectors

Bus Services

In 1994, the Queensland Department of Transport moved the provision of bus services from a license regime to a five year service contract basis. Under the new system, Queensland's urban bus services will be divided into 70 commercial contract areas for which subsidies will not be required in the longer term. The provision of school transport will require the establishment of a further 1,100 bus contracts which will continue to be government funded. A separate arrangement exists for Brisbane Transport at this time.

The Commission notes that the 1994 reforms, whilst not fully implemented, will create a more contestable local bus industry. The Commission notes that Brisbane Transport is a relatively efficient local government provider of bus services when compared with other government bus services in Australia, and that the cost per person of transporting commuters by bus appears to be less than that for rail in Queensland. Nevertheless, further commercial reforms are required. Greater patronage and interest in contestable service delivery could be enhanced through the establishment of a uniform ticketing medium for the South East region.

Citytrain

Cost recovery for Citytrain fell slightly in 1994-95 compared with the previous year. The Commission notes that Queensland Transport has moved towards establishing a formal contractual basis for the delivery of Citytrain services and infrastructure. The Department, should, as with bus contracts, be required to report on its performance in purchasing appropriate rail transport services. As the contracts with Queensland Rail will be on a commercial basis, similar to other contracts let by the Department, it is suggested that five year contracts be provided for Citytrain operations.

Citytrain contracts should include a target estimate of the efficient cost of delivery of the defined services in year five, and qualitative performance requirements which cover at a minimum, safety, reliability, frequency of services, and availability of information and contribution towards integrated transport services.

Given the absence of a competitive market for rail services, it will be necessary for Queensland Transport to significantly enhance its benchmarking expertise so as to establish independently the level of efficient costs. In the longer term, access by third parties to the suburban infrastructure is appropriate, and to this end, the Commission endorses the seeking of expressions of interest from private parties to operate a rail service between the central business district and Brisbane Airport and suggests that any the construction and operation of future new rail lines be open to public, competitive tender.

It is also possible to introduce alternatives to the conventional heavy rail system. These include light rail, monorails, and dedicated bus ways. These technologies should also be evaluated as they are often less costly and more flexible, with corridors that require less segregation than conventional heavy rail.

Non-metropolitan Transport

The Commission suggests the promotion of greater flexibility and innovation in public transport to match the specific needs of provincial and rural areas. For example, greater utilisation of taxis and mini buses for scheduled passenger services, and where appropriate, the endorsement of unscheduled "on call" services where there is a lack of demand for a regular scheduled service. Subsidised air services, generally selected after a public tendering process, are also provided to certain remote locations.

More than half of Traveltrain passengers pay no fares at all, and only 18 per cent pay full fare. The viability and provision of such services must be assessed. Where long distance passenger rail services are provided, these should be subject to separate contracts similar to urban rail and again, explicitly identified as community service obligations in the Transport budget. With respect to low volume rail branch lines and small freight services, community service obligation payments should be publicly reported for each branch line, together with advice regarding the benefits achieved. For some lines, opportunities for private sector involvement, particularly by the local community, may prove beneficial to all parties and should be encouraged (possibly by competitive franchise arrangements).

Recommendations

11.7 Progressive allocation of bus service contracts throughout Queensland by competitive franchise should continue, and the contract service framework for the metropolitan area should be restructured to ensure Brisbane Transport and private sector operators provide an integrated public transport system, and bid for contracts on a competitively neutral basis.

11.8 Contracts for passenger rail services should be used as a mechanism for fully reflecting the subsidies for such services.

Rail

Key Points

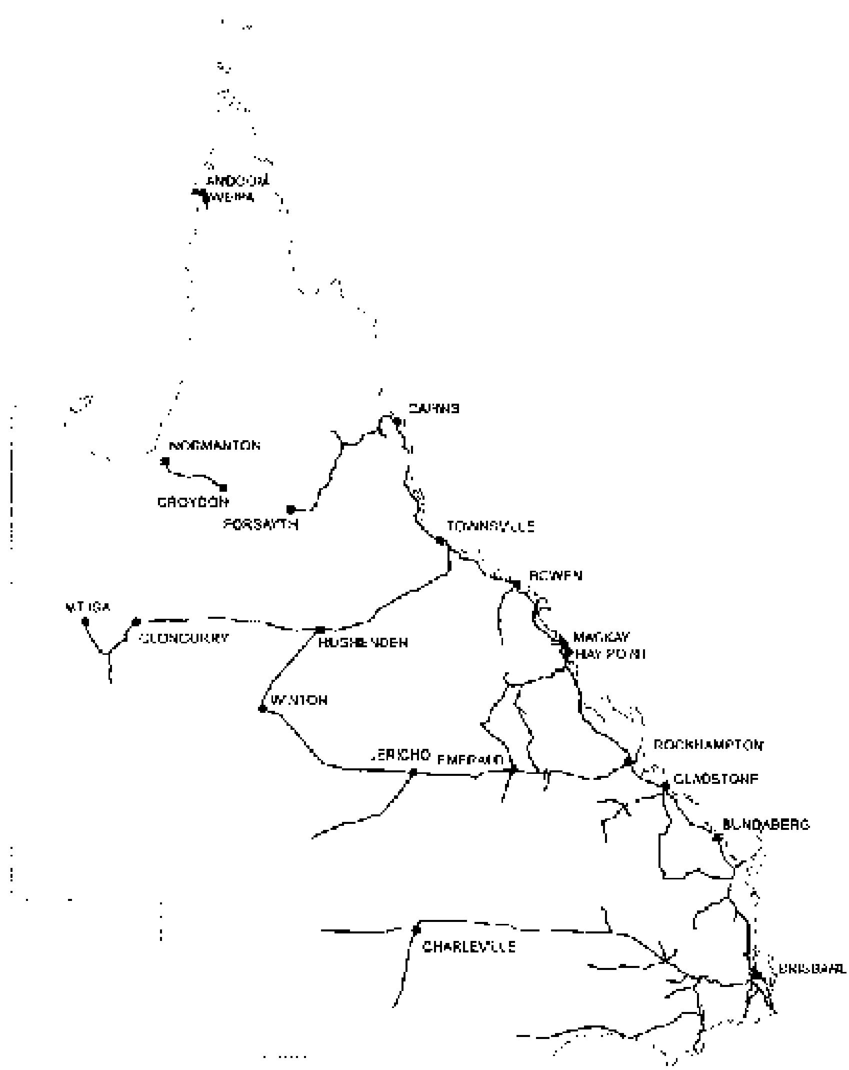
The Queensland economy as a whole will benefit from a more efficient rail sector by more than $300 million per annum even before the impact of major new projects is taken into consideration.

Findings

- *Queensland Rail is one of only two integrated state rail systems and has a monopoly of Queensland rail services.*
- *Recent estimates of productivity indicated that Queensland Rail had to reduce costs by around $200 million to reach world best practice targets. While best practice in coal haulage operations may be achieved by 2000, it may not be achieved in current general freight haulage services.*
- *Productivity improvements required to meet world best practice will result in a lower staff requirement and necessitate higher community service obligations. Community service obligation payments represent a major cost to the Budget and require review to ensure 'value for money'.*
- *Infrastructure projects of at least $2 billion have been identified to meet growth, upgrade the system, and overcome deficiencies. Rigorous assessment of investment proposals needs to be accompanied by greater (inter and intra modal) competition and the involvement of the private sector.*

Map 11.1

Queensland Railway Infrastructure, 1996



Source: Queensland Government Statistician's Office.

11.12 Structure of the Rail Industry

Key Points

- *Queensland is one of only two States retaining an integrated rail system.*
- *Queensland Rail has a monopoly of Queensland rail services.*

Queensland

Market and Industry Structure

Railways are essential to Australia's transport system. They play a major role in moving coal and grain to ports, and in carrying commuters. Queensland has over 9,900 kms of 1067 mm (narrow gauge) rail track and 111 km of standard gauge track. In 1994-95 this infrastructure carried over 95 million tonnes of freight and catered for approximately 38 million passenger journeys. Almost 90 per cent of the freight carried was coal and 98 per cent of the passenger journeys were in Brisbane's suburban rail network.

To date, Queensland and Western Australia are the only States retaining fully integrated rail systems. Apart from interstate operations on the standard gauge line, Queensland Rail owns and manages (as a monopoly) all of Queensland's rail transport systems. Queensland Rail was corporatised on 1 July 1995. The imperatives of the corporatisation model and the associated requirement for Queensland Rail to operate in a competitive manner are tempered by a recognition of Government and public expectations that Queensland Rail will:

- provide services to communities in all parts of the State served by the rail network;
- contribute to the fulfilment of the Government's policy agenda; and
- honour commitments to its work force precluding forced retrenchments and relocation.

These imperatives have had the result that some parts of the corporatisation process have not been effective in their desired outcomes of introducing an arms length commercial relationship between Government and Queensland Rail.

This will change as a result of the recent amendments to the Trade Practices Act, with competition now likely on significant parts of the network (noting that coal haulage is excluded from the access provisions of the Trade Practices Act until 2000).

Queensland Rail faces competition on much of the network from road transport, but has little competition in long haul, low value bulk commodities. Internally Queensland Rail is structured around four Business Groups comprising: Coal and Minerals; Freight; Citytrain; and, Traveltrain. These are supported by two Business Support Groups - Workshops, and

Business Services. Each Business Group has full responsibility for defined parts of the network and undertakes all maintenance and operations on those parts of the network.

Commonwealth and Other States

The focus on structural considerations for railways nationally and in other states has been to establish structures which will encourage competition and efficiency in the delivery of rail services. At the national level, the National Rail Corporation has been established as a company owned by the Commonwealth and several state governments (not including Queensland) to operate interstate rail services. The Commonwealth has also flagged an intention to create a national track management authority to manage access to the tracks which make up the national interstate railway system and, providing there are net benefits to the Queensland, the State should consider joining.

Victoria has moved to franchise operation of country passenger lines to private operators and has granted access rights to a private sector rail operator for an interstate rail freight service. New South Wales has recently announced major restructuring of the State Rail Authority which will see the freight components corporatised as an operator only, the creation of a track management body separate from rolling stock operations, and the integration of the suburban Cityrail with other state owned public transport operators (buses and ferries).

The separation of the management of track infrastructure from the operation of rolling stock using the tracks is also apparent internationally, particularly in Europe. In contrast, the alternative model of retaining a fully integrated rail and track authority such as Queensland Rail is used in a competitive environment in the United States and is used for a privatised monopoly in New Zealand. The major difference between the North American and Australian situations is that the United States has a large number of interconnecting (and at times parallel) private railroads which generally require access to each other. Access is thus often a commercial imperative for both parties. In essence the competitive pressures between North American railways which support access do not exist in Queensland.

Based on the Industry Commission assessment of the benefit of reform, the rail sector is estimated to be able to contribute $300 million to the Queensland economy before the effect of any major new projects stimulated by the improvements is taken into account.

11.13 Performance

Key Points

- ***Queensland Rail's overall performance is well (25 per cent) below the best overseas benchmark.***
- ***Queensland Rail has made improvements in its efficiency since 1991 and is required to achieve best practice in coal haulage operations by 2000. General freight haulage to current levels of service is (on current plans) unlikely to achieve world best practice in operating costs and return on capital.***

- ***Efficiency improvements will be achieved through a combination of increased traffic, investment in better technology and changes in work practices. These strategies will result in a lower staff requirement for the same, or greater, traffic task.***
- ***Community service obligation payments (and associated policies) represent a major cost to the Budget and require review.***

Operating Efficiency

Overall Efficiency

The Bureau of Industry Economics has estimated that Queensland Rail had to reduce costs by $200 million (27 per cent) to reach world's best practice costs. The main problem areas in Queensland Rail are rolling stock, infrastructure maintenance and corporate overheads. Further, by the Bureau of Industry Economics estimates Queensland Rail only closed the gap on world best practice by two per cent during the 1991-92 to 1993-94 period, whereas the closure of the world best practice gap by Australian systems as a whole was 15 per cent.

Of the Australian rail systems, Queensland Rail's rail productivity was second to Australian National although the rate of improvement (28 per cent from 1990-91 to 1993-94) is significantly less than other Australian systems (eg 85 per cent for Australian National over the same period). According to the Bureau of Industry Economics, Queensland Rail's track productivity has been the highest in Australia (due to the high percentage of bulk coal haulage) but potential exists for divestment of low volume traffic lines. Locomotive productivity over the period 1990-91 to 1993-94 slipped from first to third, and wagon productivity from second to fourth.

Employment policies which do not allow Queensland Rail to relocate staff or introduce redundancies on other than a voluntary basis are a significant factor in retarding reform within Queensland Rail. While the Government does make an explicit community service obligation payment to Queensland Rail to cover the cost of surplus staff ($29 million in 1995-96), the requirement to retain artificially high staffing levels is a major barrier to achieving necessary levels of productivity. Queensland Rail anticipates that the surplus staff for the organisation will increase from 1,180 this year to 1,445 in 1998-99 as a result of improved practices and technology, which, all other things being equal, increase the annual cost of surplus staff to $40 million.

Furthermore, income support is a responsibility of the Commonwealth rather than the States, and simply maintaining surplus staff on the payroll may be creating a barrier to structural adjustment in the labour market. It is preferable—both for the economy as a whole and for the individuals concerned—if any financial assistance provided allows surplus staff to reskill and/or relocate to industries and/or areas with better long term employment prospects.

Export Coal

In the export coal area an extensive study of Queensland Rail's coal haulage performance compared to world best practice was undertaken by Mercer Management and Symonds Travers Morgan[11] based on 1992-93 costs. At that time, it was estimated that, after adjusting for structural differences of haul length, fuel price and the cost of components, a gap of 18 per cent existed between Queensland Rail's coal haulage operations and world best practice. After allowing for Queensland's narrow gauge railway and ruling grade differences it was considered that achievable world best practice was closer to ten per cent. In an update for 1994-95 the estimated gap moved from ten per cent to around eight per cent (around $24 million). Queensland Rail considers that it will achieve its goal of world best practice in coal haulage by 2000.

Freight Group

Using Bureau of Industry Economics data and that of the Symonds Morgans study, the reduction in costs required in the general freight area to reach world best practice is in the order of $170 million, or 36 per cent (based on 1992-93 costs).

This estimate is consistent with the operating subsidy ($129 million) paid to Queensland Rail to allow for the continued operations of the Freight Group until such time that it is able to operate commercially, and a separate community service obligation payment of $29 million to cover the cost of existing surplus staff (the majority of whom are in the Freight Group). Some improvements have been achieved over the past few years but Queensland Rail is clearly concerned at the problems in this sector.

Passenger Services

The Industry Commission, in its 1993 report on Urban Transport, found that all Australian urban rail transport systems should substantially improve their productivity. Patronage has steadily fallen since 1988 and is compressed mainly into the morning and afternoon peak periods. During 1995-96 there has been a small increase in patronage for the Citytrain (excluding Gold Coast) network. Citytrain has substantial excess capacity during non-peak times, but is struggling to meet the peak capacity requirement. In relation to Traveltrain, the Commission notes the high levels of government subsidy which are not available to other long distance passenger carriers.

The Commission is not aware of any estimates of the benefits that could accrue to Government if Citytrain and Traveltrain were operated at best practice. In the absence of competition, the Commission considers it essential that this work be undertaken as the primary basis of future contracts between the Government and Queensland Rail for the delivery of the suburban passenger community service obligations. New Citytrain links such as a potential Sunshine Coast line should be open to the market to tender for construction and operation, and Queensland Rail should be allowed to compete in this process.

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11 Mercer Management and Symonds Travers Morgan (1994), *Report prepared for the Joint Advisory Group into World's Best Practice in Coal Haulage*.

Pricing

The Commission notes the commitment by the previous Government, which remains in place, to phase out de facto coal royalties by the end of this decade. These will gradually be replaced with an explicit seven per cent ad valorem royalty as contracts expire. De facto royalty payments from Queensland Rail to the Consolidated Fund currently stand at approximately $250 million per annum. While the Commission is concerned about the efficiency impact of the pricing regime in pre-1989 contracts, it recognises that the Government would face significant fiscal difficulties in immediate removal of this scheme.

Financial Performance

The net cash cost to the Budget in 1995-96 for Queensland Rail was $225.7 million. Although the total community service obligation payments come to $622.5 million, the agreed payment schedule has meant that the cash payment for community service obligations in 1995-96 was $455.9 million. In addition, an equity injection of $40.2 million was made in order to allow Queensland Rail to finance its investment in suburban passenger infrastructure. This payment was partially offset by receipts of $257 million from de facto royalties and $13.4 million from a debt guarantee fee.

Funding provided to Queensland Rail from the State Government in 1995-96 is identified in Table 11.2.

Table 11.2

Queensland Rail Funding, 1995-96

Purpose	$ million
Citytrain	95.0
Traveltrain	33.0
Heritage	3.0
Interstate Passenger	2.0
Q Link Freight Services	18.0
CPS Subsidy	5.0
Rural Branch Lines	50.0
Network Costs associated with Q Link and Branch lines	19.0
Surplus Staff	29.0
Depreciation	42.4
Cash CSO Payments by Department of Transport	**306.0**
Return on Assets	167.1
Accrual CSO Payments by Department of Transport	**473.0**
Operating Subsidy for freight network	129.0
Total Department of Transport Payments	**602.0**
Pensioner/Seniors Concessions (Dept of Family Services)	17.6
Student Concessions	2.9
Total State Government Payments	**622.5**

Source: Queensland Department of Transport

11.14 Future Needs

Key Points

- ***Infrastructure projects of at least $2 billion are identifiable to meet growth, upgrade the system and overcome deficiencies.***
- ***Rigorous assessment of investment proposals needs to be accompanied by a consideration of alternative options for services delivery.***
- ***The railway industry needs to provide for greater competition and involvement of the private sector through structural separation, third party access, franchising, direct investment, and the sale of assets.***

Infrastructure Requirements

Most of the rail links in the current network were developed in the late nineteenth and early twentieth centuries as pioneer railways to open up the state to development. From the late 1960s purpose-built railways for transport of bulk coal and minerals were built. Significant catch-up investment in freight projects such as the Main Line Upgrade Project and upgrading of the Mount Isa Line has been undertaken over the past five years.

In the passenger area, investment over the last few years has concentrated on construction of inner city tunnels, the Gold Coast Railway, and in the acquisition of new electric trains, as well as refurbishing the long distance Traveltrains.

Significant potential for growth in demand is envisaged within the sector. Together with deficiencies with the existing system and expectations of increasingly improved service levels the following areas of future infrastructure investment have been identified by Queensland Rail:

- a proposed upgrade of the Mount Isa-Townsville line to triple tonnage by the year 2005 to promote new developments such as the lime phosphate mine and Queensland Phosphate fertiliser plant in the Mount Isa area ($130 million for infrastructure and $40 million for rolling stock with $70 million to be provided as a subsidy by Government);
- for long distance passenger transport ($80 million over the next five years) with the major component being replacement of the Sunlander;
- Citytrain system improvements over the next five years totalling over $650 million, major components being system growth ($400 million), improved reliability and customer service ($150 million), and safety and security ($80 million); and
- upgradings to match competition (from road) on the North Coast line from Brisbane to Cairns, the Mount Isa to Townsville line, the Citytrain system and a number of inland routes ($1 billion over the next five years).

Options for Supply

Opportunities for infrastructure augmentation should always be subjected to rigorous cost benefit analysis before implementation. Further, investment commitments should also only be undertaken where alternative means of delivery are unavailable. The Commission notes the following opportunities for such alternative service delivery:

- third party access over the entire rail network would promote greater competition and private sector investment in potential areas of growth (eg the proposed airport link);
- franchising of services within the Citytrain network would provide some degree of private sector funding (but more importantly stimulate competitive service delivery);
- privatisation of specific purpose segments of the rail network on appropriate terms; and
- the possibility of service delivery by other transport modes.

As a precursor to allowing private sector investment in the network, the Commission considers that separate community service obligation contracts should be entered into for the infrastructure and operational components of the existing operation, with Queensland Rail holding an initial franchise (or several franchises) for existing operations. These franchises could then be opened for competition, with the objectives of reducing operational community service obligation costs and introducing private sector capital and management.

Generally the Commission is of the view that competition is the main stimulus for innovation and productivity improvement. The Commission does not, however, endorse duplication of public investment solely to encourage competition between road and rail. Limitations on public funding require an application of benefit/cost analysis to establish the best investment.

11.15 Strategic Directions

Key Points

- ***The benefits of corporatisation to Queensland Rail have been limited by the policy constraints placed by Government on this sector. These constraints need to be removed.***
- ***Structural separation of the track from contestable services is required. These services need to be separately incorporated.***
- ***Regulations which restrict traffic to rail need to be reviewed to ensure a consistent approach is taken for all commodities and transport modes within a***

framework which maintains appropriate environmental, safety and public amenity standards.

- *Alternative methods of delivering community service obligations need to be assessed and comprehensive contracts established.*

Accountability and Oversight

The accountability of Queensland Rail's board and management for reaching their objectives would be improved by eliminating, where possible, operational constraints placed on Queensland Rail by Government.

Queensland Rail needs to be able to alter its prices to get the optimal use out of its rolling stock and infrastructure and reduce costs by changing use of labour and other inputs without political interference.

The current process for oversight of Coal and Minerals prices should be strengthened, as this is the major area in which Queensland Rail continues to have monopoly power. The necessity for intrusive price oversight processes could be reduced by competition.

Industry Structure and Third Party Access

Queensland Rail has never operated in a truly competitive environment. The existence of competition will provide the greatest incentive for Queensland Rail to contain costs and improve its efficiency in both operational service delivery and asset creation.

To introduce competitive pressures the very minimum required is a comprehensive third party access regime implemented across the entirety of Queensland Rail's network. Competition even at the margin, will ensure that prices charged reflect the true costs of operation.

Given the incentive that exists for Queensland Rail to discourage competitors from operating on its network, the effectiveness of the regime will be limited unless it is enforced by an independent authority.

The greatest pressures for efficiency in the provision of rail infrastructure and services will result from separation of the natural monopoly (the rail network) from the contestable services (the rail services). The contestable services need to be clearly defined in functional and accounting terms, separated and, operate in a contestable marketplace. This approach has been adopted in New South Wales.

Private Sector Involvement

For railways, the major basis for continued Government ownership has been its status as a monopoly provider of rail infrastructure and operations. With competition possible in several parts of the industry and being introduced, the need for Government ownership is significantly reduced. It is appropriate to question whether specific benefits accrue from the retention of ownership of the rail system in part or in whole. The delivery of community service obligations or the maintenance of employment could be met, possibly more efficiently, with private ownership in place

In particular, various pressures on the financial structure of railways will increase the need for capital. These pressures include the effect of reduced coal revenue consistent with Government policy and customer/competitive pressures, the impact of increased competition from third party access, and the need to strike a balance between community service obligation funding availability and service aspirations. Private sector investment may alleviate capital needs and promote operational efficiencies.

Road/Rail Competition

The Commission notes with some concern that Queensland Rail is subsidised for small freight services (including running its own trucking operations), which may compete with the private (non-subsidised) trucking sector.

There needs to be equitable competition between road and rail transport. Regulations which restrict traffic to any particular mode should be eliminated and policies implemented which ensure each mode meets all of its costs. The pricing of both road and rail transport will then better reflect their relative strengths. Rail transport will most probably focus on those services where it has a comparative advantage over road - bulk hauls from mines and grain storage facilities to ports, long-distance hauls with unit trains, and urban peak-period commuting.

Export Coal Haulage

The Commission recognises that Government has committed to the removal of de facto royalties from these contracts by the end of this decade. Removal of the royalties prior to the fully phased introduction of the new explicit royalty system would create severe fiscal difficulties for Government.

Integrated transport chains from the 'coal face' to the port be formalised, and world best practice in regard to logistics and communication adopted by rail, ports, and transport carriers, including Queensland Rail. Generally, this has not occurred when left to informal arrangements. It may be possible to achieve fully integrated chains under the auspices of the Joint Advisory Group into world best practice.

Community Service Obligations

Community service obligations are apparently being funded on the basis of reimbursement of actual costs, without consideration of alternative means of delivery of the community service obligations or particular attention to efficiency considerations.

Given the substantial proportion of the State Budget involved in rail community service obligations payments, the Commission was surprised to find that there are no formal agreements between the State and Queensland Rail setting out objectives and conditions of community service obligations funding. More importantly there is little reporting on performance in terms of the effectiveness of the community service obligations funding in achieving its goals.

Due to lack of data and evaluation/effectiveness studies, the Commission had no basis to form an opinion on the efficacy of community service obligations funding in most areas of rail. Available information indicated the need to query:

- the basis for payment of $33 million per annum to subsidise long distance passenger travel by rail; and
- community service obligations funding directed at subsidising freight services on rail.

The only perceived benefits of this, and the above payment, seems to be to maintain the existing operations of Queensland Rail.

The Branch Line and Q-Link subsidies totalling almost $100 million are targeted at supporting access to rural communities. Spending on these rail lines should be made transparent to ensure that the relevant communities are able to assess whether they would prefer this funding to be redirected toward improving service delivery in other areas (eg health, education and road services) to their communities.

Community service contracts between government and railways should be put in place and be as specific as possible, identifying exactly what particular market segments or lines are to be explicitly funded as community services. These contracts should also include criteria for evaluation of the performance of the rail authority in meeting each particular community service.

Welfare concessions available for non-urban passengers are difficult to justify and should be significantly reduced. If, however, governments choose to subsidise concessional long distance travel, vouchers for any mode of non urban travel should be provided to a limited value per annum per entitled person.

Government Employment Policies

The Government policy that Queensland Rail should not involuntarily relocate staff or make them redundant imposes an artificial and non-commercial restraint on Queensland Rail achieving commercial levels of efficiency. As a result $29 million or almost $3 out of every $100 paid in payroll tax in the State is paid to Queensland Rail for the continued employment of surplus staff.

Whilst some phasing of staff reductions may be justifiable on the grounds of minimising dislocation in the labour market, such action is only delaying an inevitable decision to reduce staffing to a sustainable level. Delays in this decision make it more difficult to eliminate these unnecessary costs to business and taxpayers, and improve productivity and service delivery in the rail system.

Recommendations

11.9 *In order to drive efficiency through competition, Queensland Rail's track operations should be separated from rail service operations, which would then be provided by separate commercial providers. Consideration of the appropriate means of promoting competition in service delivery, whether by the private sector or incorporated entities (under the Government Owned Corporations Act) is also necessary. Private sector involvement in the industry would be enhanced through third party access across the entire network on a non-discriminatory basis, franchising (eg some rural and urban services), direct competition (eg in workshops), complementary investment, or the sale of assets.*

11.10 *Regulations which restrict traffic to either rail or road should be removed, and charges introduced which reflect the true costs of each sector, provided that environmental, safety and public amenity levels can be maintained.*

11.11 *Upon development of detailed community service obligation contracts, the nexus between community service obligation payments to Queensland Rail and distributions of dividends and tax equivalents from Queensland Rail should be discontinued.*

11.12 *Welfare concessions should be reviewed to ensure these meet genuine social needs. Concessions should be provided by vouchers for any mode of travel to a limited value per annum per entitled person.*

Ports

Key Points

Queensland's ports have only recently been corporatised. Though it is too early to assess the full benefit of this reform a number of further initiatives are warranted.

Findings

- *Queensland's eight port corporations make a positive contribution to the States' finances, although rates of return on port assets are quite low.*
- *Some ports are involved in non-core activities such as airports, stevedoring and city development. Boards should focus on their core business activity and the return they provide to their shareholders. This will increase their contribution to overall State development by provision of low cost services to port users.*
- *Many port activities are privately managed with port authorities primarily performing a landlord function. Further private sector management and ownership of ports and particularly non-core assets should enhance performance.*

11.16 Structure of Ports

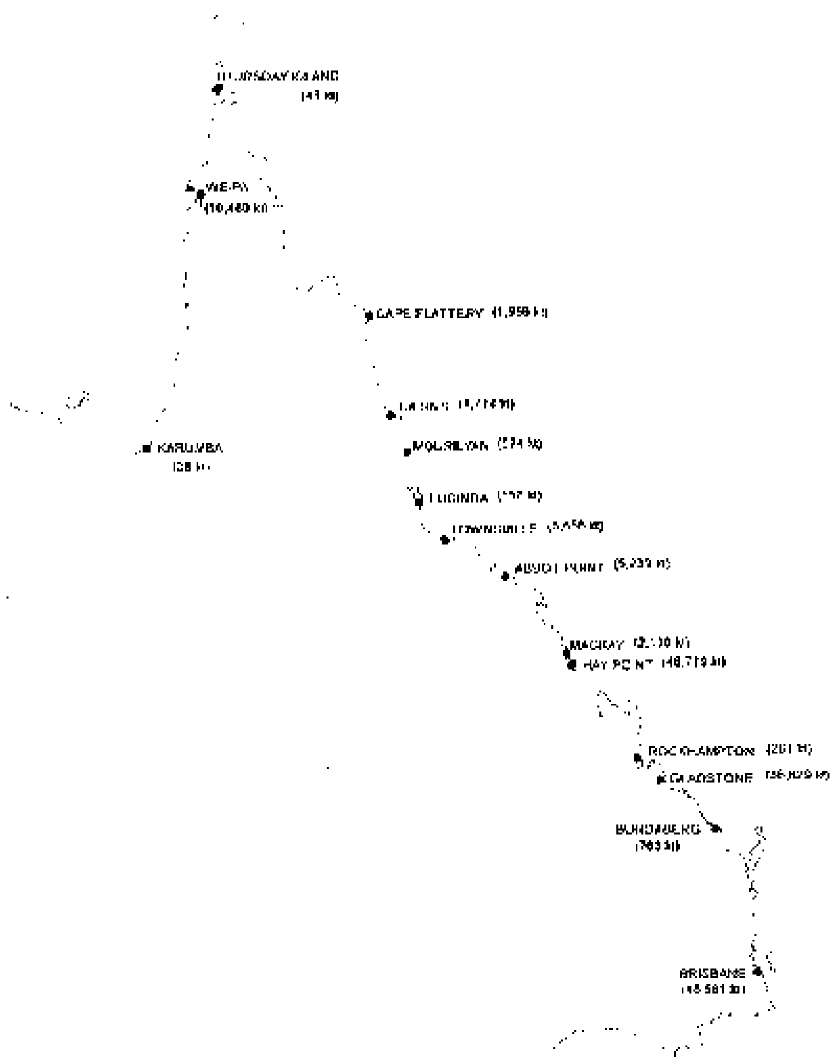
Key Points

- *Ports operate as Government Owned Corporations, in a predominantly landlord capacity with many activities in the ports undertaken by the private sector.*
- *Some ports are involved in substantial non-port activity.*

At present, Queensland's port infrastructure consists of 14 trading ports and 2 community ports. These ports are administered by 8 port authorities. The ports of Brisbane, Bundaberg, Gladstone, Rockhampton, Mackay, Townsville, and Cairns are each managed by a single port authority, whilst the Ports Corporation of Queensland administers 7 trading ports, 2 community ports and 5 non-trading ports. There are approximately 970 workers employed directly by the eight port authorities. The location, major commodities, and type of ownership for each of these ports is set out in Tables 11.3 and 11.4.

Map 11.2

Major Queensland Ports and Total Trade Throughput, 1994-95



Source: Queensland Government Statistician's Office

Table 11.3

Ports Corporation of Queensland Ports

Port	Location	Major commodities	Private Operator
Abbot Point	North of Bowen	Coal	Yes
Cape Flattery	North of Cairns	Silica sand	Yes
Hay Point	South of Mackay	Coal	Yes
Karumba	Norman River	Petroleum, live cattle, fishery products	No
Lucinda	North of Townsville	Sugar	Yes
Mourilyan	South of Cairns	Sugar	Yes
Thursday Island	Thursday & Horn Island	Community port	No
Weipa	Embley River	Bauxite	Yes

Source: Queensland Department of Transport.

Table 11.4

Regional Port Corporations

Port	Major Commodities
Brisbane	Bulk commodities, car imports, containerised cargo and other products
Bundaberg	Sugar
Gladstone	Coal, alumina, caustic soda, petroleum products, cement and aluminium
Alma (Rockhampton)	Salt, ammonium nitrate and explosives
Mackay	Sugar, grain, petroleum, bulk fertilisers and iron concentrates
Townsville	Sugar, zinc concentrates, containers, fuel and nickel ore
Cairns	Sugar, molasses, petroleum and containers

Source: Queensland Department of Transport

The Queensland port system's total throughput in 1994-95 was approximately 133 million tonnes. This represents an increase of approximately 8.7 per cent over the previous financial year, with exports up by approximately 7.8 million tonnes (7.9 per cent) and imports up by approximately 2.8 million tonnes (12.1 per cent). By the year 2000, the port system is expected to handle 172 million tonnes of cargo, a growth rate of 5.5 per cent per annum.

Due to locational aspects, most port government owned corporations are characterised by some form of regional monopoly in the supply of port access. Competition between authorities is generally limited to attracting new trade, particularly where port users have options to use a combination of road, rail and port transport. Ports have also been exposed to competition from other modes of transport.

The port government owned corporations role is very much focused on providing appropriate infrastructure to deliver competitively priced services in a timely manner. Many actively market the advantages of their ports to potential customers.

While some port authorities in Queensland carry out additional activities, they closely follow the "landlord" model which involves port authorities providing land and other basic infrastructure. Notable exceptions include the ownership and management of local airports by the Cairns and Mackay port authorities, the stevedoring activities undertaken by the Gladstone Port Authority and city development in Cairns.

Port authorities operate principally under the provisions of the *Government Owned Corporations Act 1993* and the *Transport Infrastructure Act 1994*. The legislation requires and enables port authorities to operate as commercial entities. This legislative regime has enabled the Queensland Government to retain ownership of port authorities through the shareholding Ministers (Treasurer and Minister for Transport and Main Roads) and to set the overall strategic direction. Each port authority has a Board of Directors who report to the Shareholding Ministers. Year by year outcomes are defined in the government owned corporation's annual Statement of Corporate Intent. Substantial reforms have occurred to date including:

- review of activities and land holdings and adoption of the preferred 'landlord' model;
- separation of regulatory from commercial operations;
- establishment of 'hurdle' rates for assessing the viability of capital investment projects;
- dividend payments, set on after-tax profits, to be made each financial year;
- establishment of capital structure parameters such that debt levels do not exceed those of similar private sector entities,
- tax equivalents apply to all Port government owned corporations and are required to be paid each financial year from 1995-96; and
- government owned port corporations to abide by Queensland Port Pricing Principles, foremost of which is commercial pricing.

All port authorities are required to make commercial dividend payments to the State commencing with the first year of profit as a corporatised entity. Income tax equivalent payments were introduced for the 1995-96 financial year.

11.17 Performance of Ports

Key Points

- *Coal and sugar ports in Queensland are internationally competitive. Freight performance in Brisbane is improving to meet national best practice.*
- *Rates of return are quite low.*

Overall Performance

It is important to make a distinction between the operations of each port as a whole and the performance of the individual port corporations. Much of the measured performance of the port lies outside the control of the port corporation. For example, most port corporations are not directly responsible for moving the goods over the wharves.

A recent international benchmarking study by the Bureau of Industry Economics indicated that Queensland's coal and sugar export operations are highly efficient and compare favourably with competitors in Australia and overseas.

During the September 1995 quarter crane rates in Brisbane increased to 18.5 twenty foot equivalent units (twenty foot equivalent units, a standard shipping container) per hour, the first increase after four consecutive declines. In Sydney, the crane rate increased to 19.3 twenty foot equivalent units per hour. Melbourne's crane rate rose slightly to 19.8 twenty foot equivalent units per hour. In Adelaide, the crane rate increased to 20.9 twenty foot equivalent units per hour.

A comparison of performance in several Australian and New Zealand container ports on ship based charges and stevedoring indicated that the charges are generally lower at New Zealand ports. The reform agenda implemented for New Zealand ports in the late 1980s has resulted insignificant productivity gains for the industry. Staffing numbers at some major ports have fallen by around 40 per cent, while ship turn-around times are now running at about a third of what they were in 1989. It has been suggested that the ability of the port management to capture the benefits of the labour market reforms has been enhanced by private ownership. Improved labour productivity has led to greater infrastructure investment.

The New Zealand experience suggests that a ports privatisation agenda for Queensland would need to be considered in the context of the broader issue of waterfront labour reform. This industrial relations matter is largely within the province of the Commonwealth rather than the States, given Commonwealth Industrial Relations Commission coverage of most port workers.

Financial Performance

In making an assessment of port corporations performance, it is necessary to be aware that three port authorities have been corporatised for just under 24 months and the remainder just under 12 months. Furthermore all have recently undergone asset revaluation. The impact of the asset revaluation has in some cases significantly increased the size of port corporation asset bases, resulting in markedly increased depreciation expenses and correspondingly low accounting-based rates of return.

The ports' actual financial performance for 1994-95 and target performance for 1995-96 is listed in Table 11.5.

Table 11.5

Financial Performance of Ports

Port Corporation	1994-95 Actual		1995-96 Target	
	Net Operating Profit ($'000)	Accounting Rate of Return (per cent)	Net Operating Profit ($'000)	Accounting Rate of Return (per cent)
Bundaberg	822	5.2	(333)	0.4
Rockhampton	237	7.6	(111)	0.6
Mackay	1,468	1.8	909	1.2
Townsville	3,927	4.4	2,118	3.2
Cairns	16,871	7.8	(3,728)	0.9
Gladstone	15,057	5.3	16,600	4.8
Brisbane	34,045	9.8	14,408	5.6
Ports Corporation of Queensland	**8,331**	**2.5**	(2,074)	**0.4**

Source: Queensland Department of Transport.

The port authorities are required to apply a set of pricing principles. These principles require prices to be at least the avoidable cost of service provision (taking into account the full range of costs attributable to the service). Any cross-subsidisation is to be transparent. Ministerial reserve powers currently apply to prevent any monopoly pricing.

All port authority proposed infrastructure over $0.5 million has to undergo financial evaluation for consideration at Board level, while major infrastructure proposals have to be submitted for approval of Shareholding Ministers.

11.18 Future Needs

Key Points

- *Substantial future investment is envisaged in ports. Such expenditure needs to meet rigorous investment criteria.*

If the State is to capitalise and improve trade and development opportunities, and comply with the needs of the boating public, then expenditure on capital works to upgrade and expand port and maritime transport facilities is essential. Whenever practicable, existing port facilities will be preferred to the creation of new facilities. Forecast expenditure is detailed in table 11.6 below.

Table 11.6

Forecast Capital Works Expenditure - Port Corporations ($ million)

Port	1996-97	1997-98	1998-99
Brisbane	22.6	14.0	7.1
Townsville	5.0	10.0	10.0
Cairns	55.0	13.5	11.5
Gladstone	6.0	n.a.	n.a.
Ports Corporation of Queensland	**60.0**	**80.0**	**15.0**

Source: Queensland Department of Transport.

Note: n.a. Not available

11.19 Strategic Directions

Key Points

- *A critical evaluation of the following activities is warranted: the pace of corporatisation, possibilities for amalgamation, competition in the delivery of non-core activities, the possible privatisation of core and non-core assets, and the capital structure of corporations.*
- *The membership of boards needs to be reassessed to ensure commercial skills and experience are available and focused on core port activities.*

Industry Structure

Although only recently corporatised, the existing structure of the port authorities has the potential for further restructuring. Specific areas of potential improvement include: rationalising and amalgamating some of the responsibilities to improve management efficiencies, alteration of capital structures; and, reorientation of the focus of activities towards core activities. Port authorities should not force the port users to utilise port authority provided services (which may include stevedoring).

Most significant areas of non-core activity have been subjected to business unit reporting. Nonetheless, these business units could be separated from the Port government owned corporations and eventually sold to private interests. The major non-core business units for the Queensland Ports include:

- Cairns and Mackay Airports;
- Gladstone Port Authority stevedoring activities;
- various boat harbours and marinas for small craft; and
- Cairns city port development.

In addition, the Ports Corporation of Queensland operates a number of regional ports. These include:

- Hay Point (Dalrymple Bay Coal Terminal)—major exporter of coal from central Queensland; subject to recent capital expansion.
- Abbott Point—coal exporting terminal associated with the Newlands-Collinsville mines; no significant growth in recent years.
- Mourilyan—sugar terminal south of Cairns.
- Lucinda—sugar terminal north of Townsville.
- Cape Flattery—exporter of silica sand and other minerals.
- Weipa—exporter of Bauxite for Comalco and other bulk containers.
- Karumba—recent commitment to provide minerals exports; cattle exports.
- Thursday Island—community port in Torres Strait.
- Quintell Beach—community port in Northern Queensland.

It may be possible to gain efficiencies in rationalising some of the smaller port government owned corporations. For example, Bundaberg Port Authority and Rockhampton Port Authority are small operations and overheads could be reduced by amalgamating them with Gladstone Port Authority. Mackay Port Authority could be amalgamated into the Ports Corporation of Queensland. Alternatively Ports Corporation of Queensland could take responsibility for these ports.

Accountability

Another generic area of reform is the improved functioning of port boards. In this regard, representation of port boards should focus on commercial skills and experience in business activities. It is not essential that all board members reside close to the port or have port expertise.

Links to local authorities may indeed distort the objective of port authorities towards meeting unrelated goals and objectives. The cost implications of related decisions are either passed onto port users or carried by the public in terms of uneconomic returns to capital invested.

Privatisation

There are no compelling reasons why the ports and non-core businesses should remain in government ownership when viewed from an overall state development perspective. If sold it is possible funds would become available for other purposes. Alternatively additional revenue could be made available to government through a review of the level of equity of individual ports.

Privatisation would provide an opportunity for key facility users to participate in the ownership and management of some of the facilities to their advantage. As ports are not subject to the same degree of market contestability, prices oversight would be essential.

As with all privatisation programs a clear statement of objectives would be required. Other issues requiring attention would include the status of channels, planning powers over port lands; the effect on port land tenure; the appropriate structure of the industry; and, competition between ports.

Pilotage and Conservancy

In 1992 the Government received a number of requests from industry to review the service delivery policy and pricing policies relating to pilotage and conservancy (provision of navigation aids) in the State. Currently, these are provided by Queensland Transport employees, except for the Port of Brisbane where the service delivery function is performed by a private company, Brisbane Marine Pilots Proprietary Limited. The Government also collects all revenues in the State from the provision of pilotage and conservancy services.

A discussion paper assessed four alternatives service delivery options which included delivery of the service by private enterprise, port authority, Government and a combined operation that included elements of both Government and private enterprise. The service delivery options considered in the discussion paper were assessed against criteria such as safety, responsiveness, asset management, monopoly control measures and industrial acceptance. Provisions of pilotage and conservancy services was considered the most favourable option as it provided economies of scope and scale in the provision of both pilotage and conservancy, it would have a high level of industrial acceptance compared with the other options proposed and, was bound legislatively to comply with the safety and responsiveness criteria.

At the very least, the provision of pilotage and conservancy services by the private sector should be market tested.

Airports

While airports constitute a non-core (sea) port asset, in some cases there are a number of key related issues.

State wide and regional planning with respect to aviation infrastructure requirements and the interrelationship between airports and surrounding areas has been very limited in Queensland to date. As the Commonwealth Government moves to sell Federal Airports Corporation Airports and it becomes clear that many local governments in Queensland are unlikely to adequately plan for and fund future airport growth, an increasing role for the State is foreshadowed.

There are currently significant issues emerging which will require State involvement in aviation planning processes. These issues include:

- the potential for unnecessary duplication (eg airports in the Wide Bay-Burnett region and in the Whitsundays-Mackay area);
- infrastructure requirements to meet future growth (eg Toowoomba, Cairns-Atherton Tablelands, general aviation requirements in south east Queensland, Gladstone); and
- the facilitation of aviation dependant industries and intermodal distribution functions (eg within Brisbane Airport environs).

In addition the State funds air services to remote locations and in certain places, airport rehabilitation. However, the State's role in determining the appropriate standards for airports and the most efficient means of service delivery has not been definitive in such locations. For example, future public investment in airports in the Torres Strait region needs to be assessed against the costs of possible subsidised provision of rotary wing, as opposed to fixed wing, services.

It is recognised that air safety remains a Commonwealth responsibility. However, the State should actively monitor to ensure that the adverse impacts of airports and associated services are acceptable.

To address these issues Queensland Transport should prepare a Statewide aviation infrastructure and services plan. Whilst the Commission recommends an increased involvement of the State in aviation planning, there is no need for the State to retain ownership of airports (eg Mackay and Cairns) or to fund future airports.

Finance

The Port of Brisbane, with assets around the value of $400 million, currently carries no significant long term debt. This is not the case with the other three major Ports - Gladstone, Ports Corporation of Queensland and Cairns. Other than providing a lower-cost source of funds, debt is a discipline on management in that it limits the funds available to the discretion of management. As a means of improving its performance, the Government could conduct a capital structure review of the ports.

Recommendation

11.13 The Government should, in respect of its ports corporations:

- *evaluate non-core activities such as airports, stevedoring and city developments with a view to enhancing competition in their delivery, and selling these assets;*
- *evaluate the ownership of airports in the context of a Statewide aviation infrastructure and services plan;*
- *assess the opportunities that may exist for rationalisation and amalgamation of ports and their activities;*
- *assess board representation to ensure that appropriate commercial expertise is available; and*
- *examine the privatisation of ports (and pilotage and conservancy services), and their capital structure to determine the relative merits of them remaining publicly owned.*

Chapter Twelve

Energy and Water

Key Points

Further reform of Queensland's energy and water sectors is essential to promote Queensland's international competitiveness, sustain investment and improve the State's budgetary position.

Commitment to the Council of Australian Governments' reform agenda, and greater private sector involvement in electricity and water services is necessary for the attainment of these goals. Reform will increase gross state product by about $1.2 billion (including 1900 jobs). Additional beneficial results can be expected if the reforms facilitate major new projects.

Agriculture, mining and value added processing make significant contributions to the Queensland economy and their competitiveness is very dependent upon internationally competitive inputs—such as electricity, gas and water (and transport). Electricity accounts for up to 30 per cent of the cost of some activities (eg aluminum smelting).

Queensland's ability to offer nationally competitive prices to individual industrial customers is constrained by the use of standard tariffs and cross-subsidies. The industry operates below the levels of efficiency attainable by US investor owned utilities. Privatisation and structural reform of the industry will ensure competition, lock in anticipated benefits and provide substantial investment funds (about $12.5 billion) for the State.

Prices of gas are high and current proven reserves are insufficient to meet prospective new demand. Existing industry and prospects for new projects are impeded by these constraints. Queensland will be dependent on south west Queensland for natural gas with substantial areas still held by one group of explorers and producers. Competition is largely absent in exploration, production, processing, reticulation and retailing and needs to be enhanced to reduce prices and increase the reliability and quantum of supply.

Increased demand for water and severe drought in recent years have put substantial pressure on the State's water supplies and on the social, environmental and economic systems which they sustain. The drought emphasises that water is one of the State's scarcest resources, is critical to its industry and should be appropriately managed. Substantial reform is required in the management, investment and pricing policies essential to improve resource availability, enhance the economic performance of related industries and dependent communities and, provide resources for further sustainable investment in water supply.

Electricity

Findings

- *The Queensland Government's commitment to the national electricity market is necessary to improve the competitive performance of electricity supply particularly in respect of industrial pricing.*

- *The structure of the Queensland electricity industry is inconsistent with the requirements of the national electricity market to which the Queensland Government is a signatory. The lack of interconnection withholds significant cost savings, an interstate competitive stimulus and the means for future export of power.*

- *The value of the assets of the industry ($12.5 billion after debt retirement) could be re-directed to better use by the State.*

- *Approaches to regional development and to attracting industry based upon suboptimal plant location and premature investment in infrastructure can build permanent cost disadvantages into the electricity sector. Industry development is best promoted by competitive electricity prices. Social objectives can be achieved by the use of transparent community service obligations.*

Recommendations

12.1 *A detailed electricity industry reform strategy should be developed, consistent with the national electricity market agreements. In particular, that strategy should give effect to the need for:*

- *the industry to be restructured to allow the maximum possible degree of competition; and*

- *selling generation, transmission and distribution assets to the private sector.*

12.2 *The Government should establish a special purpose taskforce to implement the above recommendations and in particular:*

- *manage the preparation of the industry for sale;*

- *establish the framework to renegotiate long-term contracts which limit the effective operation of the market;*

- *establish interconnections with the national grid; and*

- *review the means of achieving other economic and social objectives, including the establishment of transparent community service obligations.*

12.3 *Derogations from the national electricity market code by Queensland should be minimised. Specific arrangements with the Gladstone Power Station should be made compatible with the operation of a competitive marketplace. Distortions to competition resulting from long-term contractual undertakings also need to be restructured to facilitate the effective operation of competitive markets.*

12.4 *The regulation of competition in electricity should fall within the purview of the Australian Competition and Consumer Commission. If the Australian Competition and Consumer Commission is unable to meet the necessary requirements during the reform phase, this responsibility could be assigned to a (temporary) Queensland Competition Authority operating only until the national market is established.*

Gas

Findings

- *The Queensland price for gas is high relative to interstate (about twice that of Victoria) and overseas markets, and detracts from the cost competitiveness of existing business and industrial users.*
- *There exists significant potential for demand to increase, with many new major industrial users of gas identified, and strong growth in demand in some regions. This growth will be constrained by shortages in supply.*
- *Proven reserves are constrained by lack of competition. Attention is required to enhance intra and inter basin competition by increasing exploration and production, developing coal seam methane, and accessing new fields.*
- *A range of third party access issues relating to transmission, processing and distribution (and related franchise matters) require resolution to promote future infrastructure interconnection and competition.*

Recommendations

12.5 *A Queensland gas development strategy should be developed, based on Council of Australian Governments principles and managed by a special purpose taskforce to:*

- *establish transparent and accountable authority-to-prospect allocations, tighten limits on the initial term and subsequent relinquishment of allocations, reduce of maximum areas, and introduce trading in tenements;*
- *repeal Section 43 of the Gas Act and remove distribution franchises;*

- *establish a uniform national third party access regime for gas (and petroleum), transmission and distribution pipelines and processing facilities; and*
- *facilitate project development.*

12.6 The regulation of competition in gas should fall within the purview of the Australian Competition and Consumer Commission. If the Australian Competition and Consumer Commission is unable to meet the necessary requirements during the reform phase, this responsibility could be assigned to a (temporary) Queensland Competition Authority.

Water

Findings

- *Prevailing pricing and institutional policies fail to encourage users to recognise the scarcity of water. They can also lead to premature augmentation of systems, environmental degradation, and fail to move water to its highest valued use. They also impose a substantial financial burden upon the Queensland community.*
- *Queensland has lagged behind other States in implementing institutional reforms. There have been few commercial imperatives in the planning, management or distribution of rural water. Performance monitoring in both urban and rural sectors is deficient and lacking in statutory support.*
- *In rural areas, revenue from the sale of water cannot sustain continued investment or refurbishment. Costs exceed revenues by about $24 million per annum. The $2.5 billion assets are earning a negative rate of return (costing about $150-200 million per annum). An unfunded backlog of refurbishment is valued at $40-60 million. A subsidy of $20 million annually is being provided to urban water users.*
- *Further capital infrastructure investments of $1.0 billion and the lifting of the urban water subsidy to $50 million per annum are being considered. To ensure that any further investments achieve desired community benefits appropriate institutional structures and accountabilities, investment and pricing policies and property rights need to be put into place. The benefits and impacts of market based policies are not well understood by the community.*

Recommendations

12.7 The Government should implement the reforms agreed by the Council of Australian Governments and, in particular:

- *designate responsibility for strategic planning, coordination of water resource regulation (except competition), resource management regulation, a communications strategy and performance standards to the Department of Natural Resources—performance monitoring needs to remain independent of the portfolio agency;*
- *establish a State Water Corporation to develop and manage rural bulk water supply infrastructure;*
- *establish separate private or local rural retail distribution agencies for rural reticulation;*
- *privatise or corporatise urban water providers and establish a bulk water supply corporation for south east Queensland;*
- *ensure that all bulk water, rural and urban services (not privatised) be delivered through contestable facility management contracts; and*
- *introduce tradeable water entitlements and progressively implement a regime of recovery of full costs with use of community service obligations only where defensible in the public interest.*

12.8 The regulation of competition in water should fall within the purview of the Australian Competition and Consumer Commission. If the Australian Competition and Consumer Commission is unable to meet the necessary requirements during the reform phase, this responsibility could be assigned to a (temporary) Queensland Competition Authority.

12.9 A special purpose taskforce should be established to review (in consultation with local government) the potential for efficiencies in regional distribution agencies.

12.10 Priorities for infrastructure development and enhancement identified by the current Water Infrastructure Taskforce should be submitted for consideration through normal Departmental assessment and the Government's overall capital budgeting process.

Chapter Twelve

Energy and Water

12.1 Introduction

Key Points

- ***International advances in the reform of the energy and water sectors represent a challenge to the (slower) pace of reform in Queensland and our international competitiveness.***
- ***Significant benefits and major new projects can reasonably be anticipated if the reform of these sectors is expedited.***
- ***Competitive markets, private sector ownership, commercial pricing and transparency are key ingredients of the reform process.***

World energy demand is projected to grow at an annual average rate of 2.1 per cent over the period to 2010.[1] Demand is expected to grow in the Organisation of Economic Cooperation and Development by 1.2 per cent per annum and at about double the global rate in the rest of the world. Energy efficiency and competitiveness are major objectives internationally.

Historically, electricity, natural gas and water services, were perceived as public goods and accorded special rights and privileges in exchange for the obligation to guarantee supply. In addition, some of these sectors were seen as vehicles for distributing economic activity between regions and towards preferred activities.

More recently, many governments have concluded that most of their objectives can be achieved simultaneously by establishing an integrated policy framework with a primary focus upon the achievement of economic efficiency and the effectiveness of service delivery. These goals are being met by greater reliance upon competitive markets, with appropriate social objectives met through transparent community service obligations and consumer protection charters.

For example, liberalisation of the structure, ownership and regulation of the electricity industry has occurred in the United States, the United Kingdom, Germany, Norway, Portugal, Finland, Sweden and New Zealand.

As part of the ongoing process of microeconomic reform in the Australian economy, the Council of Australian Governments has committed to reforming electricity, water and gas markets to ensure that trade is more open and competitive, and that prices more accurately

International Energy Agency (1995) *World Energy Outlook* reflect costs of supply. A number of policies have been introduced to address environmental concerns and to improve energy efficiency.

The beneficial effects of some of the policy changes have already started to appear. For example, energy efficiency in the economy has improved in recent years. Prices of electricity are coming down and reliability of supply is increasing. Major new gas pipelines have been built or proposed, and there has been a significant increase in private sector involvement in the provision of power. Cogeneration projects are underway. The need for bulk water supply augmentation has been delayed in the Hunter Valley and rural irrigation has been privatised in New South Wales with significant beneficial (including environmental) outcomes.

Whilst the electricity, gas and water sectors comprise only 2.1 per cent of Queensland's gross state product, these sectors represent 7.2 per cent of the intermediate inputs used by Queensland industries and, in the case of electricity account for up to 30 per cent of the cost of some enterprises (eg alumina refining). If the benefits of national competition policy assessed at the national level are realised in the Queensland economy, reform of the electricity, gas and water sectors will increase gross state product by 1.5 per cent (or $1.2 billion) and employment by 1900.[2] This does not include their impact upon the feasibility of significant major new projects and attendant benefits.

Those attendant benefits could be significant. There are thirteen planned new coal mining projects or expansions, and a further five potential new coal mining projects being actively investigated in the Bowen Basin. The coal industry's ability to exploit emerging economic opportunities depends significantly on the policy framework set by the Queensland Government. A similar situation relates to a number of resource processing projects involving the production of alumina, magnesium metal, ammonia, sodium cyanide, titanium pigment, copper and phosphate.

Price subsidies (for specific projects), the suboptimal location of plants, or bringing forward of infrastructure investment for which there has been no contracted demand, introduce long term cost disadvantages into the markets for energy, gas and water which have to be borne by either the taxpayer or other businesses. Enhanced competitiveness provides the best means of attracting new industries and, at the same time ensuring the growth of existing firms and minimising the costs to consumers.

The Queensland electricity supply industry, so well regarded throughout Australia, already has difficulty in achieving the industrial price flexibility resulting from the introduction of commercial freedoms in New South Wales and Victoria. It operates below standards of efficiency achievable by investor owned utilities in the United States. The industry is inappropriately structured, and the public assets could be put to better use in meeting other infrastructure and financial priorities.

The gas sector has matured substantially in terms of transportation networks and this offers the opportunity for further interfield competition. Competition is restricted in virtually every aspect of the industry. Prices of gas are the highest in Australia.

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2 Queensland Treasury.

Existing water pricing policies detract from the performance of the agricultural sector, create significant environmental costs and impose an unacceptable burden on the Queensland community in terms of taxes or lost opportunities for other needed services. Significant planned investments need to be prioritised and the policy framework within which they are placed improved to ensure they deliver the benefits envisaged.

Improved management, pricing and investment policies are crucial if sustained investment is to be achieved. The introduction of futures contracts, tradeable rights and third party access necessary for efficient markets also requires new commercial practices, skills, and perspectives. Ultimately a change (in electricity and water) from public ownership is essential.

Electricity

Key Points

Queensland's ability to offer nationally competitive prices to individual industrial customers is constrained by the use of standard tariffs and cross-subsidies within the tariff structure. In New South Wales and Victoria reform of the electricity market has allowed competition, and negotiation of prices with customers. The industry operates below the levels of efficiency attainable by United States investor owned utilities. Improved efficiency will result in lower prices to industry and consumers.

Responsiveness to demand, attention to cost, and proficiency in sophisticated financial and trading techniques will determine the industry's future competitiveness. Privatisation of the industry will ensure competition, lock in anticipated benefits, and provide ready access to necessary skills and substantial investment funds for the State.

Findings

- *The Queensland Government's commitment to the national electricity market is necessary to improve the competitive performance of electricity supply particularly in respect to industrial pricing.*

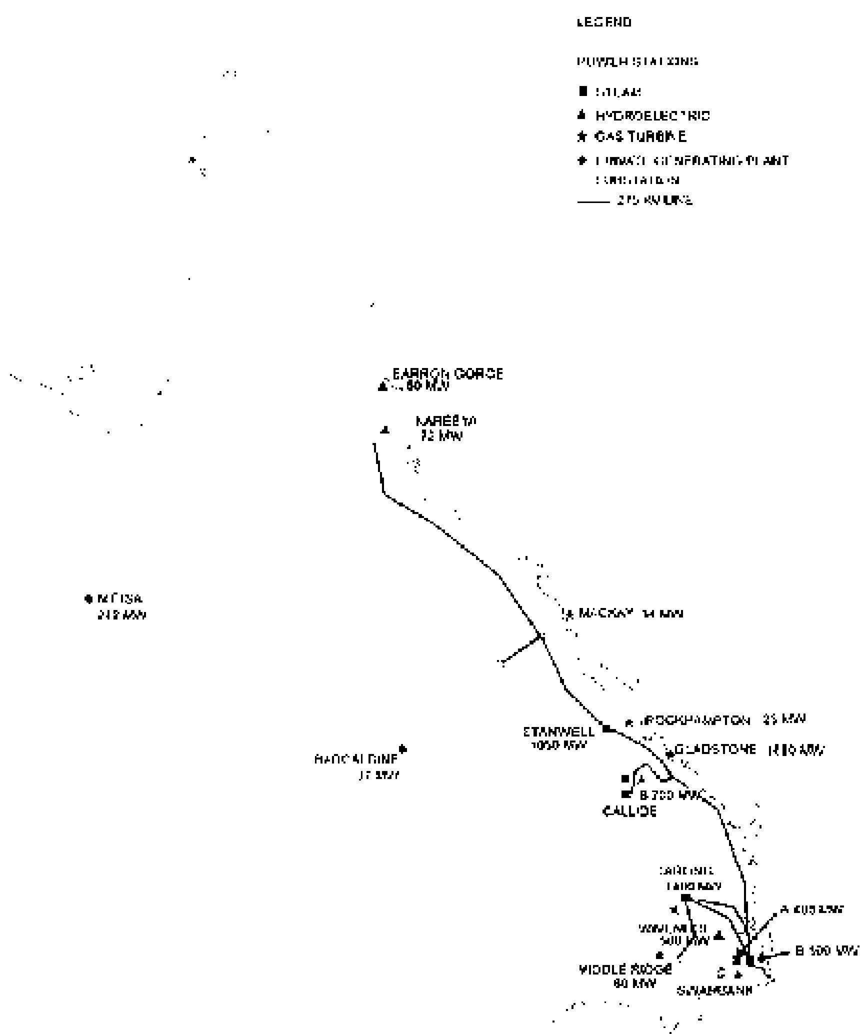
- *The structure of the Queensland electricity industry is inconsistent with the requirements of the national electricity market to which the Queensland Government is a signatory. The lack of interconnection withholds significant cost savings, an interstate competitive stimulus and the means for future export of power.*

- *The value of the assets of the industry ($12.5 billion after debt retirement) could be redirected to better use.*

- *Approaches to regional development and to attracting industry based upon suboptimal plant location and premature investment in infrastructure can build permanent cost disadvantages into the electricity sector. Overall industry development is best promoted by competitive electricity prices. Social objectives can be achieved by the use of transparent community service obligations.*

Map 12.1

Major Queensland Electricity Supply Industry Infrastructure, 1996



Source: Queensland Government Statistician's Office.

12.2 Structure of the Electricity Industry

Key Points

- *The existing Queensland electricity industry is inconsistent with requirements of the national electricity market to which it is a signatory. Current pricing arrangements impede the commercial flexibility of the electricity industry and are inhibiting Queensland's industrial attractiveness.*
- *Once the national electricity market is operational there is no need for the Queensland Energy Planning Council to overview supply planning. A special purpose taskforce will be required to manage the strategic reform process.*
- *National regulatory institutions should apply to the industry once it becomes part of the national electricity market (irrespective of the timing of interconnection).*
- *Demand management activities, customer performance standards and environmental matters will need to be addressed by retailers (requiring licensing). The functions and role of the Office of Energy Regulation and the Office of Energy Management will need to be reviewed.*

Strategic Policy

The Queensland Energy Planning Council has been recently established to coordinate a whole of Government approach on energy issues as they relate to the State Strategic Plan, Capital Works Program, State economic development generally, and intergovernmental relations.

Representation includes the departmental heads of the Department of the Premier and Cabinet (Chair), Department of Mines and Energy, Treasury and the Department of Economic Development and Trade. An Electricity Industry Subcommittee of the Council is convened by the Director-General of Mines and Energy.

Once the national electricity market is operational there is no need for the Queensland Energy Planning Council to overview supply planning. A special purpose taskforce will be required to manage the strategic reform process. The current structure of the industry is depicted in Figure 12.1.

Regulation

Under the existing Commonwealth/State agreements, each State is to retain responsibility for environmental matters, safety, and prices for franchise customers. An opportunity also exists to establish a State based regulator to oversee prices and regulate third party access if necessary.

Competition Regulation

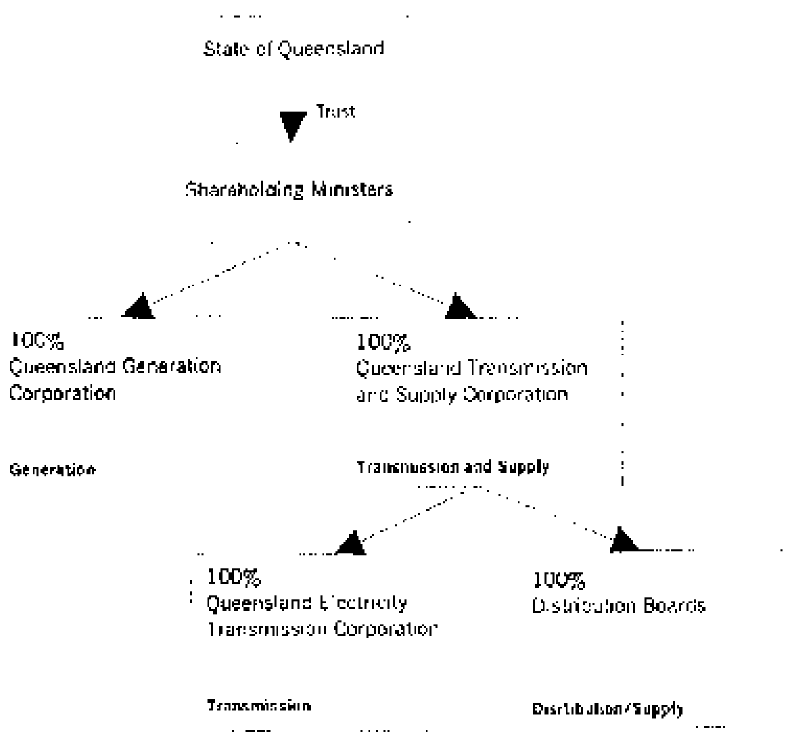
In addition to the roles of the National Electricity Market Management Company and National Electricity Code Administrator, the arrangements within the electricity industry are subject to the overview of the relevant institutions established for national competition policy.

These include:

- the National Competition Council which will make recommendations about access declarations and prices oversight; and
- the Australian Competition and Consumer Commission which is responsible for enforcement of competition issues, consumer protection, the Competition Code and makes determinations regarding access regime, and prices surveillance; and the Australian Competition Tribunal which hears appeals from authorisation decisions of the Commission, and on access related decisions.

Figure 12.1

Current Structure of Electricity Industry



Source: Queensland Commission of Audit.

Under the current arrangements the shareholding Ministers intervene in tariff adjustments. This has limited the commercial flexibility of the industry.

State based regulation is usually sought where some state ownership is retained. Under the proposals by this Commission, all electricity supply industry infrastructure will be owned by the private sector and is more amenable to national regulation. State based regulation in such an environment is unnecessary and may well create disadvantages due to increased compliance costs of doing business in Queensland thus impacting on the State's industrial attractiveness.

The resource limitations of the Australian Competition and Consumer Commission could limit its ability to provide effective regulation during the transition period. Accordingly, Queensland will need to resort to the use of the proposed time-limited Queensland Competition Authority until the national electricity market is operational (irrespective of the existence of interconnection).

Office of the Electricity Regulator

The (Queensland) Office of the Electricity Regulator has two broad areas of responsibility Electrical Safety and Industry Operations. It also has responsibilities in the administration of the system of authorisations of electricity industry participants, including the enforcement of conditions of authorisation, development and oversight of competitive electricity markets and, the resolution of disputes between customers and their suppliers.

Office of Energy Management

The Office of Energy Management oversees the initiatives announced in the February 1995 Energy Policy Statement—Energy Efficiency and Alternative Energy, which aims to encourage reduced energy demand through application of efficient energy technologies and use of alternative energy sources. The Office of Energy Management will also implement projects identified by the Queensland Sustainable Energy Advisory Group under the Alternative Energy Demonstration Program to demonstrate the practical application of alternative and sustainable energy technologies, particularly in remote area locations.

Service Delivery

The electricity supply industry was corporatised on 1 January 1995. Two government owned corporations were formed out of the previous Queensland Electricity Commission. The Queensland Transmission and Supply Corporation through eight subsidiary corporations has the transmission business (including system control and planning), and network and distribution assets (in the form of seven Electricity Distribution Boards). It contracts with independent power producers to distribute their supply. The transmission network transports power to the seven regional Electricity Corporations, the Gladstone aluminium smelter and alumina refinery, and the Tweed Shire of New South Wales.

The Queensland Generation Corporation has all the generation assets of the Queensland Electricity Commission. This comprises some 5,210 MW of the 6,927 MW of generating capacity in Queensland. The remaining capacity comprises the 1680 MW Gladstone power station, owned by a joint venture organised by Comalco Limited and the 37 MW Barcaldine gas fired power station owned by Energy Equity.

There are six coal-fired power stations, three hydro stations and six oil-fired gas turbine installations and a gas fired power station as detailed in Table 12.1.

Table 12.1

Queensland Power Stations

Location		Capacity (MW)	Commissioning Date
Coal:			
Callide 'B'	(AUSTA)	700	1987-89
Stanwell	(AUSTA)	1400	1993-96
Swanbank 'A'	(AUSTA)	408	1966-69
Swanbank 'B'	(AUSTA)	500	1970-73
Tarong	(AUSTA)	1400	1984-86
Gladstone	(NRG)	1680	1976-82
Hydro:			
Barron Gorge	(AUSTA)	60	1963
Kareeya	(AUSTA)	72	1957
Wivenhoe	(AUSTA)	500	1984
(Pumped storage)			
Oil Gas Turbines:			
Gas Turbines	(AUSTA)	170	Various Dates
Gas - Barcaldine	(Energy Equity)	37	1995
Committed Coal:			
Callide 'A'	(AUSTA)	120	1998
Collinsville	Transfield/NRG	150	1995

Source: Queensland Treasury

The primary source of energy for electricity remains coal (sufficient to cover 400 years production at the current level). Coal-fired generation provides over 98 per cent of current electricity production. A 500km pipeline from the south west Queensland gas fields will link with existing customers and will provide capacity for a range of new developments, potentially including electricity generation. A second pipeline proposed from south west Queensland to Mount Isa may facilitate the development of gas-fired electricity generation in north west Queensland.

Current Commonwealth/State Policy Directions

Queensland, New South Wales, Victoria, South Australia and the Australian Capital Territory agreed to the National Electricity Market Legislation Agreement in May 1996. The Agreement provides for the establishment of a national market by end 1999 which will ensure:

- a competitive market for electricity with customers able to choose which supplier (including generators, retailers and traders) to trade with;
- non-discriminatory access to the interconnected transmission and distribution network; and
- there are no discriminatory legislative or regulatory barriers to entry in generation or retail supply, or to the interstate and/or intrastate trading of electricity.

A National Electricity Market Management Company is to manage the system on a day to day basis, decide on the operation of nationally interconnected generators based on their bids, and maintain regional security. A National Electricity Code Administrator will administer and monitor compliance and enforce a Code of Conduct which sets out the rules of operation of the energy pool, technical parameters for operation in the interconnected grid and roles for system security.

Governments have also agreed to manage the transition to a competitive framework (by no later than 1999) through the use of so called vesting contracts and transitional regulatory arrangements.

Two broad markets are expected to develop. The first is the market for the physical supply of energy. The second will be the financial intermediaries market. Queensland's competitiveness will depend on how effectively it participates in both.

Other States

Inappropriate planning decisions have resulted in a significant oversupply of generating capacity in Victoria and New South Wales. This indicates the nature of the risk currently carried by consumers.

Victoria established five competing regionally based distribution businesses, five competing generation businesses, the Victorian Power Exchange to provide system security and administer operational, planning and trading functions, and Power Net Victoria to operate and maintain the transmission network. The distribution assets of the industry have been privatised and one power station (Yallourn) has also been sold. Further sales of assets anticipated.

In New South Wales, the high voltage transmission network is now operated by a regulated authority. The original 25 distributors have been amalgamated and reduced to six. The generation sector has been divided into three state owned corporations.

12.3 Performance Assessment of the Electricity Industry

Key Points

- *Queensland's ability to offer nationally competitive prices to individual industrial customers is constrained by the use of standard tariffs and cross-subsidies within the tariff structure. In New South Wales and Victoria reform of the electricity market has allowed competition, and negotiation of prices with customers.*
- *Of particular interest, our efficiency lags the performance of investor owned utilities in the United States.*
- *Monitoring of the industry's performance is deficient in respect of economic measures. Recent restructuring of the industry makes financial comparisons over time and between jurisdictions difficult.*

Price

For customers, price and reliability of service are the most critical aspects of electricity supply performance. The most recent independent information indicates that in terms of average industrial electricity prices, Australia had the ninth lowest observed prices[3] out of 25 countries. Within Australia, Queensland ranked third, behind Victoria and South Australia in industrial electricity prices.

The Commission notes industry submissions which indicate that there exists a lack of responsiveness in Queensland to individual company needs. In one case, the Queensland price of electricity for an international corporation was 30 per cent above its international weighted average price. Another has noted that in both New South Wales and Victoria, recent reforms have allowed negotiations of tariffs (below published rates) and the ability of users to "shop around" resulting in prices of up to 15 per cent below those in Queensland. Such lack of flexibility and cross-subsidies between consumer classes will seriously impede the industry's competitiveness and that of the State.

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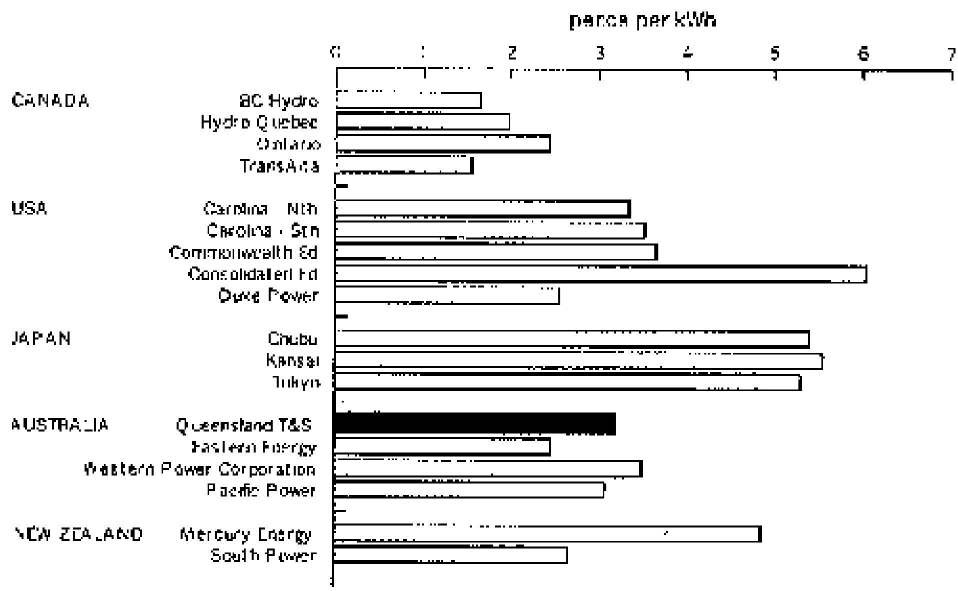
[3] Electricity Supply Association of Australia (1995) *International Electricity Prices*, Issue 22, January, p 37.

Figure 12.2

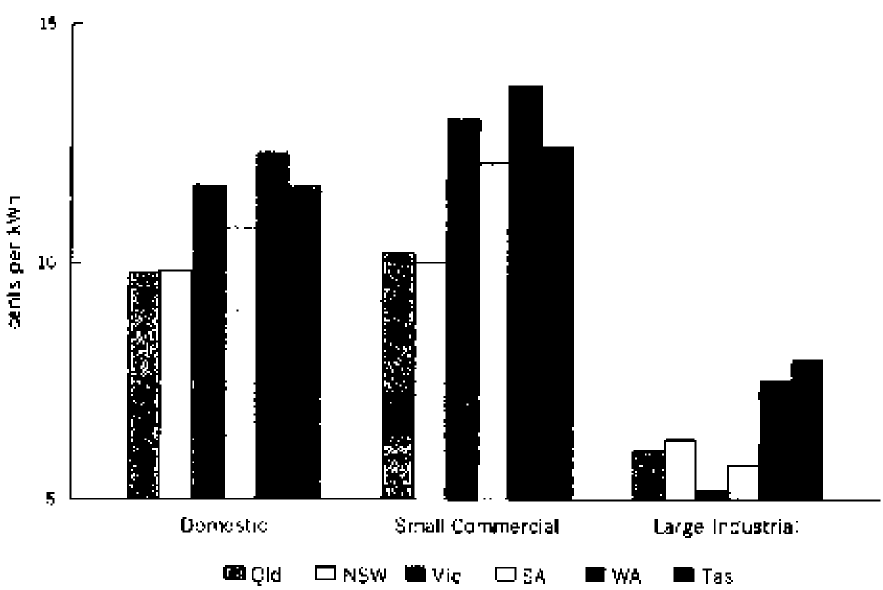
Average Industrial Electricity Prices, Selected countries, 1995



Source: Electricity Supply Association of Australia (1995) *International Electricity Prices*, Issue 22, January, p 37

Figure 12.3

Interstate Average Electricity Prices, Australia, April 1996



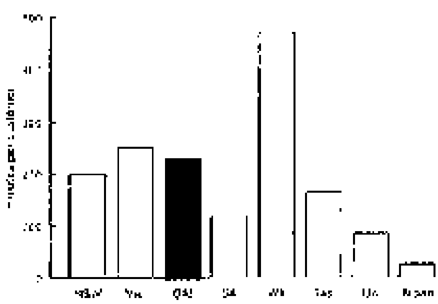
Source: Queensland Transmission and Supply Corporation

Reliability

The reliability of supply is measured in terms of the duration and frequency of interruptions to the electricity supply per customer. Australia has operated below international best practice but has continued to improve the reliability of its system. Queensland ranked fourth in Australia behind New South Wales, South Australia and Tasmania (and the United Kingdom and Japan) in terms of duration of disruption and third behind Victoria and Tasmania in terms of frequency (see Figures 12.4 and 12.5). A large part of this may be due to Queensland's dispersed distribution networks.

Figure 12.4

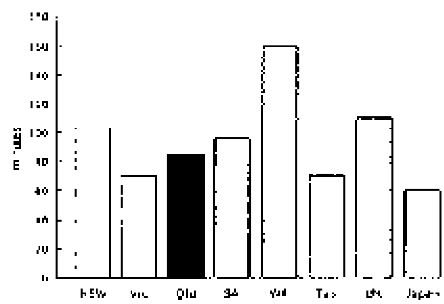
Average system outage duration, by Australian State and selected overseas countries, 1993-94



Sources: Bureau of Industry Economics (1995) *International Benchmarking Overview*, p 27.

Figure 12.5

Customer outage times, by Australian State and selected overseas countries, 1993-94



Sources: Bureau of Industry Economics (1995) *International Benchmarking Overview*, p 28.

Measures of Efficiency

The Queensland industry has generally been found to be a very good performer in terms of aggregate measures of efficiency by comparison with other Australian States, and indeed internationally. There is evidence, however, that further improvements are possible—in particular in allocative efficiency in generation and labour productivity in distribution.

Between 1990 and 1992, the Australian industry narrowed the total factor productivity gap relative to the average United States investor owned utilities from 29.2 per cent to 26.9 per cent with Queensland ranking as the best Australian performer between 1986 and 1992. Queensland had a productivity disadvantage of 16.6 per cent with the United States of America in 1992 (see Figures 12.6 and 12.7).[4]

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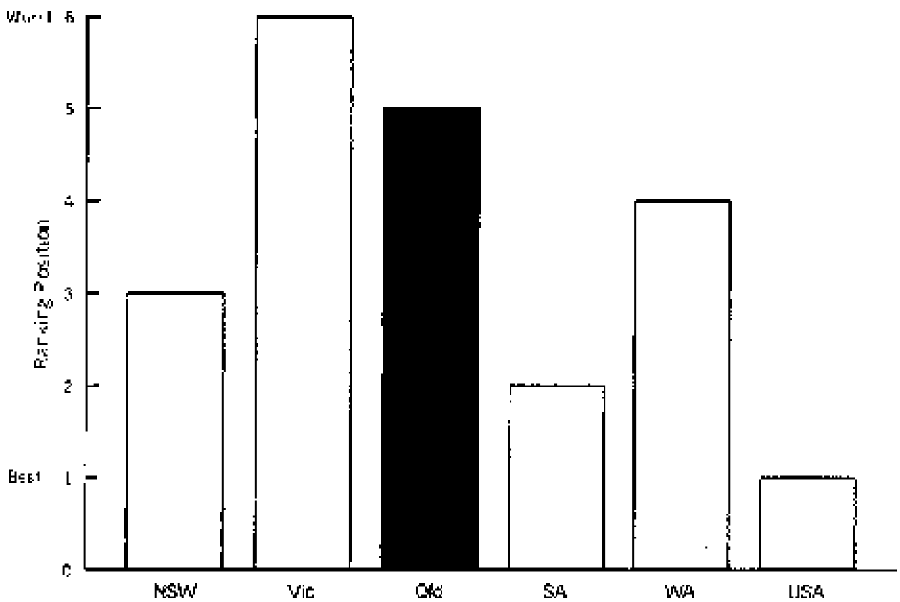
4 Bureau of Industry Economics (1994) *Electricity Update 1994*, Research Report 54, March, p xv

Figure 12.6

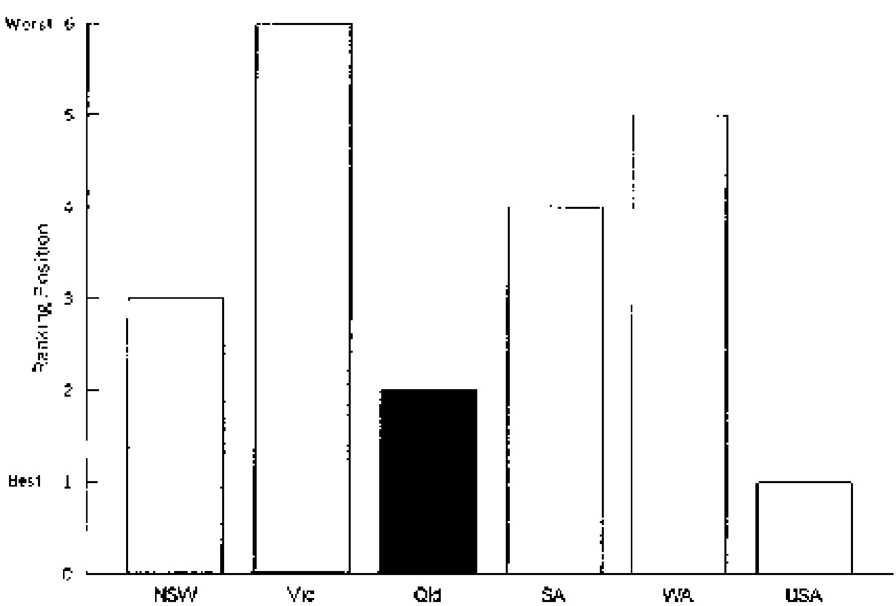
Multilateral Total Factor Productivity, Relative Best Ranking, 1985-86



Source: Bureau of Industry Economics (1994) *Electricity Update 1994*, Research Report 54, March, p 42.

Figure 12.7

Multilateral Total Factor Productivity, Relative Best Ranking, 1990-92



Source: Bureau of Industry Economics (1994) *Electricity Update 1994*, Research Report 54, March, p 42

Queensland's ranking relative to other States may be under threat due to:

- increased refurbishment expenditure in Queensland; and
- increased pace of reform and improved management practices in other States.

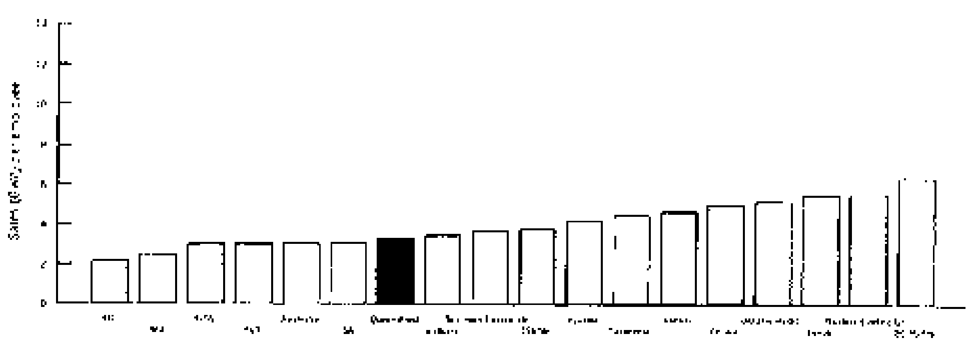
The Electricity Supply Association of Australia Limited, August 1993[5], also compared the aggregate performance of generation, transmission and distribution. It found that Queensland's generation plants had the highest total factor productivity for thermal generation in the period 1982 to 1991.

An application of data envelopment analysis affirmed the generation sector's high technical efficiency, but rated its allocative efficiency third behind Victoria and Western Australia, indicating further performance gains were feasible.[6]

The South East Queensland Electricity Board has been ranked internationally in the 'best performer' category in four of the twelve distribution technical subfunctions and four of the eight customer services subfunctions.[7] Despite significant restructuring since 1985, which has led to a 30 per cent reduction in the workforce, Queensland's labour productivity in the distribution sector continues to be lower than many of our international competitors (see Figure 12.8 below).

Figure 12.8

Electricity sales per employee for Australian States and selected international utilities, 1994



Sources: Bureau of Industry Economics (1995) *International Benchmarking Overview*, p 32.

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5 Electricity Supply Association of Australia Limited (1993) *Measuring the Efficiency of the Australian Electricity Supply Industry*.

6 Electricity Supply Association of Australia Limited (1994) *International Performance Measurement for the Australian Electricity Supply Industry 1990-91*

7 Utility Management Services Group.

Financial Performance

The main financial performance indicator used by the Queensland Generation Corporation and Queensland Transmission and Supply Corporation is the rate of return on total assets. In 1994-95 these were 9.9 per cent and 9.5 per cent respectively. The restructuring of the industry in the various states and the different accounting assumptions make valid comparisons between jurisdictions and over time difficult.

Profit after tax for the first six months of 1995-96 was $108.9 million and $111.6 million compared with budget forecasts of $107.9 million and $99.8 million for Queensland Transmission and Supply Corporation and Queensland Generation Corporation respectively. It is estimated that total dividend and tax equivalent payments by the corporations in 1995-96 will total $384 million. Both corporations are in a strong financial position with good cash flow.

Current Benchmarking Practices

To date, the Queensland Transmission and Supply Corporation and Queensland Generation Corporation have operated under Statements of Corporate Intent covering two separate reporting/planning periods, ie 1 January 1995 to 30 June 1995 and 1 July 1995 to 30 June 1996. Currently, both government owned corporations are in the process of formulating their Statements of Corporate Intent for 1996-97.

In the initial period of corporatisation few performance targets or benchmarks were specified in the Statements of Corporate Intent as the initial gearing levels had not been established. The only performance indicators set were the debt to equity ratio, distribution labour productivity, available plant capacity and progress on the implementation of enterprise bargaining agreements.

The second and current round of Statements of Corporate Intent include a number of additional performance indicators viz. return on assets and interest coverage ratio. While both are required to provide information on a broad range of financial and non-financial indicators, targets or target ranges have not been established for most of them. It is envisaged that a more rigorous regime will be introduced from 1996-97 when additional and more accurate, relevant and informative performance indicators will be introduced. Greater reference is required to relative economic performance.

12.4 Electricity Demand and Supply Options

Key Points

- ***Queensland represents the fastest growing market in Australia for energy and, on current trends, will overtake Victoria as Australia's second largest electricity producer by 2004.***

- ***Participation in the national market, including interconnection, is the preferred option by the Commission. In the absence of interconnection, vigorous competition on the basis of compliance with national electricity market principles and agreements should yield the best results.***
- ***Interconnection can provide significant cost savings, a competitive stimulus and a vehicle for interstate exports of power.***

Demand Forecasts

Queensland's demand for electricity is forecast to increase at an average annual rate of about 4.7 per cent to the year 2010, well above the level of other States.[a] Given the strong growth relative to other States, Queensland is set to overtake Victoria by 2004 and become Australia's second largest electricity producer. Queensland is the only jurisdiction preparing for significant augmentations of capacity in the near future.

Infrastructure Adequacy

Generation

The Future Supply Plan developed in 1995 provides the current basis for planning and contains proposals for future developments and demand side management measures.

After allowing for the impacts of additional demand side management and the renewable energy programs, some 200-300 MW of new capacity (peaking and intermediate) is to be required each year from 1998 through to 2002. The Queensland Transmission and Supply Corporation and the previous Queensland Government agreed on a program to meet specific needs of the system in three time periods - 1998-99, 2000-02 and post 2002.

Demand shortfalls anticipated in 1998 were to be met by recommissioning of the Collinsville and Callide A power stations. In 1999 and 2000, needs were to be met by the 'Eastlink' interconnection with New South Wales. As a consequence of its cancellation, Queensland Transmission and Supply Corporation was required to publicly seek bids from potential generators for 600 MW of new capacity to commence in 1999 and 2000.

In the period 2000-2002 some 440 MW of additional capacity was considered necessary. In the period from 2003, it was anticipated the system will require additional baseload generation in order to maintain a balanced mix of plant and provide the most cost effective supply.

There are no known constraints or major cost thresholds evident in the achievement of the current plan. Figure 12.9 depicts the demand supply senario for Queensland. Options exist for gas and coal fired plant and these will no doubt be evident in the tender assessment process.

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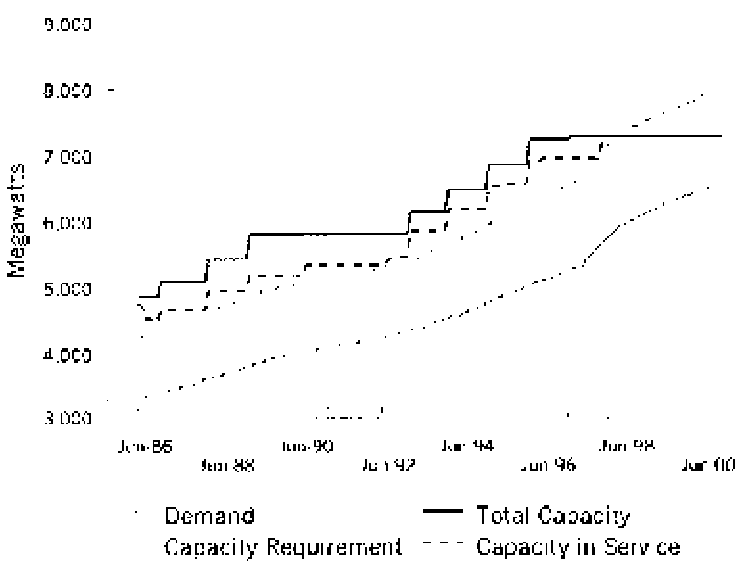
[a] Queensland Transmission and Supply Corporation.

Figure 12.9

Demand Supply Scenario, Queensland



Source: Queensland Transmission and Supply Corporation.

Transmission and Distribution

The Queensland Grid Code prescribes the process and timetable for planning by transmission entities such as Powerlink Queensland. A seven year plan for extension and augmentation of the transmission system is prepared from the Queensland Transmission and Supply Corporation load forecast and forecast of new generating capacity. This plan is the basis of Powerlink Queensland's five year capital expenditure forecast.

The 1996 transmission plan includes new or augmented connections for new loads, connections for new capacity, and augmentation of the shared network, mainly between central and north Queensland, and between central and south Queensland. Total capital costs of this program are estimated at $590 million by the year 2002.

The infrastructure required for the distribution sectors of the industry needs to cope with the growing consumption of electricity in the State. These extensions and reinforcements to the distribution system require capital investment of around $300 million per annum. Substantial refurbishment has been initiated in recent years.

Alternative Supply Options

Demand Management

The Queensland Transmission and Supply Corporation Future Supply Plan currently incorporates a demand side management target of some 650 MW reduction in peak demand. Only 380 MW can be anticipated to be met through off-peak and time-of-use tariffs leaving a balance of 270 MW.

The Department of Mines and Energy has implemented a ($12.3 million) program of demand side management schemes (such as the Hot Water Energy Efficiency Scheme ($6.5 million) to reduce peak demand by an additional 25 MW.

A preliminary analysis of the demand side management strategies was undertaken in February 1996. It revealed the need to increase marketing of the strategies, revise the electricity corporations 'Statements of Corporate Intent' to reflect the need to implement demand side management measures, achieve long lasting behavioural changes within industry and the community, and evaluate the allocation of rebate funds to ensure a suitable allocation of funds.

The Queensland Government has initiated an urgent review of demand side management strategies and alternative energy and associated programs for consideration by the Queensland Energy Planning Council.

Cogeneration and Renewables

Cogeneration projects, where electricity and process heat (eg steam) are produced together are being encouraged. The sugar industry currently provides 15 MW in the crushing season. The Queensland Transmission and Supply Corporation has contracted for 49 MW from 1998 and has agreed to take up to 95 MW. Other potential options include: mini-hydro systems; solar energy; wind energy; tides and waves; geothermal energy (a demonstration unit is operating in Birdsville); and, the extraction of gas from landfill sites (being examined by local government).

Because these developments are in their early stages and are small scale, any significant contribution to electricity supply from renewable and alternative energy sources, except for bagasse, is unlikely in the immediate future.

Increased Productivity

Improved Internal Efficiency

Following the establishment of the Queensland Transmission and Supply Corporation Group on 1 January 1995, action commenced to identify and implement opportunities for improvement of the Group's performance. The Rationalisation Project aims to reduce unnecessary duplication and eliminate unnecessary differences in design, construction and operation practices. Potential gains of $100 million per annum have been identified.

Interconnection

Interconnection with other power grids provides Queensland with several advantages including:

- receipt of potentially cost competitive power from current excess capacities of southern states;
- reducing the reserve plant margins required to maintain reliable supply;
- potential for sales of peak load power under some circumstances;
- an avenue for longer term exports of base load power; and
- the establishment of a source of competitive pressure on the Queensland industry (with consequent potential gains in innovation and efficiency).

Estimates of the cost advantage to Queensland vary between $150 million and $200 million per annum.

In considering the issue of Eastlink and future electricity supply, Cabinet recently decided Eastlink be rejected but that the possibility of interconnection continue to be assessed. Discussions have been initiated with the Commonwealth and New South Wales Governments. The Commission endorses early interconnection to achieve the envisaged benefits.

An Internal Market

A Queensland (internal) market consisting of competing generators and distributors could substitute for a national market or assist a phase in of the industry into a fully fledged national market. There are a number of variations that could occur under this option. The approach most likely to produce the highest efficiencies is that which maximises competitive pressure on the industry, and would involve separating generation to the maximum extent, removing distribution franchises and opening retailing to external entry.

Both Queensland Generation Corporation and Queensland Transmission and Supply Corporation will need to be examined structurally to create an internal market within Queensland. Queensland Transmission and Supply Corporation owns all the distribution companies structured on a noncompetitive regional franchise basis and has supply contracts with the independent power producers. Removal of these franchises would significantly reduce Queensland Transmission and Supply Corporation's market power. Queensland Generation Corporation is a near-monopoly generator (currently 75 per cent of the total generation in Queensland). These current structures and trading arrangements impose a number of constraints on competition.

For example:

- it is not possible to buy power from alternative distributors in Queensland (or interstate) as all are owned by Queensland Transmission and Supply Corporation;
- Queensland Transmission and Supply Corporation having the obligation to supply, has little alternative but to contract with Queensland Generation Corporation, because Queensland Generation Corporation controls the bulk of the existing generation plant and generation construction lead times mean that no alternative is usually available; and
- Queensland Generation Corporation's perceived market power, whether or not exercised, may discourage new entrants into the generation side of the industry, thus perpetuating the situation.

Similar concerns were considered by the New South Wales Government which requested the Industry Commission to investigate the industry structure in that State. The Industry Commission concluded that:

- If maintained as a single entity, Pacific Power was likely to have significant market power which could result in electricity prices being well above the levels expected if there were effective competition in generation. This would involve substantial social costs.
- The market power seemed inconsistent with the goals of the Competition Principles agreement and with the effective operation of a competitive national electricity market.
- Pacific Power could force an allocation of its own capacity onto the market, drive out existing competitors that are more efficient, and discourage entry of new more efficient existing capacity.

Queensland should restructure the industry to comply with its obligations under the Council of Australian Governments' national competition policy and national electricity market principles and agreements. Withdrawal from the national electricity market is not an economic option.

National Market

In essence, the market framework by 2000 will consist of a competitive interstate electricity market managed by the National Electricity Market Management Company operating under a Code of Conduct administered by the National Electricity Code Administrator. The major difference between this option and the most competitive internal market option is interconnection, the benefits of which have been previously noted. Regulatory efficiency is also more likely to be achieved under a national market.

The benefits of (interstate) competition, which would occur at the margin, often provide significant social gains. This has been evidenced in Australia by the restructuring of the telecommunications market.

12.5 Strategic Directions in Electricity Reform

Key Points

- *The Queensland Government's commitment to participation in the national electricity market is necessary to improve the competitive performance of electricity supply particularly in respect of industrial pricing.*
- *The Queensland Government needs to address the structure of the industry, ownership, the regulatory environment, and the matter of interconnection if the envisaged benefits are to be achieved.*
- *Queensland industry has not yet developed adequate experience with the pool pricing and settlement systems, commercial trading and contracting functions, and sophisticated financial transactions necessary for effective participation in the market.*
- *Early progress on these matters would provide Queensland with the ability to: secure the envisaged benefits of competition sooner; trade competitively upon interconnection; and, involve the private sector in applying commercial practices and developing innovative initiatives to enhance the industry's competitiveness.*

Industry Arrangements

Competitive Structures

Competition in generation offers benefits through increased contestability, allowing for 'customer shopping', and maximising transparency. This should result in savings in supply cost, revaluation of design standards, increased incentives for the minimisation of the costs of construction and operation of power stations. Prices have also generally fallen.

Competition in retail activities encourages suppliers to meet market requirements, and encourages innovation and responsiveness to changing market conditions. The major benefits accrue in the form of lower prices for electricity used and value added services such as portfolios of bulk supply contracts, appropriate mixes of spot purchases for particular buyers, energy efficiency and demand management systems. The Commission is aware of failures to emulate the responsiveness to industry proposals now evident in other States. This is a direct consequence of the structure and protocols of the existing regime.

The implications of the application of established principles of structural separation to the electricity industry appear in Box 12.1 below.

Box 12.1

Implications of Structural Separation Principles to the Queensland Electricity Industry

Separate the generating sector into viable production units to:

- promote price competition and technical efficiency; and
- encourage technical innovation and the opportunity for new entrants.

Separate transmission and distribution networks from retail to:

- focus regulation on the natural monopoly elements of the grid;
- limit the possibility of monopoly behaviour or energy prices;
- enable coordination between transmission and generation, and
- clearly establish grid pricing, technical requirement and operating rules

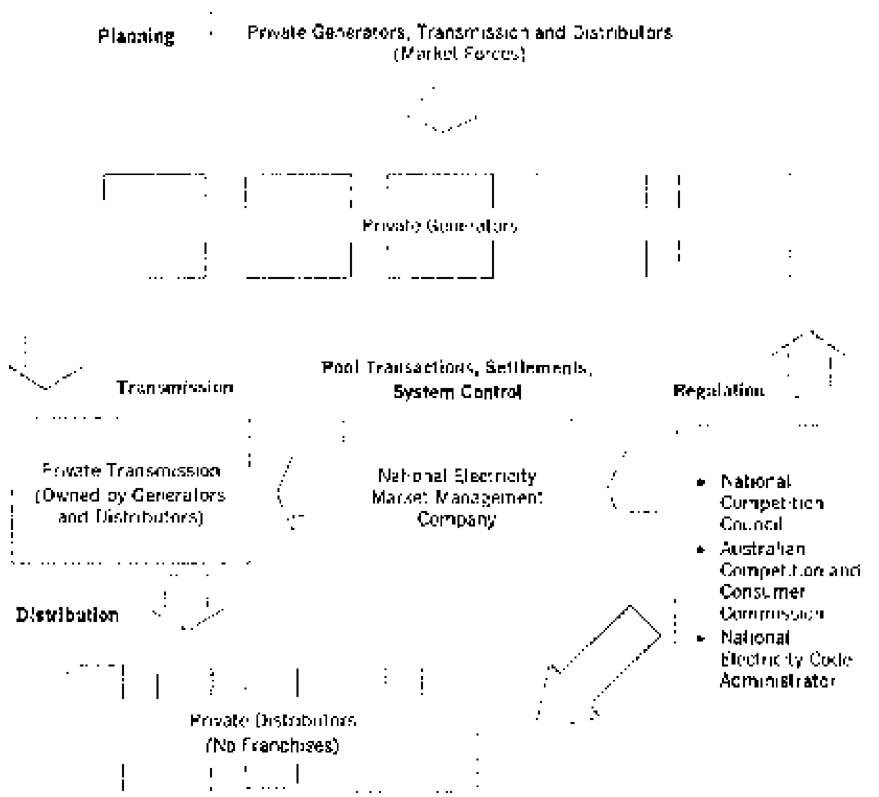
Separating and removing distribution franchises to:

- promote competition between existing players in sales;
- allow new entry and the development of brokering services; and
- allowing a direct market between generators and consumers.

Consideration is required of the structure which best accommodates the benefits of competition, minimises the settlements and transaction costs and still allows effective system planning and design, and management efficiencies, to ensure an appropriate initial structure for the industry. The greater the degree of competition, the less reliance is necessary on regulatory decision making. Such a task is beyond the resources of the Commission although a generic outline of the proposed structure appears below.

Figure 12.10

Proposed Electricity Industry Structure (after Transition Arrangements)



Source: Queensland Commission of Audit.

Privatisation

The World Bank (1994) has noted that the high costs and poor performance of state owned enterprises and the modest and fleeting results of reform efforts have turned many governments towards privatisation.[9] Privatisation of the electricity industry is not new. The United States, Britain and Japan have already privatised and many countries are in the process of doing so. The United States investor owned utilities scores consistently as the most efficient industry based on international benchmarking studies (for non-hydro power).

[9] Megginson, W.L., Nash, C.R., and Van Randenborgh, M. (1994) "The Financial and Operating Performance of Newly Privatised Firms: An International Empirical Analysis" in *Journal of Finance*, June, pp 403-452.

The primary objectives of the sale of assets have been identified by the World Bank[19] as, enhancing efficiency and introducing competition to enterprise or management. The Bank notes that maximising revenue should not be the primary consideration, overemphasising its role in developing capital markets can cause problems and, that short run equity distribution should not be pursued at the cost of managerial competence. Privatisation should also provide ready access to many of the skills necessary to promote the industry's success in both physical trading and financial markets.

Preliminary estimates undertaken for the Commission (see Table 12.2) indicate that on a financial basis alone, there exist substantial potential benefits for the Queensland community.

Table 12.2

Financial Benefits from Privatisation

Market Value of Assets	$16,450 million
Debts and Disposal Costs	$3,950 million
Residual	$12,500 million
Current Cost of Capital (9 per cent)	
Implied annual benefit	$1,125 million
Taxes (1996-97)	$55 million
Dividends (1996-97)	$329 million
NET GAIN per annum	**$741 million**

Source: ERM Consultants; Queensland Treasury

Privatisation options need to be considered and include sales by tender, and share issuance. For transmission the formation of a club consisting of generators and distributors would maximise downward cost pressures and remove the need for regulation.

Planning

In a decentralised system the market will determine energy prices and power station investments. The Queensland Energy Planning Council which is responsible for future energy planing needs to continue that role until Queensland's private industry participates in the national electricity market and assumes responsibility for this function.

Some centralised coordination for reasons of efficiency, security or commercial neutrality (while other States continue to own facilities) is required. Under the national electricity market, the National Electricity Market Management Company and National Electricity Code Administrator will be responsible for such activities. The Victorian Power Exchange was created as an interim measure to ensure power system security, market development, and

[19] Kikeri, S., Nellis, J., and Shirley, M. (1994) "Privatisation: Lessons from Market Economics" in *The World Bank Observer*, Vol 9 No 2, July, pp 241-272

operations and network planning. Such a structure also needs to be considered for Queensland until the national electricity market is fully operational.

In the longer term, the Government's role would be limited to identifying, articulating and producing forward estimates of possible energy network options, articulating options to stakeholders, and providing project approvals.

Restrictions on Competition

Agreements

For a typical coal mining operation, electricity represents the second highest infrastructure costs after accounting for 15 per cent to 20 per cent of total free on rail cash costs. Many of the mines have long term (eg up to 30 year) supply contracts with their local electricity boards which, unless they are made renegotiable, will effectively tie the mines to the Queensland Transmission and Supply Corporation for years to come. These need to be restructured to facilitate the effective operation of competitive markets.

Providing the users with the ability to renegotiate these long term contracts is a prerequisite to the introduction of a truly competitive electricity supply market in Queensland. A particular concern relates to the Gladstone Power Station. The Commission is concerned that arrangements be put in place with the Gladstone Power Station which ensure the competitive market works effectively. Further such long term arrangements should not be entered into until the final form of the industry is clear.

The Department of Mines and Energy is currently reviewing restrictive mining lease conditions which apply to some mines. These conditions relate to the amount of coal that can be exported and the availability of coal for domestic electricity generation. Restrictions on some mining leases have already been removed and others are under active review. Some of these restrictions have implications for supply contracts between coal companies and Queensland Generation Corporation.

Derogations

A range of derogations for the national electricity market are currently being considered. To maintain the effects of competition these should be minimised and specific arrangements with Gladstone Power Station made compatible with the operation of a competitive marketplace under the national electricity market. For example, in Victoria, purchases for Portland are traded through the State Electricity Commission of Victoria. Losses due to differences between market and contract prices are set against the proceeds from sale. This arrangement facilitates the operation of the market.

Development and Social Objectives

Economic Development

Governments as the traditional providers of energy have sought to ensure certainty for developers and redistribute growth into regional centres by providing incentives such as below cost pricing, the suboptimal (cost) location of plant and earlier than required construction of infrastructure. These approaches can build long standing, if not permanent, cost disadvantages into the electricity supply industry.

Social Objectives

There exist a range of activities which would not necessarily be undertaken by a fully commercial organisation. These include the maintenance of uniform pricing throughout the State and the provision of pensioner rebates. Uniform retail electricity tariffs are inconsistent with market operations in that they detract from the competitive pressures within the system by preventing users from facing the true cost of their consumption of electricity.

Accordingly, careful consideration is required as to the appropriate groups of users that need to benefit from these provisions and the most effective means by which these can be achieved, or their costs limited. For example, the benefits could be limited to residential customers or uniformity maintained only in transmission and distribution costs thus allowing for differences in time/fuel/transmission loss factors.

Community Service Obligations and Transparency

In general, overall development and social objectives will be best enhanced by ensuring competitively priced reliable power. If other developmental or social objectives are to be pursued then transparent subsidies or community service obligations would at least minimise their impact on other electricity users. It should be noted that there are alternative means of achieving such goals and not all social objectives need to be funded from Consolidated Revenue as they may be quite consistent with commercial objectives.

Regulation

Competition

Regulation is emerging as an important consideration for transmission pricing, transmission access and market trading arrangements. National regulators (National Electricity Code Administrator, Australian Competition and Consumer Commission) provide a common regulatory environment which minimises compliance costs. National grid management protocols are already being assessed the Australian Competition and Consumer Commission.

There is no evidence that the Queensland electricity sector requires additional oversight to that provided by the National Electricity Code Administrator, the National Grid Management

Council and the Australian Competition and Consumer Commission once the national electricity market is fully operational.

With privatisation, pressures for further change in the structure will emerge and a range of issues will arise in relation to potential mergers and acquisitions, including backward integration of retail business into generation, the movement of generators into retail, and cross holdings. Such issues can be addressed by the Australian Competition and Consumer Commission.

State based infrastructure for competition regulation will be required in the transition to national electricity market, only if the Australian Competition and Consumer Commission is limited in its ability to effectively address these issues, and *only* during that transition (See the Commission's views on the Queensland Competition Authority in Chapter Three).

Consumer Protection and Service Standards

The Victorian Office of the Regulator-General plays a key role in ensuring consumer protection, standards of service, access to supply and safety through a Customer Empowerment and Customer Standard which requires distribution companies to develop and publish customer guaranteed and overall performance standards, complaint handling, escalation and resolution policies, credit and disconnection policies.

A Supply and Sale Code sets minimum conditions under which distributors (who need to be licensed) sell electricity to franchise customers. Service standards with contestable customers are to be agreed upon by the retailer and the customer. An Electricity Industry Ombudsman is to monitor consumer issues, needs and concerns irrespective of ownership and will report to the Office of the Regulator-General. A Customer Consultative Committee will hear concerns and hear specific issues.

A simpler and less costly approach exists in New South Wales where retailers will be 'licensed' to comply with such standards. This approach seems to be more appropriate for Queensland but the most appropriate approach requires consideration.

Steering the Process

The Commission notes that current efforts within Queensland are limited to studies of the appropriate structure of the Queensland industry.

Yet the overall process of establishing a competitive market structure and subsequent privatisation is extremely complex and involves :

- establishment of appropriate goals and related initial market and regulatory structures;
- a number of processes in terms of preparing businesses for sale and managing the sale of the assets; and

- developing the support infrastructure, and market and management (including cash flow and risk) skills.

In support of these activities, various jurisdictions have emphasised the need to:

- establish appropriate risk criteria, management strategies and key success benchmarks to promote government and public management of the key issues;
- establish models to assess the options to ensure the envisaged benefits are feasible;
- undertake sufficient analysis and evaluation to ensure that the method of sale chosen and its timing will lead to the most cost effective result for the State;
- develop communication strategies to raise customer and industry awareness of the potential opportunities related to the emerging market; and
- establish transition strategies to allow market players to become familiar with its operation, to develop appropriate skills, and to manage cash flow and shareholders risks in the short term as the market develops.

In Victoria, scoping studies were commissioned using international external expertise, critiques of various aspects of the industry were commissioned and circulated for comment, workshops were organised on the draft recommendations involving key Ministers, Government officials, representatives from state bodies and independent consultants.

In New South Wales, special review groups were established under the auspices of independent external parties to establish the structures and processes to move to competitive markets. In New Zealand, a special taskforce was established.

A similar (well resourced) taskforce approach, is required in Queensland to ensure that the objectives of the reform of the industry, and privatisation, are not lost on the sectional interests of specific agencies and that the private sector is effectively consulted.

Recommendations

12.1 ***A detailed electricity industry reform strategy should be developed, consistent with the national electricity market agreements. In particular, that strategy should give effect to the need for:***

- ***the industry to be restructured to allow the maximum possible degree of competition; and***
- ***selling generation, transmission and distribution assets to the private sector.***

12.2 ***The Government should establish a special purpose taskforce to implement the above recommendations and in particular:***

- ***manage the preparation of the industry for sale;***

- *establish the framework to renegotiate long-term contracts which limit the effective operation of the market;*
- *establish interconnections with the national grid; and*
- *review the means of achieving other economic and social objectives, including the establishment of transparent community service obligations.*

12.3 ***Derogations from the national electricity market code by Queensland should be minimised. Specific arrangements with the Gladstone Power Station should be made compatible with the operation of a competitive marketplace. Distortions to competition resulting from long-term contractual undertakings also need to be restructured to facilitate the effective operation of competitive markets.***

12.4 ***The regulation of competition in electricity should fall within the purview of the Australian Competition and Consumer Commission. If the Australian Competition and Consumer Commission is unable to meet the necessary requirements during the reform phase, this responsibility could be assigned to a (temporary) Queensland Competition Authority operating only until the national market is established.***

Gas

Key Points

Prices of gas are high and current proven reserves are insufficient to meet envisaged new demand.

Queensland will be dependent on south west Queensland for natural gas, with substantive areas still held by one group of explorers and producers unless alternative sources are secured or intrafield competition enhanced. Recent outcomes in the application of the competitive bidding in the transportation sector underlines the benefits of competition.

Findings

- *The Queensland price for gas is high relative to interstate (about twice that of Victoria) and overseas markets, and detracts from the cost competitiveness of existing business and industrial users.*
- *There exists significant potential for demand to increase, with many new major industrial users of gas identified and strong regional demand growth. This growth will be constrained by shortages in supply.*
- *Proven reserves are constrained by lack of competition. Attention is required to enhance intra and inter basin competition by increasing exploration and production, developing coal seam methane, and accessing new fields .*
- *A range of third party access issues relating to transmission, processing and distribution (and related franchise matters) require resolution to promote future infrastructure interconnection and competition.*

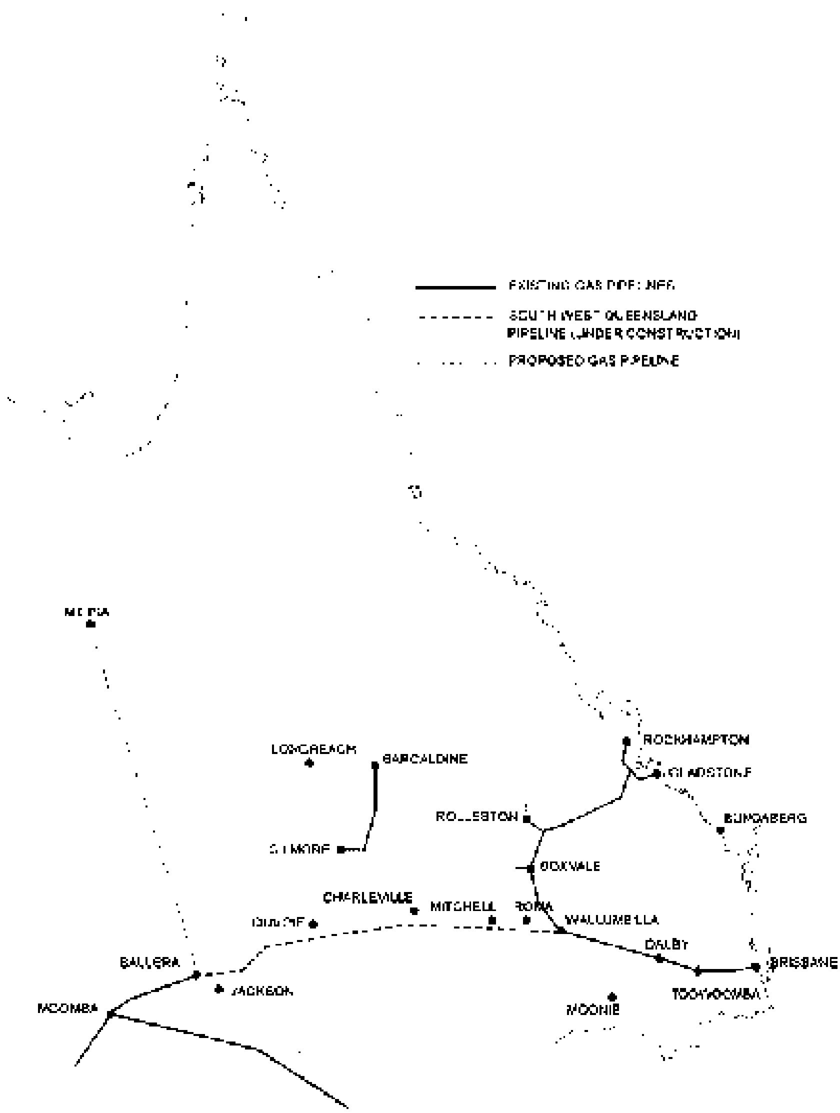
12.6 Structure of the Gas Industry

Key Points

- *Queensland will be dependent on south west Queensland for natural gas, with substantial areas still held by one group of explorers and producers, unless alternative sources are secured or intrafield competition enhanced.*
- *Prospects for an enhanced network of pipeline infrastructure are high with the imminent construction of pipelines to Wallumbilla and Mount Isa.*
- *Constraints to competition exist at exploration, production, processing, distribution and retail levels in the gas industry.*
- *A special purpose taskforce is required to drive the reform process.*

Map 12.2

Queensland Gas Pipeline Infrastructure, 1996



Source: Queensland Government Statistician's Office

Queensland

Gas Demand

Consumption of natural gas represents only 5 per cent of overall energy production in Queensland (well below the national average of 17 per cent). Table 12.3 outlines the current demand/supply situation. In addition, a number of consumers (eg Allgas) import liquefied petroleum gas for domestic and commercial use.

Table 12.3

The Current Queensland Gas Market (petajoules), 1993

			Annual Consumption		Operator	
Region	**Consumer**		**Santos**	**OCA**	**Bridge**	**CQNG***
South East Queensland	Incitec	11.2	3.20	4.80	3.20	..
	Allgas	7.0	4.25	.	2.75	
	GCQ	4.0	-	2.30	1.70	..
	Dalby/Roma	0.2	..			..
Central Queensland	Qal	14.0	.	..	.	14.00
	ICI	1.2	..	..	1.20	..
	QMAG	1.5	..	.	1.50	..
	GCQ	0.1	..		0.10	..
Queensland		39.2	7.65	7.10	**10.45**	**14.00**
Market Share (per cent)		100.0	19.5	18.1	26.7	35.7

Source: Centre for Advanced Materials Processing (1993) *Queensland Gas Study*.

Note: CQNG is a joint venture between Santos (50 per cent) and Oil Company of Australia (50 per cent).

Gas Production and Processing

Major producers in central Queensland include Santos, Oil Company of Australia, Petroz and Crusader.

The major party involved in development of gas in the Cooper Basin is the South West Queensland Gas Producers' Unit consisting of Santos (60 per cent), Delhi Esso (25 per cent), Boral through Sagasco and Oil Company of Australia (15 per cent), and a minor interest held by Australian Hydrocarbons.

Santos is the operator of the Cooper Basin facilities (on behalf of the South West Queensland Gas Producers). Both production and marketing activities are currently exempt from the Trade

Practices Act. The South West Queensland Gas Producers Unit was established by regulation under the Petroleum Act, which exempts it from the Trade Practices Act. However, a marketing agreement between producers is the subject of an authorisation by the Trade Practices Commission. These exemptions allow Unit members to agree on a single price for gas from the field.

The South West Queensland Gas Producers, through a number of petroleum leases, hold 82 per cent of the known remaining gas reserves in Queensland. In 1992, Santos/Delhi relinquished a portion of 488P. This was subsequently taken up by Mount Isa Mines and others which committed to expenditure of about $14 million over four years, and has identified potential reserves of the order of 300 petajoules of natural gas.

Transmission

Details of Queensland's major pipelines are outlined in Table 12.4. The 530km Wallumbilla to Gladstone State Gas Pipeline services industries in Gladstone and domestic reticulation. The pipeline has been offered for sale to Pacific Gas Transmission after a competitive bidding process for $160 million.

Two new pipelines are to be constructed from the south west, one to Wallumbilla by Tenneco and one to Mt Isa by Australian Gas Light Corporation. The Government stepped in to call for competitive tenders for these projects when commercial interests alone appeared not to be capable of achieving commitment to the necessary infrastructure within a time frame that precluded undue risk to long term security of supply.

Table 12.4

Major Queensland Gas Pipelines

Pipeline	Year Constructed	Ownership	Use
Roma–Brisbane	1969	AGL (85 per cent) and ICL (15 per cent)	Natural gas
Brisbane-Gold Coast (distribution pipeline)	1989-1990	Allgas Energy	Natural gas
Wallumbilla-Gladstone-Rockhampton	1989-1991	Queensland Government (now being sold to PGT)	Natural gas
Ballera-Moomba (a)	1993	SWQ Unit	Unprocessed gas
South West Queensland-Wallumbilla	Under Construction	Tenneco	Natural Gas
South West Queensland-Mt Isa	Under Construction	AGL	Natural Gas

Source: Queensland Department of Mines and Energy.

Note: (a) Unidirectional supply to SA

Distribution

Queensland's distribution network is very narrowly based. Reticulation infrastructure is limited to the high density urban areas in south east Queensland (Brisbane and Ipswich, and commercial customers only in the Gold Coast), central Queensland (Rockhampton and Gladstone) and certain small cities and townships adjacent to natural gas pipelines or trunk lines (Roma, Dalby, Toowoomba, etc).

Queensland has two major gas distributors. The Gas Corporation of Queensland is owned by Boral and has a franchise to lay pipelines for natural gas in north Brisbane, Gladstone and Rockhampton. Allgas Energy Ltd has a franchise in South Brisbane, the Gold Coast and Toowoomba. All franchises have been granted in perpetuity.

Commonwealth/State Directions

In February 1994, the Council of Australian Governments agreed to implement free and fair trade in natural gas by 1 July 1996 as part of the move to more competitive and integrated markets. The Council noted that the main features of a national framework characterised by free and fair trade would be:

- complementary legislation to provide a uniform national framework for third party access;
- no legislation or regulatory barrier to both inter- and intra-jurisdictional trade in gas;
- third party access rights to both inter and intra jurisdictional supply networks;
- uniform national pipeline construction standards;
- increased commercialisation of the operations of publicly-owned gas utilities;
- no restrictions on the uses of natural gas (eg for electricity generation); and
- gas franchise arrangements consistent with free and fair competition in gas markets and third party access.

In order to process these agreed reforms, a National Gas Reform Taskforce comprising representatives from each State/Territory, the Commonwealth and industry was established, and is progressing the development of these matters.

Administrative Infrastructure

Strategic Policy

The Queensland Energy Planning Council is responsible for strategic planning matters while the Gas Development Planning Committee is responsible for the facilitation of principally private enterprise projects. The Department of Mines and Energy, the Department of the

Premier and Cabinet and Treasury also play significant roles. The private sector has been involved to the extent of the development of proposals on specific issues such as the invitation for expressions of interest in the construction, financing, ownership and operation of two pipelines from south west Queensland.

The Commission has noted industry concerns that the recent restructuring has increased the range of agencies operating in this sector and this has led to confusion in industry regarding primary responsibility for coordination and development of projects.

The roles and responsibility of agencies need to be clearly defined and promoted to facilitate contact and coordination in the development of proposals.

Regulation

The gas industry in Queensland is currently regulated by the *Gas Act 1965* and the *Petroleum Act 1923*. The Gas Act includes provision for fixing maximum gas prices and, the issue and management of gas franchises. It does enable persons to supply gas to consumers through a pipeline licensed under the *Petroleum Act*, or by tolling through the network of the franchise holder. The Act also allows persons to supply consumers where the franchise holder and the consumer cannot agree on prices and conditions.

Regulation of gas pipelines (and oil) is provided under the *Petroleum Act* and requires a licence to construct and operate a pipeline. In April 1995, amendments were made to the *Petroleum Act 1923*, introducing a new third party open access regime for licensed gas and oil pipelines and designated facilities in Queensland. This facilitated the establishment of the new pipelines by clarifying the operating environment. The legislation also provides for ring fencing in a management and accounting sense when there is vertical integration either upstream or downstream. The pipeline owner will not be allowed to engage in gas trading. The facility owner is to provide to the Government an annual financial statement and a copy of the contracts entered into for transportation services.

State specific access regimes or regimes which open up the interpretation and application of the access principles by each jurisdiction would create barriers to entry and trade and impede rather than assist inter-basin competition. The Commission is aware that the States are likely to adopt a uniform access code, and supports this intention. Under these circumstances the Commission cannot support a state based regulator's involvement except where transition strategies are required, as it will unduly add to industry's compliance costs and potentially dilute the national approach being established (see Chapter Three regarding the Commission's views on competition regulation).

12.7 Performance Assessment of the Gas Industry

Key Points

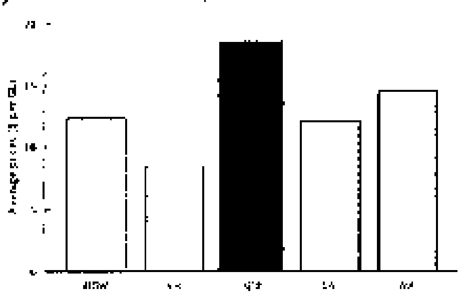
- *Queensland prices are relatively high and largely reflect the lack of proximity to markets, small reserves, transportation over long distances and low density of usage of the gas industry. Nevertheless, the ownership structure of the production facilities, pipeline infrastructure and the regulatory environment do have a bearing on price outcomes.*
- *Recent utilisation of competitive bidding in Queensland has resulted in transport costs appreciably below others in Australia and stands testimony to the benefits of competitive markets.*

Prices

As in electricity, the price of gas is regarded by many as the most significant performance indicator. The Bureau of Industry Economics has estimated that in 1991 Queensland's natural gas price for residential and industrial gas was the highest in Australia and higher than for any city in the United States. The Australian Gas Association estimates of delivered gas prices in 1993 are depicted in Figures 12.11 and 12.12.

Figure 12.11

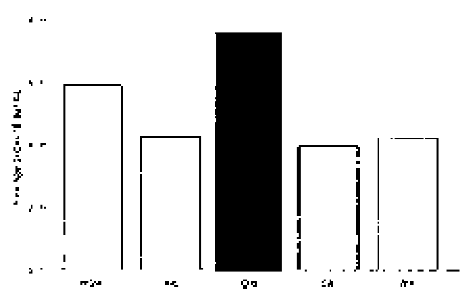
Price of Delivered Residential Gas, by selected States, 1993



Source: Australian Gas Association.

Figure 12.12

Price of Delivered Commercial and Industrial Gas, by selected States, 1993



Source: Australian Gas Association.

Productivity

The Bureau of Industry Economics also noted that Allgas/Gas Corporation of Queensland rated the lowest in productivity in Australia and was one of the poorest performers in the world ranking 40th of 42. Allgas/Gas Corporation of Queensland and Australian Gas Light Company scored the lowest on the basis of an application of data envelopment analysis– the poorest in the world. Adjustments for environmental disadvantages lifted the ranking (substantially) in the case of Australian Gas Light Company. Nevertheless, the recent competitive bidding process has resulted in achieving the lowest transmission costs.

12.8 Gas Demand and Supply Options

Key Points

- *Potential demand for gas is high in Queensland with supply providing a most significant constraint. The pipeline infrastructure does not appear to be constraining development (access arrangements and the facilitation of development requiring attention).*
- *Alternatives to the current south west gas area are unlikely to be sufficient to supply potential projects before the turn of the century. A key focus must be placed on enhancing exploration and production from the south west, and the principles underlying the granting and management of tenure.*
- *Recent agreements with the Queensland Government have secured short term supplies for south east Queensland and some major projects but limit the possibility of competition for exploration and production in the south west in the medium term.*
- *Other opportunities to access new fields and promote intrafield competition need to be pursued.*

Demand Forecasts

Expected demand and supply appear in Table 12.5. The table indicates that, taking the upside case, total potential demand in Queensland is above 100 PJ per annum by 2000, a level comparable to current levels of consumption in New South Wales and South Australia.

The base demand case for south east Queensland is made up of existing customers. The upside demand case is made up of base demand plus two new customers (one industrial and one cogeneration). The upside/power demand case combines the previous case with that of a power generation customer. In a similar way, the base case for Gladstone is made up of current customers, with new projects factored into the upside case. The requirements for a number of potential major projects seeking establishment in Queensland include: Comalco alumina refinery (790 PJ), magnesium metal project (230 PJ), ICI ammonia plant (180 PJ), and Boyne Island smelter, Ticor Sodium Cyanide, titanium pigment, calliope minerals, Emag, Soda Ash, Queensland Cement and Lime Company and Queensland Aluminium Limited cogeneration (200 PJ).

Table 12.5

Expected Demand in Queensland, 1997-2010 (petajoules)

Market	Demand	1997	2000	2005	2010
South-East Queensland	Base	22.5	26.3	28.1	30
(Brisbane)	Upside	24.4	30.5	33.5	36.7
	Upside/Power	48.4	54.5	57.5	60.7
Central Queensland	Base	22.6	24.6	24.6	24.6
(Gladstone Rockhampton Wallumbilla)	Upside	33.4	41.7	45.6	45.8
North West Queensland	Base	19.2	26.1	27.3	27.3
	Upside	26.8	35.7	41	41
Market Total	Base	64.3	77	80	81.9
	Upside	84.6	107.9	120.3	123.5

Source: Queensland Department of Mines and Energy.

There is also significant potential for natural gas usage associated with developments in the Carpentaria/Mount Isa Province in north west Queensland. Total potential demand in the Carpentaria region is in excess of 25 PJ per annum. Projects include the Mica Creek Power Station, Mt Isa smelting, Gunpowder copper production, Osborne copper/gold, Cannington silver/lead, Ernest Henry copper gold, Century phosphate and Queensland Phosphate.

Supply Options

Gas Reserves and Alternatives

Queensland Gas Reserves

Queensland's proven and probable natural gas reserves are located in south west Queensland (about 1400 PJ), Surat/Denison (about 100 PJ) and Gilmore (20-80 PJ). The Surat Basin reserves around Roma which currently supply the Brisbane market and ICI at Gladstone and QMAG at Rockhampton are rapidly depleting. The Denison Trough reserves to the north of Roma are more or less dedicated to Queensland Aluminium Limited under a 20 year contract terminating in 2010. These reserves are expected to be insufficient to satisfy all of Queensland Aluminium Limited's demand of 16 PJ per annum after 2000.

Connection of the Gilmore reserves near Blackball to the main gas pipeline grid would not be commercially viable due to their isolation and small quantity. The proven south west Queensland gas reserves are estimated to be approximately 1400 PJ at 1 January 1996 and are either contracted or committed. The remaining uncommitted proven south west Queensland gas reserves of approximately 160 PJ would be tail gas and would be deliverable only over a number of years.

South west Queensland is regarded as the most prospective on-shore area in Australia for natural gas. It could be expected that further exploration would prove up approximately 1000 PJ of additional gas reserves.

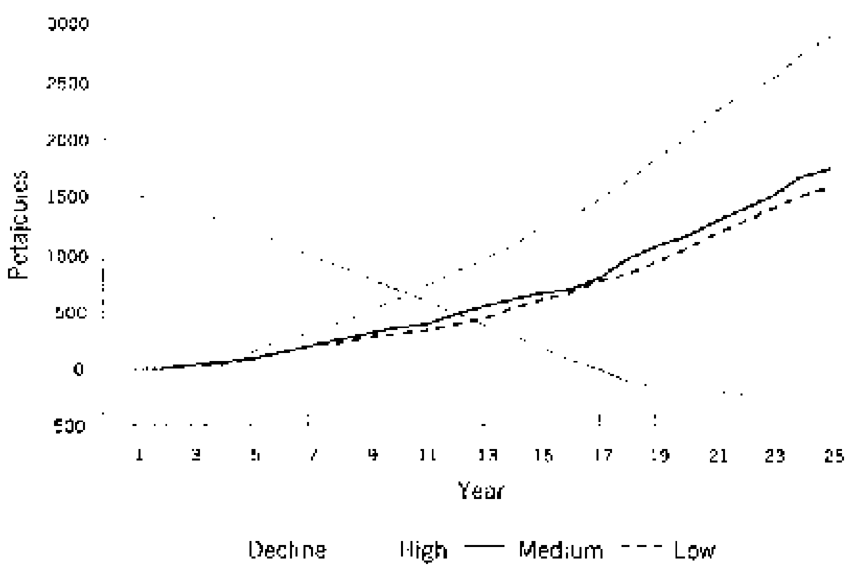
The recent agreement between the South West Queensland Gas Producers and the Queensland Government will potentially ensure supply to south east Queensland and other major projects. Nevertheless, it does so by (most likely) limiting competition in the longer term.

Reserves from the Adavale Basin (Gilmore Field) fuel a 37MW gas turbine power station at Blackall (electricity to feed into the grid at Barcaldine). Up to 80 PJs will be required to fulfil a 20 years contract, commencing in the first quarter of 1995.

While some prospective sources of supply are evident in the medium term, it is unlikely that the timing of this would match the requirements of the bigger projects mentioned above. Figure 12.3 depicts the decline of Queensland's existing proven gas resources against high, low and medium scenarios of unmet growth in demand.

Figure 12.3

Decline of Queensland Existing Proven Gas Reserves and Forecast Cumulative Demand for New Consumers (a)



Source: Queensland Department of Mines and Energy

Note: (a) Including 600 MW Base Load Power Station in Each of Low, Medium and High Demand Cases.

Queensland Coal Seam Methane

Coal seam methane is a potentially competitive source of gas supply in Queensland. There are potentially thousands of petajoules of coal seam methane available from the Bowen Basin and another coal fields in central Queensland. This gas is also conveniently located near the existing Roma-Gladstone gas pipeline. Currently there are a number of Authorities to Prospect held by various companies in the Bowen Basin area to explore for coal seam methane.

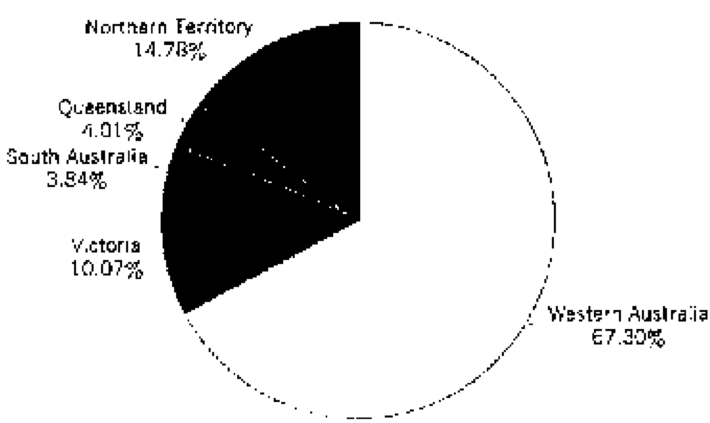
New technologies developed by BHP Coal for the extraction of coal seam methane indicate that it could be a major source of gas supply. However, reliable commercial production of significant quantities of coal seam methane is not anticipated until next century.

Other Australian Gas Sources

Australia's reserves of natural gas are significant and exceed 100,000 PJ (proven and assumed probable). This does not include potential additions from further exploration in producing areas or from discoveries in other nonproducing and under-explored areas. The chart below illustrates that a substantial proportion of Australia's reserves are located off the coast of Western Australia (the north west Shelf), with the Gippsland reserves in Bass Strait also significant.

Figure 12.14

Proved and Assumed Probable Natural Gas Reserves



Source: Queensland Commission of Audit.

The Gippsland Basin is the only Australian gas source identified as a potential long term, substantial source of supply for Queensland markets. However, new contracts for the sale of Gippsland Basin gas are likely to entail an exfield price similar to that of the Cooper Basin in South Australia and south west Queensland. It follows that the delivered price to Queensland markets for gas from Victoria will be higher than for Queensland sourced gas (because of the significantly longer transport distances).

Papua New Guinea

International Petroleum Corporation Limited and Chevron Niugini Pty Limited (Chevron) have a preliminary proposal to deliver gas from the Pandora gas field in Papua New Guinea territorial waters in the Torres Strait via a 1180 km pipeline to a 650 MW combined cycle gas-fired power station at Mareeba by approximately 2000. The proposal also includes delivery of gas from the proven Kutubu fields held by Chevron in the highlands of Papua New Guinea. A modification of the proposal entails extension of the pipeline by 320 km to Townsville with gas-fired electricity generation capacity of 200 MW at Mareeba and 400 MW at Townsville.

The International Petroleum Corporation/Chevron proposal presents many issues which would need to be addressed, including environmental, native title, cost, intergovernmental and planning issues.

Substitutes

Gas competes with a number of other energy sources. Substitution between gas and fuel oil, distillate, coal, liquefied petroleum gas and electricity is a significant factor in determining market share for each energy source. Any market or regulatory impediments to substitution need to be minimised. Gas remains a preferred energy and feed stock for several reasons including environmental.

Processing

The largest Queensland processing facility is located at Ballera and services several of the South West Queensland Gas Producers. Several smaller gas processing facilities have been established in recent years, including Gilmore, Beharra Springs and Kannook. Potential difficulties can emerge where these facilities can assume monopoly status, exert market power and distort the incentive for others to explore and produce gas in the region. The Commission is aware of concerns by industry in relation to this matter and is therefore concerned for third party access conditions to apply.

Transmission and Distribution

A further potential barrier to entry to Queensland gas markets generally, and one that has in practice been very significant, is the lack of pipeline infrastructure, particularly from the south west Queensland gas fields to the east coast.

To meet market needs in the face of declining availability of reserves from the Surat/Denison areas, the Queensland Government initiated a competitive process for the provision of new pipeline infrastructure. These include a new pipeline (by Tenneco) connecting the south west fields to existing markets. Another pipeline is being constructed by Australian Gas Light Company to Mount Isa. Other proposals also exist for pipelines to the Sunshine Coast, Bundaberg and from Papua New Guinea. The two pipelines indicated above effectively become the spokes of a hub centred around the Coopers Basin.

Allowing such interconnections is essential to promoting competition within the gas supply industry even if physical delivery does not occur from these supply sources as it facilitates trading and encourages innovations such as gas swaps and loan arrangements.

Retailing

Constraints exist in downstream markets through existing franchise arrangements (eg the Allgas and Gas Corporation networks in Brisbane). A national gas reform group is proposing the development of more competitive franchise arrangements including third party open access and separation of the retailing and transportation functions. The Department of Mines and Energy is developing a plan as part of the process of reforming the reticulation market.

12.9 Strategic Directions in Gas Reform

Key Points

- ***Further reforms of the gas industry are desirable to ensure newly emerging projects can be secured.***
- ***Reforms are necessary in exploration, production, processing, transportation, and distribution.***

Barriers to Entry Exploration and Production

The primary barriers to entry in exploration for gas are existing Authorities to Prospect. Relinquishment of areas provides a mechanism for market forces to be applied in determining the prospectivity of an exploration area. This is particularly the case in respect to the South West Queensland Gas Producers Unit. Although a recent agreement has assisted in meeting short term supply constraints, it has done so at the expense of competition.

Substantial areas are still under Authorities to Prospect issued to the original producers. Under existing arrangements for Santos which are inconsistent with prevailing policy applied to other explorers, it will take several years before the area held becomes available for relinquishment and exploration. Relinquishments in the past have been irregular but much sought after by new explorationists. Such areas needs to be freed up to encourage competitive entry and the diversification of gas producers.

Transparent and accountable permit allocation, tighter limits on the term of the initial permits and their subsequent renewal, reduction of maximum permit areas, increasing the proportion of blocks to be relinquished, and trading in tenements could facilitate the vigorous pursuit of potential opportunities in the longer term.

Lack of competition in exploration results in an absence of competitive structures in production.

Barriers to Entry—Processing

Processing facilities controlled by a single consortium can pose a difficulty. Under the *Petroleum Act* the Queensland Government can ensure third party access to such facilities. This, however, is not the case under the national access regime—which needs to be amended to provide for such an outcome.

Marketing

The current marketing arrangements for the South West Queensland Gas Producers Unit which allow single price selling are authorised by the Australian Competition and Consumer Commission. With the future breakdown of the structure of demand, the relevance of these arrangements may be questionable.

Transportation

Proposals exist for pipelines to the Sunshine Coast, Bundaberg and from Papua New Guinea. Allowing interconnection is essential to promoting competition within the gas supply industry as it facilitates trading and encourages innovations such as gas swaps. There exist several prospective means to prevent interconnection. These include recourse to the licensing powers of the Minister, the prospect of different standards and differences in access regimes between States.

The Queensland Government needs to remove these limitations and in particular subscribe to a nationally uniform approach to third party access and reduce the cost of regulatory compliance

Distribution

Third party access needs to apply to the reticulation sector for similar reasons as for transportation. Access regimes applying to distribution networks need to adopt a reasonable degree of uniformity of principle and interpretation to overcome potential uncertainty and potentially higher costs of compliance. Such access will only be attempted if there is separation between the ownership of the reticulation sector and the right to market, and a contestable retail market.

The existence of take or pay contracts and cross subsidies means that any changes to the distribution sector need to acknowledge their impact on these arrangements.

Prices oversight of the transition arrangements may need to be undertaken by a state based regulator until transition arrangements are finalised, at which stage regulations should fall under the Australian Competition and Consumer Commission.

Recommendations

12.5 *A Queensland gas development strategy should be developed, based on Council of Australian Governments principles and managed by a special purpose taskforce to:*

- *establish transparent and accountable authority-to-prospect allocations, tighten limits on the initial term and subsequent relinquishment of allocations, reduce of maximum areas, and introduce trading in tenements;*
- *repeal Section 43 of the Gas Act and remove distribution franchises;*
- *establish a uniform national third party access regime for gas (and petroleum), transmission and distribution pipelines and processing facilities; and*
- *facilitate project development.*

12.6 *The regulation of competition in gas should fall within the purview of the Australian Competition and Consumer Commission. If the Australian Competition and Consumer Commission is unable to meet the necessary requirements during the reform phase, this responsibility could be assigned to a (temporary) Queensland Competition Authority.*

Water

Key Points

Increased demand for water and severe drought in recent years have exerted substantial pressure on the State's water supplies and on the social, environmental and economic systems which they sustain. The drought should emphasise that water, which is one of the State's scarcest resources, is critical to our industry and should be appropriately managed.

Substantive reform is required in the management, investment and pricing policies essential to improve resource availability, enhance the economic performance of related industries and dependent communities and, provide resources for further sustainable investment in water supply.

Findings

- *The prevailing pricing and institutional policies fail to encourage users to recognise the scarcity of water. They can also lead to premature augmentation of systems, environmental degradation, and fail to move water to its highest valued use. That also impose a substantial financial burden upon the Queensland community.*

- *Queensland has lagged behind other States in implementing institutional reforms. There have been few commercial imperatives in the planning, management or distribution of rural water. Performance monitoring in both urban and rural sectors is deficient and lacking in statutory support.*

- *In rural areas, revenues from the sale of water cannot sustain continued investment or refurbishment. Costs exceed revenues by about $24 million per annum. The $2.5 billion assets are earning a negative rate of return (foregoing about $150-200 million per annum). An unfunded backlog of refurbishment is valued at $40-$60 million. A subsidy of $20 million annually is being provided to urban water users.*

- *Further capital infrastructure investments of $1.0 billion and the lifting of the urban water subsidy to $50 million per annum are being considered. To ensure any further investments achieve desired community benefits, appropriate institutional structures and accountabilities, investment and pricing policies and property rights need to be put into place. The benefits and impacts of market based policies are not well understood by the community.*

12.10 Structure of the Water Supply Industry

Key Points

- ***The water supply industry accounts for a significant part of the State's capital stock and supports significant industries.***
- ***Queensland's reforms have lagged those of other States.***
- ***The industry's current policy settings, and organisational structure are evident in a poor and unsustainable financial performance. They require a substantial change in direction.***
- ***No effective market in water or service provision exists and current arrangements are not directed at delivering value for money or best practice.***

Market Structure

The Industry

The supply of water to households and industry plays a vital role in Queensland's growth and the quality of life enjoyed by the community. Queensland is a geographically large state with a fast growing and dispersed population, has an extremely variable climate, and has the potential for further industrial expansion, mining and export of agriculture.

The water industry encompasses a wide variety of market segments including: resource management, water supply and related services, the environmental sector, engineering and design, equipment/materials manufacture and supply, tourism and recreation. The water supply and related services industry provides:

- supply of water to households, irrigation, industrial, mining and electricity generation (including hydro-electricity);
- wastewater collection and disposal, including sewage and liquid trade waste services; and
- drainage, including systems or watercourses, draining both urban and irrigation lands.

Water service provision is further segmented into two elements: wholesale water involving the provision of bulk water services to more than one sector and/or more than one retailer within a sector. Retailers focus on the delivery of water to final consumers or end users. Both feature vertically integrated wholesale and retail agencies.

Domestic Market

Irrigated agriculture is the largest customer group with 63 per cent of total use. It accounted for $1.2 billion or 52 per cent of the value of crops. The major crops are sugar, cotton and horticulture.

Urban use accounts for about 20 per cent of total water use. There are about 360 local government water supply schemes serving approximately 600 cities and towns or 94 per cent of the population.

Mining and industrial customers account for only 3 per cent of total water, but represents a high value use of water and a substantial economic benefit to the State. Hydro-electric power stations are located at Barron Falls, Somerset Dam and Wivenhoe Dam. The economic value of recreation is estimated to be $4 million to $6 million per year for the Tinaroo Falls Dam alone.

International Opportunities

Key export related opportunities include:

- a rapidly expanding South East Asian market for high quality horticultural produce, and water and wastewater systems;
- the raw sugar industry is estimated to be capable of producing a further 1 million tonnes of sugar ($400 million) over the next eight to ten years;
- prospects for cotton in St George, the central region (Comet River Dam) and the Dawson Callide; and
- engineering and management consultancies and joint ventures (especially with Snowy Mountains Electricity Corporation, and in response to other consultants such as the World Bank and overseas aid projects).

Strategic Planning

Strategic planning for urban and rural industries has recently been brought into the Department of Natural Resources. The Minister for Natural Resources has responsibility for approximately 30 Acts relating to regional water boards, flood mitigation, sewage, river improvement and dams.

Generally, planning and development of water storage and distribution infrastructure is undertaken at an agency level. This has resulted in a somewhat fragmented approach to water planning and development, based on local authority boundaries rather than catchment areas. The State does not have an overall strategic plan for water infrastructure development.

The Department of Natural Resources is moving towards introducing statutory Water Allocation Management Plans and to establish regional strategic infrastructure planning.

Adequate funding for these government functions is required to ensure sustainable development that maximises the potential to utilise natural resources.

Proposals exist for the establishment of a Water Industry Policy Council to establish and overview the implementation of water policy.

Service Delivery

Rural Water Industry

The rural water sector accounts for approximately 75 per cent of total water consumption in Queensland. Rural water receipts, however, account for approximately 20 per cent of total water receipts.

The Department of Natural Resources is the largest single water services provider, and owns assets worth approximately $2.5 billion (replacement value). It administers eight irrigation areas, 17 irrigation projects based on private diversions from rivers and five water supply schemes involving pipelines from regulated streams or other works for electricity or industry. Drainage systems are attached to most of the irrigation areas.

State Water Projects is the service delivery arm of Department of Natural Resources, and is responsible for the management and operation of the above schemes including both the wholesale water supply and the retail functions of irrigation reticulation. Service delivery is integrated with the regional structure of this Department. The 1995-96 financial year was intended to be a transition year for State Water Projects, with the implementation of accrual accounting, identification of the costs of the business and costing of community service obligations.

In addition to the Department of Natural Resources' direct activities there are 41 Water Boards (including the 18 rural water supply boards, 6 bore water boards, 17 drainage boards) administered under the Water Resources Act. Department of Natural Resources also administers 21 River Improvement Trusts and 51 Bore Water Boards under separate pieces of legislation.

Thirty privately owned schemes are operated throughout the State.

Urban Water

The urban water sector accounts for approximately 20 per cent of total water consumption, but accounts for approximately 80 per cent of total water receipts. Urban water assets are estimated to be worth $18.5 billion.

Significant gains can be made in the Queensland water industry in the provision of urban water services where some $1 billion is earned annually. While urban water only accounts for 20 per cent of total water deliveries in Queensland it provides 80 per cent of the total revenue.

Urban water services are provided by four urban water boards (South East Queensland Water Board, Mount Isa Water Board, Townsville/Thuringowa Water Board and Gladstone Area Water Board), two joint local government water boards, 125 local governments and some private suppliers. The State Government is not directly responsible for the provision of urban water supplies.

Local governments own and manage major water supply headworks as well as the distribution system to customers. In some instances, local government obtain treated or untreated bulk water from urban water boards or the Department of Natural Resources. Local government are also responsible for sewage and drainage.

The provision of financial assistance (through the State's loan/subsidy scheme) has been the main vehicle used by State Government to influence urban water infrastructure policy. Smaller communities (less than 1500) may also draw on funding assistance available through the Accelerated Rural Communities Water Supply and Sewerage Scheme for new water or sewerage schemes or address quantity or quality of supply problems.

Regulation

There are a number of distinct regulatory functions including:

- resource management—assessing, protection, allocating, and managing the water resource;
- asset management infrastructure regulation including dam safety, asset management plans;
- environmental—protecting the environment;
- economic and financial ensuring cost effective, efficient, and accountable provision of water services, including performance monitoring and prices oversight; and
- public health and safety—ensuring that water will be safe and healthy for the community before, during, and after use.

The above functions are undertaken by a number of agencies. No agency is responsible for regulating or monitoring the industry as a whole. No agency is responsible for regulating competition in the industry.

The most significant pieces of legislation controlling management of water related services include the *Water Resources Act* (water resources allocations and management of irrigation areas and projects) the *Local Government Act* (providing a framework for accountability of local government), the *Environmental Protection Act* (licensing of discharges, noises and waste management), the *Health Act* (water supply and sewerage health issues), and, the *Sewerage and Water Supply Act* in terms of the standards of services mostly, within property boundaries.

Commonwealth/State Policy Directions

The main 1994 and 1995 Council of Australian Governments' commitments, with respect to water resource policies are:

- the adoption of water pricing regimes based on the principle of consumption based pricing, full cost recovery and, desirably, the removal of cross-subsidies which are not consistent with efficient and effective service, use and provision (if not removed, they should be published);
- 'full cost recovery' includes the recovery of all operating, maintenance and capital costs, and a positive real (inflation adjusted) rate of return on an asset's value (capital);
- the introduction of a system of tradable water property rights by 1998;
- as far as possible, the institutional separation of the roles of water resource management, standard setting and regulatory enforcement and service provisions by 1998;
- the introduction of local management arrangements for government owned irrigation schemes; and
- the use of community education.

For rural schemes, additional commitments include:

- the recovery of operating, maintenance and refurbishment costs by 2001 (for existing schemes) wherever practical and the publication of any subsidies which may remain;
- the achievement of a positive real rate of return on the value of each irrigation scheme's assets wherever practical;
- a scheme should only be built where appraisal indicates it is economically viable and ecologically sustainable; and
- the setting aside of funds for future asset refurbishment and/or upgrading of government supplied water infrastructure.

For urban schemes, they include:

- the identification and publication of cross-subsidies for urban areas;
- the introduction of two part tariffs; and
- metropolitan bulk water supplies to earn a commercial rate of return.

Queensland

Queensland is a signatory to the Council of Australian Governments agreements on the water industry. Currently, Queensland is:

- developing policies in relation to rural water pricing and management which outline the Government's response to pricing, water entitlements and possible directions for introduction of local management; and
- addressing urban water issues, identified by the Council of Australian Governments, through the implementation of national competition policy reforms in association with local governments.

The current Queensland Government commitment relating to noncontribution to capital costs of new building schemes is not consistent with the Agreement.

Other States

Progress in the reform of other States' water supply industries appears in Table 12.6 below.

Table 12.6

Reforms in Other States

Victoria	Corporatisation of Regional and Urban Water Authorities 1 July 1995. Regulation by Office of Water Reform
New South Wales	Privatisation of local irrigation ongoing, commercialisation of Department of Water Resources (bulk water supply) being implemented. Pricing Tribunal active in water industry issues.
South Australia	Corporatisation 1 July 1995. Contracting out of urban water supply
Western Australia	Corporatisation 1 January 1996. Privatisation of local irrigation schemes. Office of Water Industry Regulator established
Australian Capital Territory	Corporatisation of electricity and water on 1 July 1995
Murray Darling Basin Commission	Commercialisation during 1995-96

Source: Queensland Treasury.

12.11 Performance Assessment of the Water Industry

Key Points

- *The economic and financial performance monitoring of the Queensland water industry is deficient.*
- *The available information on rural schemes suggests that neither full operating costs nor capital costs are being recouped through prevailing policies. Little information is available on a scheme by scheme basis.*
- *The financial performance of urban water providers is not effectively monitored and targets are not enforced. This has substantial negative budget implications.*

Economic Outcomes

Current outputs and prices in the industry appear in Table 12.7 below.

Table 12.7

Operational Outcomes, Rural Water

Measure	Most recent observation (1994-95)
Storage capacity	6.9 million Ml
Present useable storage	4.1 million Ml
Nominal allocations, total	1.99 million Ml
Announced allocation, present	1.45 million Ml
Farms sold (Burdekin)	30
Examples of Rural Water Charges:	
Burdekin River Irrigation Area	0.009$/kilolitre to 0.036$/kilolitre
Bundaberg Irrigation Area Surface Water	0.003$/kilolitre to 0.071$/kilolitre
Ground Water	0.004$/kilolitre to 0.040$/kilolitre
Examples of Urban Water Charges:	
Brisbane	0.60$/kilolitre
Townsville	0.66$/kilolitre
Charleville	0.30$/kilolitre
Toowoomba	0.35$/kilolitre

Source: Queensland Department of Natural Resources

Performance Monitoring

Currently there is very little economic and commercial performance monitoring in the Queensland water industry. Reporting to national protocols for interstate comparison is virtually nonexistent. Scheme to scheme comparisons within Queensland are undeveloped and there are few commercial disciplines placed on service providers.

The legislated requirements for performance monitoring relate to environmental monitoring, corporate planning and financial accountability. The existing body of legislation, however, does not provide the State agencies with the regulatory grounds to ensure the implementation of industry standards.

The Report by the Steering Committee on National Performance Monitoring of Government Trading Enterprises remains the only comprehensive comparison of Queensland's performance with that of other States. However, only the Department of Natural Resources, Gold Coast Water and the Brisbane City Council provide performance monitoring information. Department of Natural Resources does not undertake other economic and commercial benchmarking.

The statutory urban water boards and local governments are required to prepare annual reports which must contain an assessment of their performance in implementing corporate and operational plans. Whilst audits of annual reports by the Auditor-General provide an assurance in respect of regularity of financial statements, the audit does not extend to special purpose reports. The State has rarely used its capacity to investigate the performance of a local government.

The urban water boards and most major local governments generally conform with duty of care obligations by monitoring drinking water quality.

In more recent times, the State has developed the Total Management Planning initiative, which seeks to enable local governments to improve their operations. However, these plans are not commercially focused and are only aimed at ensuring good management practices. Total Management Planning provides an overview of the performance of the urban water industry by: monitoring the levels of service provided; policy development and implementation; planning and management of schemes; financial planning; and system performance (including quantity and quality objectives).

Performance

Rural water sector

The Department of Natural Resources supplies infrastructure based water to approximately 6,300 irrigators. Current water charges aim to cover the costs of operations, maintenance and some refurbishment. Only eight schemes achieve this target and only two schemes make a return. Full cost depreciation and cost of capital is not recovered.

Revenue from water sales is approximately $44 million per annum. Operating expenses excluding interest are approximately $68 million, leaving an operating loss of approximately $24 million per annum. In addition, interest and redemption payments are funded by the consolidated fund, and are approximately $47 million. The debt associated with these assets is approximately $263 million. There exists no provision for long-term refurbishment, which now has an estimated backlog of between $40-60 million.

Urban Water Sector

There is no mandatory performance benchmarking of the urban water sector outside of the requirement to prepare annual financial reports. Urban water charges have tended to cover all current interest, maintenance and operational costs, however, prices do not reflect the depreciation of assets, estimated at $175 million per year. An estimated $200-$300 million per annum is expended on upgrading or building new infrastructure. The State Government provides a 20 per cent subsidy on the initial capital cost of headworks (dams, main pipelines) to a total value of $20 million per annum.

12.12 Water Demand and Supply Options

Key Points

- ***There has been no statewide strategic process or plan for the development of future water infrastructure.***
- ***Further investment is anticipated to meet the growth of the Queensland economy.***
- ***The cost to budget of past and prospective investments under the current policy settings will total $2.5 billion over the next ten years.***

Demand Forecasts and Infrastructure Adequacy

The demand for water can be expected to increase due to population growth, particularly in south east Queensland, irrigation and industry demand for expansion or improved water supply reliability, and the development of hydro power opportunities. Even if pricing principles are reformed, increased water infrastructure will be required to meet these demands.

There has, however, been no formal statewide forecast for estimating the overall demand for water in Queensland and no formal strategic plan for the development of future water infrastructure. The Department of Natural Resources has identified some areas of potential demand in its State Water Conservation Strategy and the current Water Infrastructure Task Force will undertake further assessments.

Rural Water

The Queensland Government has committed to a program of $1,000 million over the next 15 years to meet perceived demand. The exact nature of that program is the subject of deliberations by a Water Infrastructure Taskforce. This commitment represents a substantial augmentation of the current $2.5 billion stock of infrastructure.

Urban Water

Major augmentation of bulk water supplies in the coming years under current pricing systems is anticipated for the urban centres of Cairns, Townsville, Gladstone, and south east Queensland. Additional infrastructure upgrading to improve sewerage treatment to comply with new environmental legislation is estimated to require $600 million expenditure over the next ten years.

An amount of $500 million has been promised by the Queensland Government for urban water infrastructure with the State subsidy rising from $20 million to $50 million per annum.

Maintenance

The rural water sector in Queensland is relatively new when compared to other Australian States, with the majority of schemes completed in the past 20 years. There will however be increasing scheme maintenance and replacement costs over the next 10 to 20 years of the more complex mechanical/electrical/electronic components which have a shorter physical and economic life. The backlog in currently unfunded maintenance/refurbishment is $40-$60 million. In the longer term, asset depreciation will become more significant.

Asset depreciation will also become a significant issue for local governments who will be faced by the need to refurbish or replace ageing assets. Compliance with environmental standards by urban water authorities will require capital expenditure over the next ten years of approximately $600 million for Biological Nutrient Removal, plus an additional $26 million per annum for ongoing operating and maintenance costs (two-three per cent increase in annual cost).

The Department of Natural Resources is examining ways to manage assets for minimum life cycle costs and ways of predicting and providing funding requirements to refurbish or replace these assets, through strategic asset management plans.

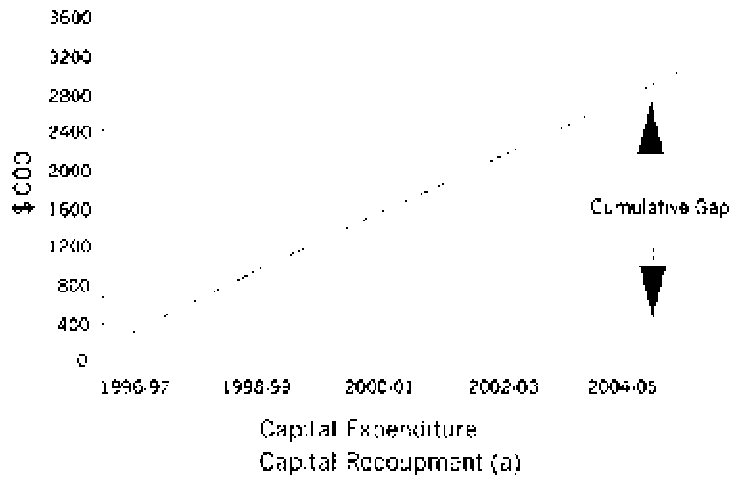
Past Approach

Financial Impact

The implications for consolidated revenue of continuing the current approach to past investments and new proposals appears in Figure 12.15 below. These are estimated at $2.5 billion.

Figure 12.15

Cumulative Cost to Consolidated Revenue, Queensland, 1996-97 to 2005-06



Source: Queensland Department of Natural Resources and Queensland Treasury

Note: (a) Sale of Water Property and Commonwealth Contributions.

Alternative Approaches

The adoption of a commercial and competitive approach to water provision reflecting Council of Australian Governments type principles, provides the major alternative to the current approach. There are many issues relating to:

- the structure of the industry;
- project assessment approaches and investment decision-making criteria;
- pricing policies;
- property rights;
- performance monitoring;
- ownership and management; and, in particular,
- accountability.

These matters have largely been addressed by the Commonwealth Government through the Council of Australian Governments process. The overall impact of the reform process is difficult to estimate. It should be noted however, that in Victoria, a recent assessment by the Auditor-General has identified that projected cost savings of $109 million are envisaged over a five year period as a result of their reform process.

12.13 Strategic Directions in Water Supply Reform

Key Points

- *The water supply Industry accounts for a large part of the States capital stock and supports significant industries.*
- *The financial performance of the industry is placing a significant burden on the State's finances.*
- *The application of Council of Australian Governments- type principles will have a significant impact on the ability of the water section to contribute to economic development and sustain costs.*

Competitive Environment

The provision of bulk water is a natural monopoly. The considerable financial outlays to provide capital infrastructure such as dams, major channels and pipelines makes the cost of duplication prohibitive. The nature of water storage also means that there is usually only one opportunity for positioning infrastructure, with little scope for developing competitive infrastructure. Therefore there is limited opportunity for competition in the provision of bulk water storage and distribution infrastructure.

However, this does not prohibit competition in the water industry. Competition can be introduced through contracting/franchising infrastructure management and competitive tendering (eg for engineering design, infrastructure construction, contracting out of maintenance and operations and through competing retailers).

Structure of the Industry

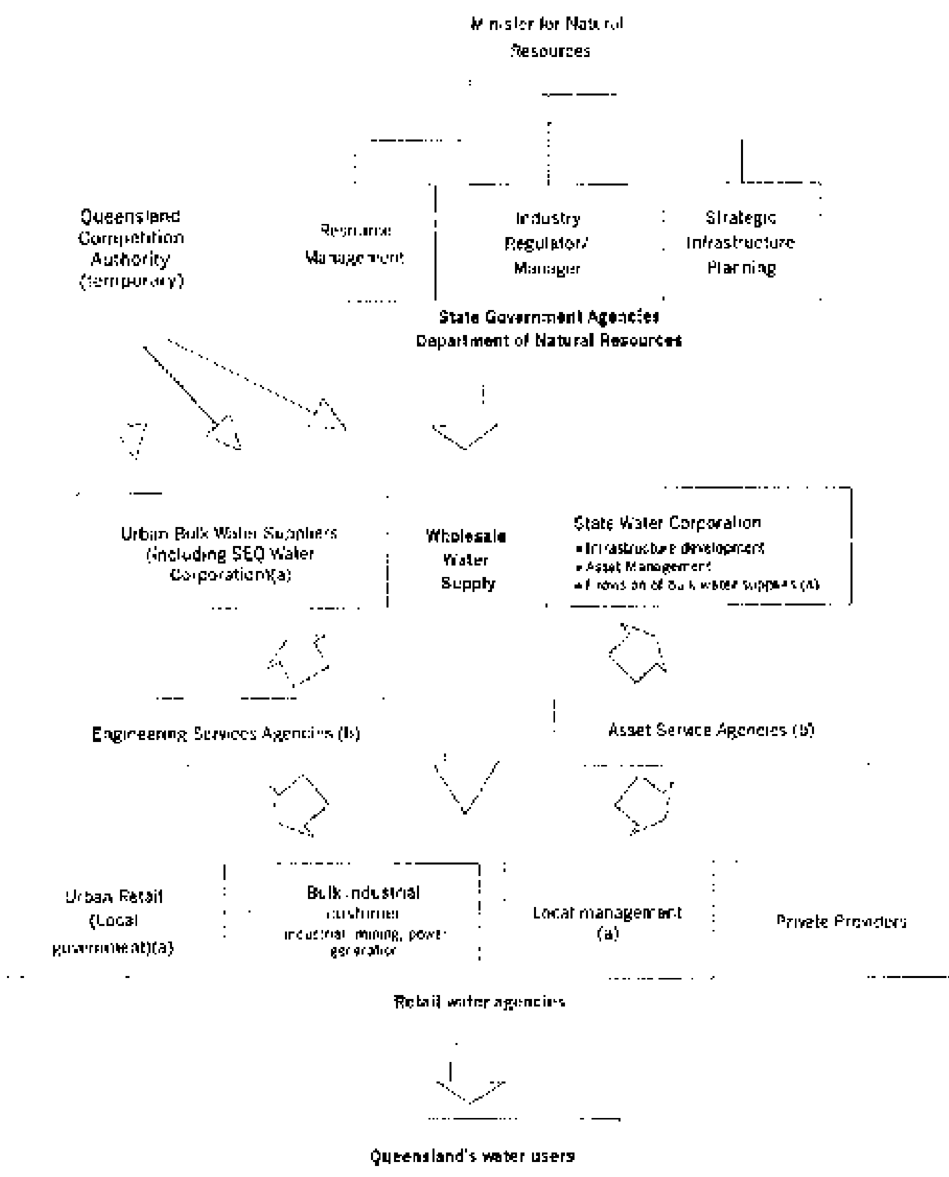
Key guiding structural principles for determining the appropriate institutional structure include:

- institutional separation of strategic planning and regulatory functions from service delivery;
- specific government units to address, resource allocation, regional infrastructure planning, industry regulation, recommendations on community service obligations, subsidies and investment of state equity to government (including facilitation of infrastructure investment);
- a commercially focused approach to water infrastructure development, management and service delivery; and
- separation of retail activities and aggregation of wholesale activities.

A suggested industry structure is outlined in Figure 12.16.

Figure 12 16

Recommended Water Industry Structure, Queensland



Source: Queensland Department of Natural Resources and Queensland Treasury.

Notes: (a) Privatised or corporatised, in which case operational functions to be contracted to facility managers.
(b) Privatised

Rural Water Sector

Existing arrangements for rural water supply in Queensland fail to meet the above structural principles. State Water Projects, the main provider of water for the rural sector, is institutionally integrated with the same Department responsible for both resource management regulation and infrastructure performance regulation. This arrangement is one of the last of its type in Australia.

At present, State Water Projects is a vertically integrated provider, providing both wholesale and retail water services. These functions should be separated.

To achieve a commercial focus, transparency and accountability for the state owned rural water assets, requires that they be separated from the Department of Natural Resources. Thus, corporatisation is preferred to commercialisation. This will overcome the current situation where no identifiable entity is accountable for water supply assets.

Urban water sector

Queensland has 125 local governments supplying water. There may be significant cost savings by improving efficiency through rationalisation of existing bulk water supply arrangements including the urban water boards, local government and State Water Projects.

A study of institutional arrangements for the provision of bulk water in south east Queensland, including opportunities to improve integration and efficiency of supply, is currently being progressed. A regional bulk water authority for south east Queensland has been under consideration for some time now and was a major recommendation of the south east Queensland 2001 project to improve efficiency in planning and provision. It is considered that a south east Queensland Water Corporation should be established consistent with the industry structure recommended by this Report.

Such an analysis needs to be extended through the State to determine the appropriate consolidation of assets. The bulk water supply reviews should look at determining arrangements whereby environmental protection, resource management and water infrastructure planning can be undertaken in an integrated catchment basis, rather than the present fragmented local authority based approach

Ownership, Management and Accountability

If competition and long-term improvements in efficiency are to be achieved in the water industry, a commercial framework is required for water service providers. Providing a commercial and accountable environment will ensure:

- maximum use of local management and private providers to undertake the functions of facility management, operation, maintenance and engineering services;

- the true cost of water provision would be identifiable and provide an additional incentive to reduce costs and make informed future investment decision;
- new investment in infrastructure is only undertaken after it is shown to be economically viable and environmentally sustainable;
- environmental and resource management issues could be confronted explicitly and transparently;
- transparent funding of subsidies within the irrigation sector and reporting/removal of cross-subsidies in the urban sector, ensuring subsidies are only provided where they are defensible in the public interest; and
- system losses are reduced through either refurbishment programs or changing water management practices.

Rural Water Sector

Rural water infrastructure has not been developed on the basis of delivering cost efficient water services and insufficient commercial disciplines are in place to ensure that non-commercial investment decisions are not repeated.

Investment, ownership, management and operation of these assets requires a commercial environment, with clearly defined performance measures (including setting appropriate targets for rates of return). It is essential that all subsidies made to the rural sector are fully transparent.

Local involvement in the management of facilities and service delivery is essential, as the introduction of effective water pricing and tradeable water rights requires extensive local knowledge on many issues on a day to day basis. Such issues include sources from which users obtain their water, the willingness to pay, through to the physical constraints and environmental and hydrological characteristics of the region.

The benefits to clients include participation in the determination of pricing structures within agreed levels of services, involvement in allocation of water, understanding the cost of, and revenue from schemes and private ownership should be encouraged. Where schemes are not sold, local management should be encouraged to tender out operational functions on a contestable basis, at specified intervals.

Local membership of the urban water boards creates an incentive to keep prices to a minimum. However, in the past there were few commercial objectives, no set targets for rates of return and no formal performance monitoring regime.

Accordingly, while local water boards may provide effective stewardship in respect of local issues (as an alternative to private ownership), a mechanism is required to ensure that all interests (asset management as well as local service needs) are met. Provision of bulk water supplies should be contracted out to facility managers, who are more likely to be held legally accountable for their performance.

Urban Water Sector

The main gain that is expected to come from placing all urban water in a commercial environment, is to increase accountability and transparency.

At this time, there are no major commercial approaches to the provision of urban water services. However, Brisbane City Council is moving towards commercialisation of water supply services.

A commercial environment should be implemented for all water providers, with options including privatisation, corporatisation, commercialisation or contracting out, depending on the size of the business. Maximum opportunity should be available for private sector involvement.

Strategic Infrastructure Planning and Investment Decision-Making Criteria

Capital costs account for 90 per cent of bulk water costs and these can only be influenced during planning, design and construction. Therefore, costs and investment decisions need to be determined within a wholly commercial structure, institutionally separated from political and subsidy decisions. The Department of Natural Resources needs to assume responsibilities in establishing strategic infrastructure plans (aligned to integrated catchment management).

A separate commercially focused organisation needs to assume responsibility for investment decisions relating to bulk water systems not under local government control.

To ensure benefits of competition are secured, all design, construction, and delivery services should be provided on the basis of contestable contracts.

In all circumstances new investment in infrastructure should only be undertaken after it is shown to be economically sustainable. These initiatives will avoid future costs through a lack of a coordinated approach to infrastructure planning and avoid the future costs of infrastructure that is not viable.

Water Pricing for Full Cost Recovery

Rural Water

Rural water prices have not been set to recover the full cost of provision. They do not provide positive incentive to irrigators to conserve their water, direct water to move to its highest valued use or encourage water managers to keep costs and therefore prices to a minimum. Under-recovery can encourage excessive demand on water systems, contribute to environmental degradation, and result in premature augmentation of existing systems.

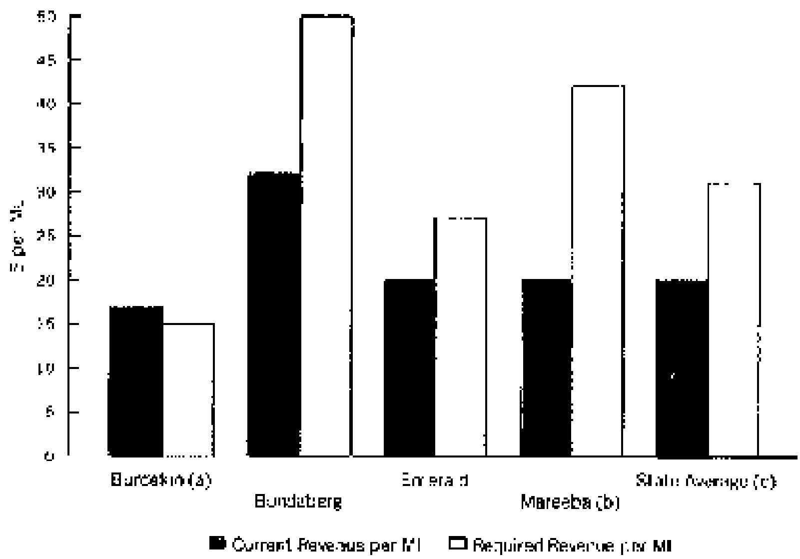
For the rural water sector some changes to current water prices should be made to ensure the financial viability of the schemes:

- for existing schemes, prices should, as a minimum, cover ongoing operating, maintenance, administration and refurbishment costs (and preferably depreciation costs) and increase over time to achieve a rate of return on the assets; and
- for new schemes, prices should be set at the outset to cover all costs of supply including operating, maintenance, administration, depreciation and the rate of return on assets.

Estimates of the price increases required to reach target levels of cost recovery at no return to capital for selected schemes are depicted below.

Figure 12.17

Required Price per ML to Meet Zero per cent Target Rate of Return



Source: Department of Natural Resources.

Notes (a) Burdekin costs include approximately 170,000 Ml unallocated supply.
(b) Mareeba costs include approximately 40,000 Ml unallocated supply.
(c) Average costs and revenue include all channel, river, industrial and bulk urban water.

Should these pricing policies not be adopted, the Government will be required to fund the shortfall in operating costs in the rural water sector currently of about $24 million per year, to meet the Council of Australian Governments' requirements. An amount of $150-200 million would be required to earn a reasonable rate of return on assets.

An increase in water revenue would potentially come from increasing water sales to those with a higher capacity to pay (including higher value added agriculture, urban, industrial, power generation and mining users). The sophistication of water markets and pricing will increase over time.

Urban Water

Urban water supply issues are being progressed by a joint state, local government working party addressing:

- the identification and publication of any cross-subsidies which may exist between water users in urban areas;
- the introduction, where cost effective, of two part water tariffs for urban areas;
- for metropolitan bulk water suppliers:
  - the introduction of volumetric charging for water users;
  - the recovery of all costs for providing water supply, including achieving a positive return on the value of bulk water supply and distribution facilities; and
  - the identification and publication of any cross-subsidies between water users.

Such initiatives are consistent with the directions considered necessary by the Commission, but further reform is considered warranted.

Transferable Water Entitlement/Property Rights

To direct water to move to its highest valued use, and overcome the lack of incentives to reduce water use associated with the value of water being capitalised into land values:

- water rights should be specified such that they are separate from land title; and
- a framework should be established so that water allocations can be freely traded.

Global limits for trade need to be set for particular catchments. Trade between catchments would require the intervention of the Department of Natural Resources.

Benefits to the user include encouraging efficient farm and asset management practices, improved security of entitlement, and broader scope in the way individual rights are managed.

Property rights should address: tenure, access, security; interstate trade (where appropriate) and associated terms and conditions, environmental allowances, impacts of trade on the environment; impacts on lenders and local authorities; effect on scheme reliability, activation of sleeper licenses; reduction factors, transfer fees and administration costs; physical constraints—delivery capacity, distribution losses; any compensation; local and regional impacts of tradeability; and agreements on standards of service.

The Commission notes and supports the recent Queensland Government commitment to the introduction of tradable property rights by 1997 and the temporary trading of rights in some irrigation schemes prior to their introduction.

Water Allocation Management Planning

Environmental water requirements need to be maintained to ensure key elements of the ecology of water systems and meet the needs of native wildlife. Environmental sustainability is a key issue and forms the framework within which water prices and property rights need to be considered. Water Allocation Management Plans should be implemented for all catchments to allow for environmental protection, resource management and infrastructure planning (including flood mitigation) to be undertaken to avoid the present fragmented approach. Such a framework serves to integrate environmental requirements with water supply, waste water management, distribution of water and sewage.

Regulation

Water provision remains a largely regionally based monopoly due to high capital costs of infrastructure, once only sitting options, and sunk costs. Such markets typically require regulation to ensure that this monopoly position is not abused. Competition regulation remains a significant issue with no regulatory body in Queensland for this purpose. One option for the regulation of competition that could be considered would be the creation of a single regulatory body for the industry. There are sufficient concerns with industry specific regulators, particularly the lack of skills and regulatory 'capture', for the Commission to favour one generic regulator for competition in Queensland for all sectors (including water) during the reform period.

At present, regulation of environmental, health and such aspects of the water industry is undertaken by a number of departments. Nevertheless, a greater focus by those agencies on water issues is required. Working groups could be formed to address these issues under the management of the Department of Natural Resources.

Role for the Department of Natural Resources

The Commission favours the following roles for the Department of Natural Resources:

- developing a strategic plan for water infrastructure;
- coordinating water resource regulation in environment, safety, health matters, ensuring the adoption of effective quality assurance procedures in water, wastewater and sewage operations;
- resourcing regulation, total catchment management (including floodplains) and regional planning (including demand studies);
- allocating water resources establishing a market in property rights for transferable water entitlements, providing for environmental allocations; and
- establishing comprehensive performance monitoring systems.

Some of these roles need to be integrated with whole State strategic planning (eg infrastructure, performance monitoring).

Legislation should be used to formalise the accountabilities of regulators, regional development and service delivery agencies.

Performance Monitoring

Facility management contracts need to cover the nature of services provided, performance standards, customer service guarantees, liaison and penalty provisions. These should be established prior to tendering in consultation with local users, local governments and control agencies.

To encourage improvements in performance, performance comparisons and benchmarks need to be established and published not only at consolidated State and agency levels but also at segment (bulk water, treated water, sewage, drainage/storm water and irrigation/rural) levels for the large water service providers. Comparison between privatised and contracted out facilities would be particularly beneficial.

Specific initiatives required include:

- developing systems and policies for accountable development and management, eg total management planning concept; and
- expanding reporting beyond financial reporting.

Communication

The reform of the water supply industry will have significant impacts on the community particularly in rural Queensland. The Commission is concerned that the implementation process be undertaken in a manner which fully informs the community of its implications and, preferably, provides detailed market trading protocols and revenue/cost projections on a scheme by scheme basis. Appropriate sequencing of its introduction would ensure participants are able to learn from best practice to maximise the benefits from their participation.

Recommendations

12.7 ***The Government should implement the reforms agreed by the Council of Australian Governments and, in particular:***

- ***designate responsibility for strategic planning, coordination of water resource regulation (except competition), resource management regulation, a communications strategy and performance standards to the Department of Natural Resources—performance monitoring needs to remain independent of the portfolio agency;***

- *establish a State Water Corporation to develop and manage rural bulk water supply infrastructure;*

- *establish separate private or local rural retail distribution agencies for rural reticulation;*

- *privatise or corporatise urban water providers and establish a bulk water supply corporation for south east Queensland;*

- *ensure that all bulk water, rural and urban services (not privatised) be delivered through contestable facility management contracts; and*

- *introduce tradeable water entitlements and progressively implement a regime of recovery of full costs with use of community service obligations only where defensible in the public interest.*

12.8 The regulation of competition in water should fall within the purview of the Australian Competition and Consumer Commission. If the Australian Competition and Consumer Commission is unable to meet the necessary requirements during the reform phase, this responsibility could be assigned to a (temporary) Queensland Competition Authority.

12.9 A special purpose taskforce should be established to review (in consultation with local government) the potential for efficiencies in regional distribution agencies.

12.10 Priorities for infrastructure development and enhancement identified by the current Water Infrastructure Taskforce should be submitted for consideration through normal Departmental assessment and the Government's overall capital budgeting process.

Chapter Thirteen

Law, Order and Public Safety

Key Points

The goals of law, order and public safety are served by a range of agencies, including those in the criminal justice system together with the Fire Service. The agencies within the criminal justice system have major impacts on each other, but there is no formal mechanism to coordinate their policies and practices.

Queensland is a relatively efficient and effective provider of Corrective Services, when compared with other States. However, a strong increase in prisoner numbers in recent years has put a significant burden on corrective facilities, with the current rate of overcrowding the worst in Australia.

While Queensland spends less on policing than other major States (the gap has been closing recently), the State ranks well in effectiveness of police service delivery with the exception of a few areas (eg personal safety). However, there is growing concern about the state of infrastructure available to support the force, and with police facing heavy demands over the next ten years, a better process of planning, funding and allocating resources needs to be developed.

The Queensland Fire Service appears to be more effective in its delivery of fire services than similar agencies in other States, partly influenced by favourable climatic conditions in Queensland. Notwithstanding this result, firefighting resources are currently distributed unevenly around the State, and improved planning processes will be needed to correct this uneven distribution as the demand for fire services increases over the next ten years.

Coordination of the Criminal Justice System

Findings

- *While the need for policy coordination is recognised by the agencies within the Queensland criminal justice system, there is no formal mechanism in place to ensure such coordination. The need for coordination extends to other relevant human service delivery agencies and community agencies, all of which are involved in issues of social breakdown which are closely associated with crime.*

Recommendation

13.1 *A strategic planning committee should be convened, by an appropriate central agency, to ensure that the criminal justice agencies coordinate policy advice, research, evaluation and planning. Other relevant human service delivery agencies (outside the criminal justice system) and community agencies should be involved as appropriate. The coordinated planning process should:*

- *take account of the full resource implications of agency decisions, importantly including impacts on other agencies; and*
- *develop output and performance measures for the criminal justice system as a whole.*

Corrective Services

Findings

- *Queensland is a relatively low cost provider of corrective services compared to other States. Queensland recorded the lowest cost per offender per day, on average during 1994-95, across both secure and open facilities.*
- *Queensland's correctional facilities appear to be relatively effective compared to other States. Performance measures such as escape rate and recidivism[1] of prisoners were particularly low in Queensland during 1994-95. Thus, Queensland is not just a low cost, but an efficient provider.*
- *Queensland's prison capacity utilisation rate is the highest of all States at 126 per cent. The utilisation rate has increased markedly in recent years, following the recent unexpected increase in prisoner numbers, which is outside the Queensland Corrective Services Commission's (QCSC's) control. Presently, the use of doubling up and programmed new or expanded facilities will only partially and temporarily meet demand growth.*
- *QCSC follows good management practices, but there are deficiencies in the capital planning and investment processes within which it operates, and scope exists for improvement in other aspects of resource management.*

[1] Only Queensland, South Australia and Northern Territory data were available on this measure.

Recommendation

13.2 *The Queensland Corrective Services Commission should further develop its market based resource management approaches, including tendering for the contract management, and possibly the supply of, new correctional facilities and the contracting out of ancillary services. This includes the option of tendering for the contract management of existing Queensland Corrective Services Commission correctional facilities.*

Police Services

Findings

- *Queensland is a low cost provider of police services (per capita) relative to the other major States, although the gap has narrowed in recent years as Queensland has raised spending faster than in other states.*
- *The standard of police service delivery in Queensland is at a broadly comparable level with other major States, notable exception being in the achievement of personal safety.*
- *Satisfaction with the level of service provided by police in local communities is above the national average, but within the State, there is more dissatisfaction in the northern and western regions, as well as in some areas of the south east corner.*
- *The police to population ratio has risen in recent years, although it remains below that in other major States. Resources other than staff have not increased commensurably, and there is growing concern within the Service about a lack of adequate non-labour resources (infrastructure) to support the police workforce.*
- *In the process of allocating police strength around the State, political decisions have concentrated on police numbers, relative to objective determinants of the pattern of need, and there has been limited attention to the full resource implications (including the provision of necessary supporting infrastructure).*
- *Queensland faces growing demands in all areas of policing, notably (but not only) in areas of fast population growth.*
- *To meet this demand, the Queensland Police Service projects a need to increase staff levels by 26 per cent over the next ten years, and spend 25 per cent per annum more on infrastructure.*
- *A clear conclusion is that better planning and resource allocation processes are needed, focusing on objective drivers of policing needs and outcomes desired by Police Service, and with full resource implications taken into account.*

Recommendation

13.3 Improved planning and budgeting processes are required under which the Government should provide funding against specified policing outcomes, comprehending their full resource costs; and the police service should determine the allocation of its overall resources, including police, to achieve the outcomes.

Fire Services

Findings

- *Queensland lies between New South Wales and Victoria in per capita spending on fire services, with the main source of funding being a State fire levy.*
- *The loss of life and property from fire in Queensland is lower than in the other major States for two reasons: the effectiveness of the Queensland Fire Service; and favourable climatic conditions.*
- *Firefighting resources are currently distributed unevenly around the State, partly for historical reasons, and partly because political decisions have apparently had limited regard to standardised planning processes which would locate resources according to fire risk-weighted need.*
- *Staffing practices contain anomalies and cost inefficiencies, and the Fire Service is concerned that a growing proportion of its infrastructure (particularly buildings and equipment) has aged to unacceptable levels.*
- *While there has been some cooperation under the joint Queensland Emergency Services umbrella in sharing infrastructure between the Fire and Ambulance Services, there may be much more scope for resource sharing and rationalisation of some functions and activities.*
- *Best practice for the allocation of fire resources appears to be via contemporary standards, taking account of the fire risk associated with all regions in the State (that is, fire risk mapping). Given growing demands, such an approach is needed to achieve maximum service from the available resources.*
- *The main conclusion is that improved planning processes are required which are based on the coverage of fire risk in the State, and which take account of the full resource implications of decisions which are made, including those in regard to infrastructure sharing.*

Recommendations

13.4 The planning and resource allocation processes of the Queensland Fire Service should be re-based explicitly on standards defined in terms of spatial coverage of fire risk, along the lines set out in the Fire Service's draft Fire Service Delivery Policy, considering the full resource implications.

13.5 The Government should establish a taskforce to identify the scope for resource sharing between the Fire and Ambulance Services, and for rationalisation of their functions and activities.

Chapter Thirteen

Law, Order and Public Safety

Overview

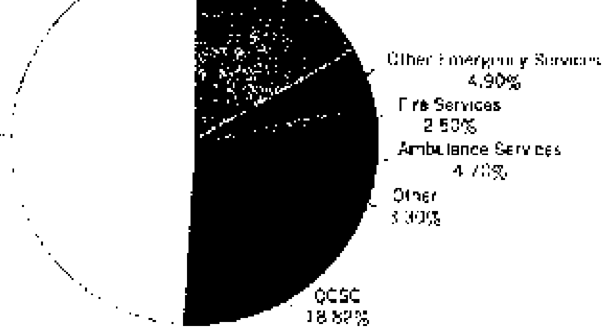
Key Points

- ***The Police Service, the Courts and Corrective Services comprise the criminal justice system, and together with Fire Services contribute to public safety overall. Policies and practices of each agency of the criminal justice system, in particular, directly impact on the others, potentially with major resource implications. A key issue is that there is no formal mechanism to coordinate policy and planning within the justice system.***

The Law, Order and Public Safety sector in Queensland is made up of the Police Services, the Law Courts and Legal Services (Justice and Attorney-General), the Queensland Corrective Services Commission and the Queensland Emergency Services (including Fire and Ambulance Services). Consolidated Fund Outlays on Law, Order and Public Safety were around $1.04 billion in 1994-95, representing 9.4 per cent of the total Consolidated Fund Outlays. The breakdown of this spending is shown in Figure 13.1.

Figure 13.1

Consolidated Fund Outlays on Law, Order and Public Safety, 1994-95



Source: Queensland Treasury, *State Budget 1995-96*.

This chapter is in three sub-divisions, covering the activity and resourcing of three of the above agencies: Corrective Services; Police Services; and Fire Services. These account for over 70 per cent of the total Consolidated Fund Outlays on Law, Order and Public Safety. Police and Corrective Services are discussed in the context of the wider criminal justice system. Fire Services contribute along with these to public safety.

Coordination of the Criminal Justice System

Key Points

- ***While the need for policy coordination is recognised by the agencies within the Queensland criminal justice system, there is no formal mechanism in place to ensure such coordination. The need for coordination extends to other relevant human service delivery agencies and community agencies, all of which are involved in issues of social breakdown which are closely associated with crime.***

The Police Service and Queensland Corrective Services Commission are part of the criminal justice system. Other agencies in this system are Juvenile Justice, the Courts, the Department of Justice and Attorney-General and the Criminal Justice Commission. At the broadest level, the objectives of the criminal justice system relate to the achievement of community safety. With the necessary coordination on policy and planning, the agencies within the system seek to work towards achieving the goal of creating a 'safer, more caring, more law abiding society'. Community safety is most frequently jeopardised by criminal activity. While the fight against crime involves initiatives to address the underlying causes of crime, the community also needs an adequately resourced and well trained Police Service, an effective Courts system and a secure and humane system of corrections.

The inter-linked nature of the criminal justice system means that the service delivery decisions of any of its agencies impact directly on the demands placed on other agencies in the system. For example, if there is an increase in the rates of arrest by the Police Service, or if the maximum stay in watchhouses is adjusted, this will impact greatly on the demand for services from the Courts and the Correctional Services system. If the Courts improve their efficiency in releasing warrants for arrest, this increases the burden on Police Service delivery; if the Courts make changes to their sentencing practices, this will affect the demand for and the standard of service delivery from Correctional Services. Further, if Correctional Services change arrangements relating to the transport of prisoners or the security practices of correctional centres, the demands on the Police Service will be correspondingly affected. Given the existence of these widespread cause and effect relationships within the sector, it is imperative that the agencies of the criminal justice system closely coordinate their policy and planning decisions.

While the need for such policy coordination is recognised by the agencies within the criminal justice system, there is no formal mechanism in place to ensure coordination. The Commission of Audit has been advised that the criminal justice system in Queensland is not a 'system' but rather a series of individual agencies with a variety of operating relationships. While the senior officers within the agencies maintain professional relationships, there do not exist any documented, coordinated approaches to:

- policy advice to Government;
- research;
- evaluation of programs;
- planning, for both capital infrastructure and human and other resources; and
- public information and education.

Further, there is no mechanism for coordination between the criminal justice agencies and those Government and community agencies involved in human service delivery, which, by their action or inaction, can have an impact either positively or negatively on social breakdown and crime. Several agencies have informed the Commission that the lack of a systems approach to the issue of social breakdown and crime has had important negative consequences for the fight against crime.

The Commission emphasises that these comments on the coordination among them do not imply that the agencies in the system and around it are not separately performing well. The individual performance of the major agencies is discussed in the later sub-divisions of this chapter.

Recommendation

13.1 A strategic planning committee should be convened, by an appropriate central agency, to ensure that the criminal justice agencies coordinate policy advice, research, evaluation and planning. Other relevant human service delivery agencies (outside the criminal justice system) and community agencies should be involved as appropriate. The coordinated planning process should:

- *take account of the full resource implications of agency decisions, importantly including impacts on other agencies; and*
- *develop output and performance measures for the criminal justice system as a whole.*

Corrective Services

Key Points

Queensland is a relatively efficient and effective provider of Corrective Services, when compared with other States. However, a strong increase in prisoner numbers in recent years has put a significant burden on corrective facilities, with the current rate of overcrowding the worst in Australia.

Findings

- *Queensland is a relatively low cost provider of Corrective Services compared to other States. Queensland recorded the lowest cost per offender per day, on average during 1994-95, across both secure and open facilities.*
- *Queensland's correctional facilities appear to be relatively effective compared to other States. Performance measures such as escape rate and recidivism[2] of prisoners were particularly low in Queensland during 1994-95. Thus, Queensland is not just a low cost, but an efficient provider.*
- *Queensland's prison capacity utilisation rate is the highest of all States at 126 per cent. The utilisation rate has increased markedly in recent years, following the recent unexpected increase in prisoner numbers, which is outside the Queensland Corrective Services Commission's (QCSC) control. Presently, the use of doubling up and programmed new or expanded facilities will only partially and temporarily meet demand growth.*
- *QCSC follows good management practices, but there are deficiencies in the capital planning and investment processes within which it operates, and scope exists for improvement in other aspects of resource management.*

13.1 Structure of the Corrective Services Sector

Key Points

- *While Queensland has a relatively low crime rate and a relatively low imprisonment rate (which is outside the control of the Corrective Services authorities), its facilities are strained, with extensive use of 'doubling up' in cells and a utilisation rate of 126 per cent of design capacity—the highest in Australia.*

[2] Only Queensland, South Australia and Northern Territory data were available on this measure

- ***Queensland has been a leader in the use of private contract management of corrective facilities.***

As an element of the criminal justice system, the Queensland Corrective Services Commission's (QCSC) mission is to administer a system of corrections which securely and humanely contains or supervises prisoners and provides opportunities for the correction of offending behaviour. The QCSC's programs are briefly described in Table 13.1 and its facilities in Table 13.2.

Table 13.1

Queensland Corrective Services Commission's Programs

Program	Description
Secure Custody	Those QCSC activities which relate to the containment of prisoners in a correctional centre with a secure perimeter and a high level of direct supervision. Prisoners held in secure custody centres may be classified as high, medium or low security.
Open Custody	Those QCSC activities which relate to the containment of prisoners, by direct supervision and trust, in a correctional centre without a secure perimeter. Prisoners held in open custody centres may be classified as low or open security.
Community Custody	Those QCSC activities which relate to the containment of prisoners in a community correctional centre, residential facility, or WORC program and places prescribed by QCSC Rule under 24 hour supervision.
Community Supervision	Those QCSC activities which relate to the management of offenders residing in the community.
Organisational Support	Those QCSC activities which support line operations.

The QCSC currently has ten secure custody correctional centres (two of which are managed under contract by private organisations) where prisoners are contained in a centre within a secure perimeter and with a high level of direct supervision. The QCSC has also recently won the tender to build and operate a new 600 bed secure correctional centre at Woodford, located near Caboolture.

Table 13.2

Correctional Facilities Utilised by the Queensland Corrective Services Commission

Program	Centre	Management	Built Capacity	Prisoners at 31/3/96	Staffing (FTE) at 31/3/96
Secure Custody	Arthur Gorrie	Contract	458	596	
	Borallon	Contract	235	446	
	Brisbane Women's	QCSC	81	109	62
	Lotus Glen	QCSC	392	302	191
	Moreton	QCSC	166	203	143
	Rockhampton	QCSC	250	252	151
	Sir David Longland	QCSC	324	448	291
	Townsville	QCSC	263	255	194
	Townsville Women's	QCSC	18	18	(a)
	Wacol	QCSC	270	307	161
Open Custody	Lotus Glen (farm)	QCSC	115	110	14
	Numinbah	QCSC	84	67	20
	Palen Creek	QCSC	77	71	22
	Rockhampton (farm)	QCSC	29	26	7
	Townsville (farm)	QCSC	60	60	12
	Townsville Women's	QCSC	12	11	3
	Westbrook	QCSC	100	134	26
Community Custody	Rose Blank House	Community	8	6	..
	Helena Jones	QCSC	30	27	9
	Hutton Park	QCSC	35	35	8
	Halcyon Park	Community	5	4	
	Kennigo Street	QCSC	26	24	11
	Maconochie Lodge	Community	24	15	..
	St Vincents	Community	27	25	..
	Warrington Street	Community	5	2	..
	Bea's Yard	Community	20	17	
	Waltham	Community	14	9	..
	WORC	QCSC	218	180	56

Source: Queensland Corrective Services Commission.

Note: (a) Included above.

There are seven open custody correctional centres, four of which are attached to three of the secure custody centres referred to above. The community custody program consists of community corrections centres, where prisoners are supervised in community residential centres, three of which are QCSC owned and seven under contract or other agreement with the QCSC. The WORC program, which accommodates prisoners in a number of camps in South West Queensland is also a sub-program of the community custody program. There are no QCSC-owned facilities in the community supervision program.

Table 13.3 provides the available data for capital and recurrent expenditure for the period 1988-89 to 1994-95.

Table 13.3

Capital and Current Expenditure, Queensland, 1988-89 to 1994-95 ($'000)

Financial Year	Capital Expenditure	Recurrent Expenditure	Total Expenditure
1988-89	58,400	74,500	(a) 132,900
1989-90	48,900	101,807	(b) 150,600
1990-91	52,351	109,415	161,766
1991-92	18,537	114,505	133,042
1992-93	13,451	123,097	136,548
1993-94	10,823	125,259	136,082
1994-95	30,296	142,407	172,703

Source: Queensland Corrective Services Commission.

Note: Data prior to 1988-89 are not readily available as this was prior to the establishment of the Commission.
(a) First 6 months of QCSC.
(b) First full year of QCSC.

Characteristics

Since the establishment of the QCSC in December 1988, there has been an increasing number of offenders both coming into its custody and under its supervision in the community. Prisoner numbers have risen from 2,068 in June 1993 to 3,420 in May 1996.

Whilst the majority of the QCSC's clients are supervised in the community, the bulk of the infrastructure required to support offender management is in the secure, open and community custody programs of the QCSC. In addition, the accommodation requirements for staff in the community supervision and organisational support programs are generally handled under lease arrangements.

Over the past two years there has been an unprecedented rapid growth in prisoner numbers (see Table 13.4), resulting in the QCSC having to make extensive use of 'doubling up' of inmates in cells.

Table 13.4

Prisoner Numbers and Sentencing Trends, Queensland, 1990-1996

Data ending 30 June	Number of Prisoners	Number of Direct from Court Orders Supervised	Ratio of Direct from Court Orders to Prisoners
1990	2,296	9,782	4.3
1991	2,094	12,209	5.8
1992	2,017	14,880	7.4
1993	2,068	17,597	8.5
1994	2,491	16,163	6.5
1995	2,870	19,000	6.6
1996 (a)	3,420	21,695	6.3

Source: Queensland Corrective Services Commission

Notes: (a) Ending 1 May;

Direct from Court orders include probation, community service, fine option and intensive correction orders issued in Queensland.

As at 31 March 1996, the QCSC's custodial system was running at 126 per cent of design capacity and is at the highest utilisation rate of all states.[5] This is a particular cause for concern. The recent unprecedented growth in prisoner numbers to date has been addressed by the use of doubling up existing cells, temporary accommodation and a significant cell construction program, with expansion to centres and Cabinet approval for the construction of a 600 bed correctional centre at Woodford.

The sentencing trends of the early 90s of only using prisons for violent and habitual criminals saw the use of community supervision orders by the courts grow dramatically. The increased use of these community supervision orders resulted in a decline of numbers in prisons. However, the growth in the number of direct Court orders (as opposed to post prison orders such as parole) supervised by the QCSC has decreased since 1993 (see Table 13.4). This may indicate that the courts are, to a degree, returning to imposing prison sentences in cases where they have previously made use of the sentencing option of community supervision. This may be a contributing factor to the current increase in prisoner numbers.

Despite the marked increase in prisoner numbers in recent years, Queensland's rate of imprisonment remains one of the lowest of all mainland States (see Table 13.5). It is worth noting here, however, that the rate of imprisonment is beyond the control of the corrective services authorities.

A factor explaining the lower than average imprisonment rate may be Queenslander's relatively lower propensity to commit crime. With the exception of attempted murder and

5 Price Waterhouse Urwick, *Final Report on Audit of Operations of Queensland Corrective Services Commission*, 4 June 1996, p.27

unlawful entry with intent, most categories of offence for Queensland are below the Australian average.[4]

Table 13.5

Estimated Total Prisoners per 100,000 Adults, 1988-89 to 1994-95

	NSW	Vic	Qld	SA	WA	Tas	Australia
1988-89	101.9	68.1	116.0	77.9	135.5	76.9	96.6
1989-90	115.0	69.8	106.6	81.5	138.9	70.1	100.4
1990-91	129.3	69.1	101.5	87.2	152.3	70.8	106.4
1991-92	134.2	66.9	94.9	97.2	155.3	76.1	107.7
1992-93	135.9	66.8	89.0	101.5	150.0	74.5	106.8
1993-94	137.9	73.9	94.6	108.7	165.1	71.9	113.0
1994-95	135.9	71.8	109.2	118.6	164.8	74.2	114.8

Source: Steering Committee for the Review of Commonwealth/State Service Provision, *Report on Government Service Provision*, 1995.

Note: NSW figures exclude periodic detainees, whose numbers have increased significantly in the period up to March 1991, before stabilising.

Workforce

QCSC employ 1,391 full time equivalent staff (as at 31 March 1996). Total labour costs accounted for around 70 per cent of total recurrent expenditure in 1994-95, suggesting that efforts to improve the cost efficiency of the prison system will largely be determined by reforms in this area. Although salaries paid to staff in Queensland are generally at the lower end of the spectrum compared to the other states, data provided to the Commission[5] indicate that the cost of base grade custodial staff are comparable with other states.

Private Contract Management

The QCSC came into being in 1988, following an extensive review of the provision of correctional services in Queensland by Mr Jim Kennedy. The recommendations of Kennedy's report provided a blueprint for correctional reform and were adopted by the Queensland Parliament with the support of the major political parties.

In his report, Kennedy recommended that one prison under the jurisdiction of the QCSC should be operated and managed by the private sector under contract to the QCSC. His rationale for this recommendation was to create a market for corrective institutions in Australia and in particular, Queensland. This would for the first time introduce competition, providing a real measure against which to test the performance and costs of the state operated system.

4 Australian Bureau of Statistics *National Crime Statistics* 4510.0 (1994, latest available data)

5 Queensland Corrective Services Commission, Human Resources Management Branch

Kennedy foresaw the benefits of introducing competition with state operated facilities. Competition would allow the performance of privately and publicly managed facilities to be compared. It would thus provide a stimulus for improved performance by state prison operators and facilitate cross-fertilisation of ideas between the private and public sectors.

It is difficult at this stage to identify any significant transfer of innovations from the private sector to the public system. However, one area of innovative performance of the private sector which has impacted on QCSC operations has been the Borallon Correctional Centre's focus on being a 'programs' centre. This has resulted in a shift in focus for many of the state operated centres to focusing more on programs.

The second consideration has been that of cost. There was a perception in Queensland that correctional centres, as with many other jurisdictions, could be managed more efficiently if restrictive work practices could be eliminated and improved management processes put into place. Queensland's experience with contract management by the private sector will be discussed later.

The third consideration has been the need to bring about cultural and attitudinal change in the management and operation of correctional centres.

13.2 Performance of Corrective Services

Key Points

- ***Queensland is a low cost provider of Corrective Services, with costs per prisoner day well below the national average for both secure and open prisons.***
- ***Queensland performs well on a range of key effectiveness indicators compared with other States, indicating that it is not merely a low cost, but an efficient provider of Corrective Services.***
- ***Although it is difficult to make comparisons across centres, it appears that the two privately managed centres are more cost efficient.***

Interstate Comparison

The *Report on Government Service Provision 1995*[6] compares the effectiveness and efficiency of corrective services across all Australian states: "Overall, the indicators suggest that Queensland is a relatively efficient provider of (adult) corrective services (p 520)." Some of the findings are summarised below.

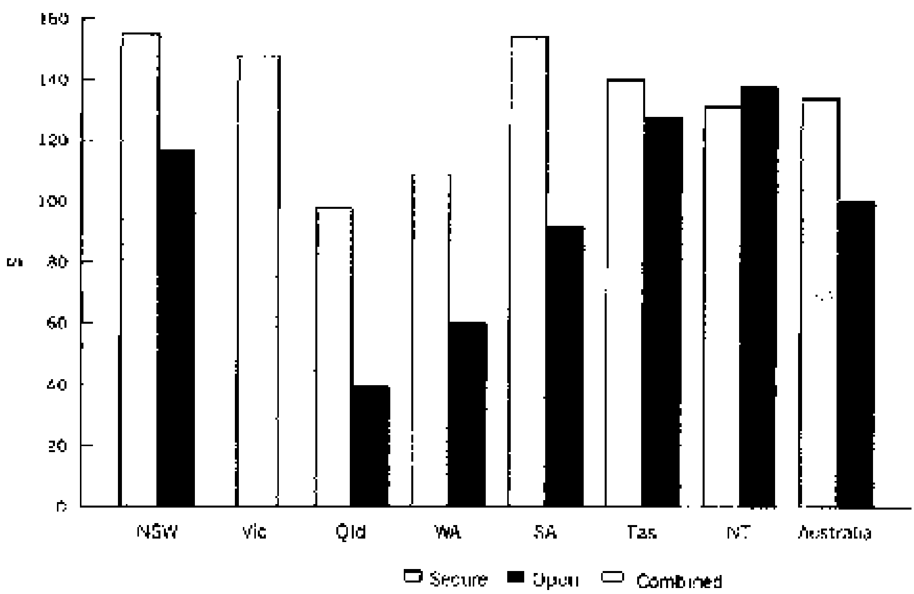
[6] Steering Committee for the Review of Commonwealth/State Service Provision, *Report on Government Service Provision 1995*, pp 483-565, AGPS.

Efficiency

Further work is required to ensure the completeness and comparability of unit cost information. Accordingly, these figures should be treated as indicative. Figure 13.2 shows the average cost per offender per day, for secure and open prisons.

Figure 13.2

Total Average Cost per Offender per day, Prisons, 1994-95



Source: Steering Committee for the Review of Commonwealth/State Service Provision, *Report on Government Service Provision 1995*.

Notes: 1. Data to calculate the average cost per offender per day in Victoria for open and secure prisons combined was provided and amounted to $147 in 1994-95. As 89 per cent of Victoria's prisoners are in secure facilities, this combined cost figure largely reflects average secure prison costs.
2. ACT sentenced inmates are held in NSW prisons, and as such have the same unit cost as shown above for NSW.
3. Excludes depreciation charges.

Queensland recorded the lowest cost per offender on average for both secure and open prisons. For secure prison custody, average cost per offender per day varied across jurisdictions, from around $100 in Queensland to $155 in New South Wales. The Australian average was $134. For open prison custody, costs varied from $39 in Queensland to $138 in the Northern Territory, with the Australian average around $100.

Community custody costs, at $58 per offender, were higher in Queensland than any other State. However, it should be noted that Queensland operates the largest community custody program of this form in Australia with around four times the number of offenders in custody compared to the next largest jurisdiction.

It should be noted that the mix of prisoners varies across jurisdictions, and this may have a significant impact on unit costs per prisoner. Nearly 90 per cent of prisoners in Queensland are high security prisoners contained in secure facilities. In contrast, New South Wales has a relatively low proportion of high security prisoners at around 55 per cent.

An alternative means of assessing the cost of Corrective Services in cost per capita, is presented in Table 13.6:

Table 13.6

Recurrent Costs per Capita, Corrective Services, by States, 1994-95

	NSW	Vic	Qld	WA	SA	Tas	Australia
Prisons ($ per capita)	52.00	29.45	36.67	54.67	44.50	27.65	42.76
Community Custody ($ per capita)	0.05	0.00	2.71	0.00	0.63	0.00	0.57
Community Supervision ($ per capita)	5.78	3.97	5.95	7.05	8.43	5.61	5.87
Total	**57.83**	**33.42**	**45.33**	**61.71**	**53.57**	**33.26**	**49.20**

Source: Steering Committee for the Review of Commonwealth/State Service Provision, *Report on Government Service Provision 1995*.

The major component of the cost per prisoner day is staffing. The predominant reasons why Queensland is the most efficient provider of corrections relates to lower staff to prisoner ratios and the fact that two of Queensland's correctional centres are privately managed (where the cost per prisoner per day is less, partly due to lower central office overheads - refer to section on Comparisons Between Publicly and Privately Managed Centres. It is not evident, however, that Queensland's lower staff to prisoner ratio has had any detrimental effect on the quality of service provision, as demonstrated by the following effectiveness indicators. While the QCSC has taken a view that there are economies of scale to be achieved in building larger prisons (eg Woodford at 600 capacity), cost savings are also facilitated by the design of the building. The QCSC maintains that its facilities possess designs which allow a lower staff to offender ratio and subsequently, lower costs of corrections to the community.

Effectiveness

Some key performance indicators are as follows:

Escape rate: The overall escape rate has improved markedly in recent years and, in 1994-95 was the second lowest in Australia, following Victoria.

Recidivism (measured by the proportion of offenders who have returned to corrections within two years of completing a sentence): Queensland was the best performer of all States (New South Wales, Victoria, Western Australia and Tasmania not calculated).

Death Rate: The deaths in custody rate of Queensland was well above the national average in 1994-95, despite implementation of the recommendations of the Royal Commission into

Aboriginal Deaths in Custody. However, during the first nine months of 1995-96, the death rate had fallen below the national average.

Comparisons Between Publicly and Privately Managed Centres

Comparisons between publicly and privately managed correctional facilities are difficult to make as the differences between centres need to be standardised in order to make a true 'apples and apples' comparison. Specifically, in comparing correctional centres, the following factors have to be taken into account: physical infrastructure; classification mix of prisoners; functions performed by the centre; qualitative issues; and administrative overheads.

In its review of the QCSC, the PSMC (1993, p 119) took a similar view. It found that, "(t)he bases upon which quantitative and qualitative comparisons are made between contract managed and state managed correctional centres need to be refined."

The PSMC recommended that,

> "..the QCSC, in consultation with the Office of the Cabinet and Treasury, develop a methodology for evaluating contract management of custodial and community corrections centres which includes:
>
> - the basis on which costs should be compared;
> - the basis on which quality of services can be assessed; and
> - the overall financial and other impacts on the State and the State correctional system of contract managed centres."

The development of this methodology is currently underway and is integral to the process of performance assessment of corrective facilities. This process should be encouraged, especially as a means of quantifying the benefits of private prison management.

The Director of Custodial Corrections is also developing individual performance contracts for all custodial correctional centres. These are to be implemented in 1996-97 and will be similar to the performance contract used for the new Woodford centre. It is possible that, once these have been developed and are in use in all centres, a better evaluation can be made between the comparative performance of centres.

Additionally, ethical considerations are sometimes raised in relation to use of private provision in this area. A discussion of these issues is beyond the scope of this report; however, a detailed discussion is provided in a paper by Weiss (1989).[7]

Nevertheless, the QCSC has made a comparison of the unit costs per offender between the QCSC operated Lotus Glen Correctional Centre and the CCA (private) operated Borallon Correctional Centre. Despite the difficulty in comparing facilities, the QCSC maintains that in

[7] Weiss, R. (1989), 'Private Prisons and the State' in *Privatising Criminal Justice*, (ed) R. Matthews.

the case of Borallon and Lotus Glen a meaningful cost comparison can be made. The QCSC point out that both prisons have recently been constructed, differences in their infrastructure are minimal, and both cater for a similar number of inmates. Further discussion of the issues considered and justification for the comparison is contained in Macionis (1994)[8] and Brown (1994)[9]. The results of the cost comparison between Borallon and Lotus Glen Correctional Centres is illustrated in Table 13.7.

The QCSC notes that the differential in administrative overheads results from Borallon operating as a 'stand-alone' centre, with only limited support from the QCSC central office. On the other hand, the QCSC correctional centres are substantially supported by administrative elements in central office which are apportioned to each centre on the basis of the number of offenders.[10]

Table 13.7

Cost comparison between Borallon and Lotus Glen Correctional Centres, 1992-93

Borallon Correctional Centre		Lotus Glen Correctional Centre	
Total cost:	$10.08m	Net Budget	$8.49m
Average daily offenders 235		Add Industry Expenditure	
		Gross Budget	$0.65m
		Average daily offenders 234	
Unit cost per annum per offender	A$42 900	Unit cost per annum per offender	A$39,060
Apportioned central office overheads per offender	A$1.300	Apportioned central office overheads per offender	A$10,820
Normalised unit cost per offender	**A$44,200**	**Normalised unit cost per offender**	**A$49,900**

Source: Macionis (1994) p 192

On the basis of this comparison, the cost of Borallon Correctional Centre for 1992-93 was approximately ten per cent lower per offender than Lotus Glen Correctional Centre. However, QCSC points out that the gap between the two may be narrowing. The QCSC is mindful of the difficulties of this type of cost comparison but defends the value of the exercise. The QCSC has also recently examined the unit costs of the contract managed and QCSC managed centres.

8 Macionis, S. (1994), "Contract Management in Corrections: the Queensland Experience" in *Private Prisons and Police*, (ed) P. Moyle.

9 Brown, A. (1994), "Economic and Qualitative Aspects of Prison Privatisation in Queensland" in *Private Prisons and Police*, (ed) P. Moyle

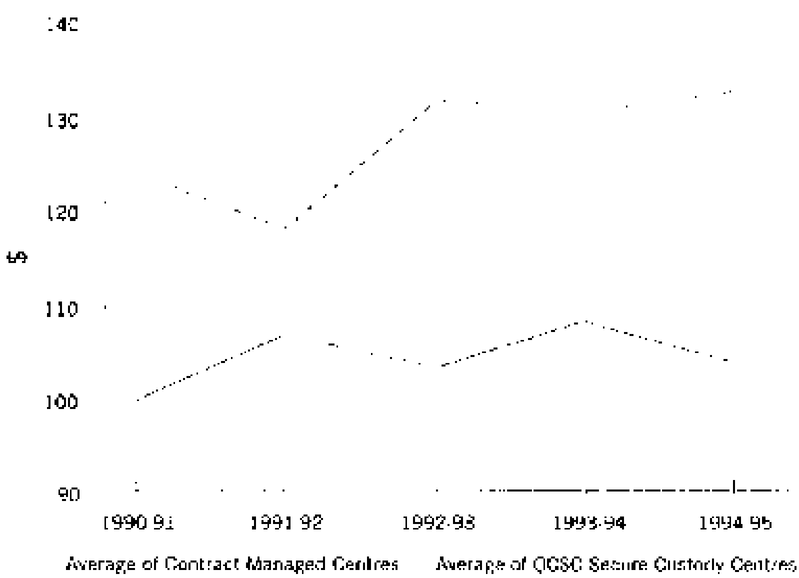
10 It is important to note that when these comparisons were made, the methodology for apportioning overheads was in the initial stages and was in need of refinement. Consequently, the overhead figures in Table 13.7 should be viewed with caution. More recent attempts to compare centres have incorporated a more sound basis for apportioning overheads. Accordingly, the results presented in Figure 13.3 should be given greater attention

The results are presented in Figure 13.3 and clearly show the differential between these facilities.

Evidence exists to suggest that significant cost savings have been achieved through the entire sector since the introduction of contract management. In the two years after its inception, the QCSC was able to achieve a real reduction of five per cent in its budget. This was essentially achieved through substantial downsizing of staff in Townsville, Rockhampton, Moreton and Wacol Correctional Centres. The result of the staff reductions was an improved ratio of officers to prisoners and as a consequence, a reduction in expenditure.

Figure 13.3

Unit Costs per Prisoner per Day



Source: Queensland Corrective Services Commission.

Note: Includes overheads.

Consideration must also be given to the performance of private prison firms in the 'qualitative' areas such as conditions of containment (including safety, crowdedness, health care), security (violence, victimisation, escapes and attempted escapes), social adjustment and rehabilitation (recidivism, personal, vocational and employment counselling, education, drug and alcohol programs), as well as management and staffing (staff morale, staff turnover, inmate grievances against staff). Currently, the QCSC undertakes fairly extensive monitoring of these qualitative aspects in the QCSC managed facilities.

Less effort, however, has been made to assess these qualitative aspects in the contract managed centres. This is essentially because the QCSC has opted to negotiate outputs focused contracts with the private centres. That is, the QCSC is concerned with the outputs produced as opposed to the inputs (other than cost) to the production of those outputs. Nevertheless, these centres are monitored through the QCSC's ongoing internal audit program and through the report of Official Visitors. The contract also has financial penalty clauses for non-performance in the areas of escapes, deaths in custody, lost or damaged prisoner property and less than satisfactory performance in the area of drug usage. This type of output focused contract is strongly favoured by this Commission, in line with the principles espoused in Volume I of this report.

Performance Monitoring

The QCSC undertakes a relatively well established process of performance assessment. The QCSC's performance is measured on an ongoing basis and reported:

- monthly through the Director-General's report to the Board and the monthly financial statements;
- quarterly through the Quarterly Performance Assessment; and
- annually through the Annual Performance Assessment and Annual Report.

13.3 Adequacy of Corrective Services Resources

Key Points

- ***Only a few of the present corrective facilities are able to fully meet future requirements; some can be modified to meet those requirements, while a number cannot feasibly meet them.***
- ***Five of the State's ten secure facilities are less than ten years old and overall, facilities are in reasonable condition, however, the recent increase in prisoner numbers and the use of 'doubling up' is placing an additional burden on the infrastructure and a resultant increase in maintenance costs.***

Asset Planning Process

The QCSC's physical assets strategic planning followed directly from a review of the corporate strategic plan. The process was undertaken in two phases. The first focused on the QCSC's infrastructure requirements, and the second on commencing the development of an integrated approach to assets planning, incorporating planning for both infrastructure and plant and equipment requirements.

Infrastructure Assets

In looking at the future infrastructure needs, the QCSC is examining forecasts of likely growth in prisoner numbers, the status of the current infrastructure, as well as the QCSC's strategic direction and its likely operational needs in the future. A number of options were analysed, in terms of their ability to meet future infrastructure needs, before the physical asset strategic plan was developed.

Non-infrastructure Assets

The QCSC is developing an asset management system which will place more emphasis on planning based on whole of life costs of plant and equipment. Programs for the acquisition, use, maintenance and disposal of these assets will be included in the planning process. Bids for plant and equipment are made through the Operational Planning process.

Asset Overview

All QCSC owned facilities were assessed by the QCSC in its Infrastructure Plan 1995-2005. Facilities were assessed against a number of criteria, given the policy and operational requirements determined earlier in the planning process. The criteria relevant to custodial correctional centres included operations, security, programs/industries, and maintenance. The criteria for community corrections centres were programs/assessment, operations and maintenance. All facilities were rated on each criterion as either currently meeting the future requirements, requiring some modification to meet requirements, or could not meet requirements. Each centre was also given an overall rating in summary (see Table 13.8).

The current and planned (ie approved) cell capacity of each centre was documented. The capacity of each centre to expand its accommodation space (that is, the number of cells) within its perimeter was also assessed, where relevant. The scope for expansion, in terms of prisoner numbers, was then nominated (see Table 13.9).

Of particular concern is the current state of corrective facilities for women. Although female corrections do not face the same overcrowding issues as male corrections (in absolute terms), it appears that the quality of facilities for women is inequitable. The problems with current accommodation include: inadequate facilities for women with children; lack of separate facilities for long term offenders and remandees; insufficient facilities to enable a range of programs to be run concurrently; and lack of space for outdoor recreation.

Maintenance Issues

The maintenance program for infrastructure assets is currently managed by the Department of Public Works and Housing. With the presently planned progressive devolution of these functions, however, the QCSC will have a greater role in the maintenance programs in 1996-97 and subsequent years. A Maintenance Plan will be developed for future years and included in the Physical Asset Strategic Plan.

Table 13.8

Assessment of Queensland Corrective Services Commission Infrastructure

PROGRAM	CENTRE	SUMMARY RATING	ASSESSMENT SUMMARY
Secure Custody	Lotus Glen Townsville Women's Sir David Longland Arthur Gorrie Borallon	M	Meets future requirements in most areas, but some modifications will be needed to correct deficiencies
	Townsville	M	Meets future requirements in some areas only, with modifications needed to correct deficiencies.
	Rockhampton Brisbane Women's	M	Needs extensive modification to meet future requirements.
	Woodford	A	Due for completion in early 1997, and is expected to fully meet requirements.
	Wacol	X	Would need very extensive modification, overall rating is that the centre could not meet future requirements.
	Moreton	X	Could not meet future requirements.
Open Custody	Lotus Glen Farm	A	Meets future requirements.
	Townsville Farm	M	Mostly meets future requirements, with some modifications needed
	Townsville Women's	M	Some modifications are needed
	Rockhampton Annex	A	Most facilities are provided by the secure centre.
	Numinbah Palen Creek	M	Require extensive modifications.
	Westbrook	M	Modifications required, but these have been funded and a works program is under way
Community Custody	Kennigo Street	M	Modifications are required.
	Helana Jones	M	Meets requirements in most areas.
	Dutton Park	M	Modifications required, but these have been funded and a works program is under way
	Wacol WORC	X	Will not meet requirements
Other facilities	Transport and Escort	X	Several features of the leased facilities are inadequate and will not meet requirements, lease expires in early 1996.
	Training and Development	M	Modifications are required

Source: Queensland Corrective Services Commission, *Infrastructure Plan 1995-2005*.

Notes: A meets requirements; M modifications needed to meet requirements; X does not meet requirements.

The maintenance of non-infrastructure assets is managed by the QCSC. The planning phase for these assets will be influenced by the age and condition of the assets together with the budget funding available to the QCSC. Over the preceding ten year period, the QCSC and the Prisons Department prior to that, have embarked on a major construction program which has seen the stock of buildings improve markedly.

Table 13.9

Capacity for Expansion of Secure Accommodation

CENTRE	ASSESSMENT SUMMARY
Lotus Glen	Could expand by 200 (Cabinet has approved a separate 200-bed ATSI prison extension)
Borallon	
Sir David Longland	Cannot be expanded
Moreton	
Wacol	
Arthur Gorrie	Can be expanded
Rockhampton	Could expand by 100
Townsville	Could expand by 50
Palen Creek	
Westbrook	Site allows for construction of another centre
Numinbah	
Woodford	Capacity will be 600
Brisbane Women's	Could expand by 16

Source: Queensland Corrective Services Commission, *Infrastructure Plan 1995-2005*.

Of the ten secure centres through the State, five are less than ten years old. There are generally no facilities older than 30 years that are still in use. Seven open custody facilities (farms) operate throughout the State and, with the exception of the two farms in the Gold Coast hinterland, these are in acceptable condition. A number of smaller facilities for community custody exist and are in reasonable condition.

As can be expected with the 'clientele' who occupy QCSC facilities, the amount of damage that is routinely done to facilities is high. The emergent maintenance cost each year exceeds that of planned maintenance.

Maintenance implications which will affect the QCSC in coming years are presented below:

- an increase in prisoner numbers resulting in the practice of doubling up in single cells places an extra load on the infrastructure and a resultant increase in maintenance costs;
- with a relatively modern stock of facilities, the maintenance requirements are likely to increase as time passes and the facilities age;

- the introduction, in recent years, of high technology based perimeter intrusion detection systems will result in high levels of maintenance and system calibration in coming years;
- the need to review maintenance intensive assets to determine alternative options such as centre replacement or altered usage to eliminate or reduce costs; and
- the downgrading of some building finishes in recent years may result in higher maintenance costs over time.

As outlined in Volume I, the introduction of accrual budgeting should ensure the setting aside of provisions to address these maintenance issues.

Regional Planning Issues

The Commission's infrastructure program will not have a significant impact on regional communities. The new correctional centre being built at Woodford, as well as the expansion of Lotus Glen and Townsville Correctional Centres, are within the current prison reserves.

13.4 Future Demand for Corrective Services

Key Points

- *Demand for Corrective Services depends on many factors, most of these external to the QCSC (such as changes in legislation, policy and practice applying to or within the criminal justice system), but given these, it is essentially driven by population growth.*
- *Even with presently programmed new or expanded facilities, forecast numbers for male prisoners suggest overcrowding as early as 1997.*
- *For female facilities, overcrowding is as significant an issue, albeit on a smaller scale; new secure facilities will be required in southern Queensland within the planning period.*

Factors Influencing Prisoner Populations

The size of a prison population is a function of both the numbers received and how long they stay. An increase in either (or both) the number of offenders entering the system or the average length of stay will result in an increase in prisoner population.

Manipulating these elements means that growth can be accelerated, slowed, stopped, or reversed. There are a number of external factors controlling the process of manipulation. The willingness of the public to report crime and the police capacity to investigate, apprehend and prosecute are the principal sources of offender numbers. Additionally, the willingness of the public to accept the Government's definition, and the Courts' interpretation, of what constitutes a criminal act, and the appropriateness of the consequent sentence, are a minor input source to offender numbers and the major input source to average time to serve in custody. The effect of legislative and policy changes can totally outweigh the impact of other factors, such as the demographic composition of the potential offender population. The relationships between these factors and the size of the prisoner population are not always obvious. For example, the largest difficulty in estimating the effect of a new or proposed piece of legislation is determining how judicial officers will use the legislation and adjust their sentencing patterns.

The correctional system has, through sentence management processes and use of community based options, a limited influence over the average time to service in custody and, through the promotion of non-custodial alternatives, a limited capacity to affect input numbers.

Being prepared for variations in the size and profile of the prisoner and community based offender population continues to be a significant issue for the QCSC. There are a number of areas of new Government policy and potential legislative change which will have a major impact on the QCSC's operations, including the proposed revision of the QCSC's Acts and Regulations. Other changes to criminal justice legislation will have an impact on the QCSC in the longer term. While the impact of these has not been quantified, at this stage, it is expected that they will result in a further increase in prisoner numbers.

QCSC (1994)[1] assesses the application of computer based models of correctional processes and performance. The paper concludes,

> "The Commission cannot significantly influence the number of offenders coming into its system or their average length of stay. Consequently, it doesn't matter how good a model is developed or how good the data is, it will not overcome the Commission's inability to control the impact of external factors. The major factors influencing the size and composition of the prison population are Government policy and legislation. However, it is important to continue with the development of predictive models, as they provide forecasts of numbers based on current trends continuing. Such information, at a minimum, provides a warning of the possible situation if current practice or policy does not change (p.21)."

Offender Numbers Forecast

Secure and Open Custody

The chosen forecast model was used to generate a prediction of prisoner numbers for each year to 2005. Forecasts were made for both males and females, and for southern Queensland and northern Queensland (based on the Queensland Department of Housing, Local Government and Planning predictions of regional population growth). The model extrapolates the recent high growth trend to January 1997 and then assumes prisoner numbers will grow proportionally to the general Queensland population growth rate. The model is essentially based on the historical relationship between imprisonment rates and population growth rates.

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1 Queensland Corrective Services Commission (1994). *Assessment of the Development and Application of Computer Based Models of Correctional Processes and Performance*.

However, this model utilises an initial high growth period to take account of the current unprecedented growth rate. It should be noted that this model (developed in 1995) assumes no change in Government policy relating to the criminal justice system.

An occupancy rate for each centre is currently being determined which will give a better indication of the optimal availability of cells across the QCSC. This will be used in future planning exercises and, in particular, in the annual review of the QCSC's infrastructure plan. As the optimal occupancy rates across the system (ie for each centre) are yet to be determined, the forecasts are shown at 100 per cent and 95 per cent occupancy, relative to design capacity. In practice, however, a 100 per cent occupancy rate is not practical, as it allows no contingency for loss of cells due to damage or for separation of certain types of prisoners (ie juveniles, violent offenders). Consequently, only the 95 per cent occupancy figures are shown below (in Tables 13.10 and 13.11, for males and females, respectively), as these are more realistic. Moreover, the estimated overcrowding shown in the tables below may be underestimated should the actual usable capacity be less than 95 per cent.

Table 13.10

Forecast Overcrowding of Male Prisons and Correctional System Capacity, Queensland, 1995 - 2005

	95 per cent Occupancy			
Year as at January	Total	South Queensland	North Queensland	Utilisation Rate (per cent)
1995	438	379	59	120.6
1996	450	387	63	117.1
1997 (a)	269	93	175	108.4
1998	344	153	191	110.8
1999	420	213	206	113.2
2000	495	274	222	115.5
2001	571	334	238	117.9
2002	641	390	251	120.1
2003	706	443	263	122.1
2004	771	495	275	124.1
2005	836	549	287	126.2

Source: Queensland Corrective Services Commission, *Infrastructure Plan 1995-2005*.

Note: Discrepancies in totals are due to rounding of numbers. Excludes juveniles.

(a) Opening of new Woodford Correctional Centre, scheduled for early 1997.

The forecast shows that new cell capacity (beyond Woodford Correctional Centre) is likely to be required across the male custodial system within the planning time frame (to 2005). The QCSC concludes that a new secure centre will be required in southern Queensland by no later than January 1998. Northern Queensland will require an expansion in secure capacity as soon as possible, however, the QCSC maintains it is not feasible to provide this before 1998.

The forecast is a combined forecast for secure and open custody prisoners. The majority of prisoners are in secure custody. In addition, the current occupancy rate for open custody centres is consistently lower than for the secure centres. As a result any forecast deficit of cells is most likely to be required predominantly in the secure custody program.

It is worth noting that if the current high growth in prisoner numbers continues beyond January 1997 (an arbitrary date), actual numbers will be higher than forecast.

Table 13.11

Forecast Overcrowding of Female Prisons and Correctional System Capacity, Queensland, 1995 - 2005

	95 per cent Occupancy			
Year as at January	Total	South Queensland	North Queensland	Utilisation Rate (per cent)
1995	2	3	1	102.1
1996	13	22	9	112.3
1997	29	35	6	127.3
1998	31	38	6	129.2
1999	34	40	6	132.1
2000	37	43	6	135.2
2001	40	45	5	138.1
2002	42	47	5	139.6
2003	45	50	5	142.9
2004	47	52	5	144.8
2005	49	54	5	146.2

Source: Queensland Corrective Services Commission, *Infrastructure Plan 1995-2005*.

Note: ( ) represents excess capacity. Discrepancies in totals are due to rounding of numbers.

The forecast for female prisoners shows that new secure cell capacity is likely to be required in southern Queensland within the planning time frame. Brisbane Women's Correctional Centre is a small centre, so 30 prisoners in excess of capacity would create significant problems for the centre. This situation is forecast to occur by late 1996.

With the current cell expansion at Townsville Women's Correctional Centre, there is not likely to be any further expansion required in northern Queensland within the planning time frame.

Community Custody

Forecasts of prisoner numbers in community custody have not been undertaken by the QCSC, however, they are currently being developed. It is anticipated growth in demand for beds at community corrections centres is unlikely to be a major problem in the short-term. Forecasting of future community custody prisoner numbers will become an area of priority in the first review of the QCSC's infrastructure plan, as it is anticipated that it may become more of an issue in the longer term.

Other Issues

In planning the QCSC's future infrastructure needs, and setting a time frame for infrastructure development, it is essential to take account of the constraint of a lead time of approximately two years from Cabinet approval to the commissioning of a new custodial correctional centre.

The QCSC also needs to consider in its planning process whether it will build/rebuild centres on currently owned 'footprints' or whether new sites will be acquired. In this, the time constraints involved in acquiring a new site and liaison with the community are major factors. Issues such as the size of the correctional centre reserve 'footprint', economies of scale, size of buffer zones, and locations (for example, close to transport and services yet remote from residential areas) need to be considered further in planning for specific additional centres.

13.5 Future Provision of Corrective Services

Key Points

- ***The QCSC already applies good practices in resource management, including a competitive framework involving contestability by the private sector.***
- ***There is scope to build on this by further use of market mechanisms.***

The QCSC already broadly applies most of the management principles outlined in Volume I of this Report, including funding against outputs and the creation of a competitive framework involving actual contestability by the private sector.

The QCSC has confirmed it is prepared to enter into further contract management arrangements with the private sector. However, the current QCSC view is that where a required new centre is to replace an existing centre, the centre will be operated by the QCSC. The justification of this is to avoid large staff redundancies. The Commission of Audit feels, however, that this concern requires further investigation. It may be feasible to specify that a successful private contractor would be required to employ existing QCSC staff, with the exception of management personnel.

Competitive tendering for the construction of new centres should be continued and encouraged. However, the QCSC notes that whether this competitive tendering process would involve the QCSC tendering against the private sector and, if so, under what conditions, is an issue which requires further consideration.

Another problem seen by this Commission, which is perhaps symptomatic of the poor industrial relations environment in existence, is the significant rise in the number of employees on workers' compensation over the period to 30 June 1995 (a 48 per cent increase over 30 June

1994, from 330 to 490).[12] The 1994-95 figure is the highest level recorded and the yearly average has been trending upwards for the past three years. There is evidence to suggest that industrial unrest is less of a problem in the privately-managed centres. Recent industrial problems in some State-managed centres originate from the union's resistance to allowing certain changes to work practices, negotiated as part of the Woodford Correctional Centre agreement, to be transferred to other centres. The recent experience has reinforced the strong culture of resistance to change still apparently existing within the public correctional system. This is also cause for concern.

This raises for consideration the possibility of introducing a competitive tender arrangement for all current correctional centres. For example, in England two public sector managed correctional centres have been 'market tested' by being required to tender against private companies for the contract to manage each centre. This proposal, of course, needs further examination.

This also brings up the issue of ownership of correctional facilities. Currently, private contracts for prison management range from around two to five years. These contracts are obviously not long enough to justify a private contractor purchasing or establishing a purpose-built prison facility, which generally has a long life span of around 20-30 years, at least not without provision for sale of the facility at a fair price at the termination of a shorter contract. However, if management contracts could be constructed with such provisions or for a time period comparable to the life span of the physical assets, there is no reason why private ownership as well as management of correctional facilities could not be contemplated. This suggestion should be investigated further.

Contracting out of some ancillary services is already undertaken by the QCSC. This practice is consistent with the principles set out by this Commission in Volume I and should be examined further to include all areas which have the capacity to be in competition with the private sector and all areas which have the potential to be delivered by alternative suppliers in the future. These ancillary usually include catering, cleaning, medical services, etc. Control over the resources to acquire such service inputs, including maintenance, should be devolved to the lowest feasible level of management, with responsibility for combining resources to produce the required service outputs.

Recommendation

13.2 The Queensland Corrective Services Commission should further develop its market based resource management approaches, including tendering for the contract management, and possibly the supply of, new correctional facilities and the contracting out of ancillary services. This includes the option of tendering for the contract management of existing Queensland Corrective Services Commission correctional facilities.

[12] Queensland Corrective Services Commission, *Annual Performance Assessment 1994-95*.

Police Services

Key Points

While Queensland spends less on policing than other major States (the gap has been closing recently), the State ranks well in effectiveness of police service delivery with the exception of a few areas (eg personal safety). However, there is growing concern about the state of infrastructure available to support the workforce, and with police facing heavy demands over the next ten years, a better process of planning, funding and allocating resources needs to be developed.

Findings

- *Queensland is a low cost provider of police services (per capita) relative to the other major States, although the gap has narrowed in recent years as Queensland has raised spending faster than in other States.*
- *The standard of police service delivery in Queensland is at a broadly comparable level with other major States, a notable exception being in the achievement of personal safety.*
- *Satisfaction in local communities with the level of service provided by police is above the national average, but within the State, there is more dissatisfaction in the northern and western regions, as well as in some areas of the south east corner.*
- *The police to population ratio has risen in recent years, although it remains below that in other major States. Resources other than staff have not increased commensurably, and there is growing concern within the Service about a lack of adequate non-labour resources (infrastructure) to support the police workforce.*
- *In the process of allocating police strength around the State, political decisions have concentrated on police numbers, relative to objective determinants of the pattern of need, and there has been limited attention to the full resource implications (including the provision of necessary supporting infrastructure)*
- *Queensland faces growing demands in all areas of policing, notably (but not only) in areas of fast population growth.*
- *To meet this demand, the Queensland Police Service projects a need to increase staff levels by 26 per cent over the next ten years, and spend 25 per cent per annum more on infrastructure.*
- *A clear conclusion is that better planning and resource allocation processes are needed, focusing on objective drivers of policing needs and outcomes desired by the Police Service, and with full resource implications taken into account.*

13.6 Description of the Police Service

Key Point

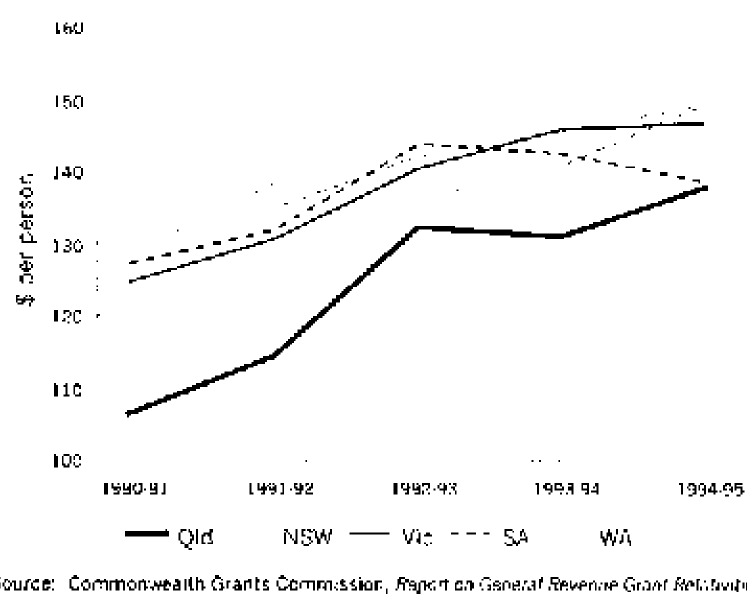
- ***Queensland is a low cost provider of police services (per capita) relative to the other major States, although the gap has narrowed in recent years as Queensland has raised spending faster than in other States.***

The mission of the Queensland Police Service is to serve the people of the State by protecting life and property, preserving peace and safety, preventing crime and upholding the law in a manner which has regard for the public good and the rights of the individual. It is the oldest continuous Government Department, commencing its service to the people of Queensland in 1864. Today, the broad structure of the Service comprises a Police Headquarters, two Operational Commands, eight Regions and detached elements with the Criminal Justice Commission, the Queensland Corrective Services Commission, the National Crime Authority and the Australian Bureau of Criminal Intelligence.

The current size of the Police Service workforce is 8,487, comprising 6,417 sworn police officers and 2,070 unsworn staff members. By nature of its service delivery functions, the Service is one of the most widely dispersed Departments, with 352 gazetted police stations located in 331 different Queensland communities. The Budget Papers show that the Police Service's total recurrent expenditure for 1994-95 was $459.4 million (approximately 86 per cent of which was salary related), while total capital expenditure was $35.0 million.

Figure 13.3

Recurrent Police Expenditure per Capita



Source: Commonwealth Grants Commission, *Report on General Revenue Grant Relativities, 1996 Update*

As can be seen from Figure 13.3 (above), while the level of recurrent spending per capita on police services in Queensland is lower than in other major States, the gap has narrowed during recent years as per capita spending in Queensland has grown at a faster rate than in other states. Despite the lower level of spending, the standard of police service delivery in Queensland is at comparable levels with the other major States, with the notable exception being in the area of personal safety (see Section 13.8 below).

13.7 Performance Assessment of the Police Service

Key Points

- ***The standard of police service delivery in Queensland is at a broadly comparable level with other major States, with the notable exception being in the achievement of personal safety.***
- ***Satisfaction with the level of service provided by police in local communities is above the national average, but within the State, there is more dissatisfaction in the northern and western regions, as well as in some areas of the south east corner.***

In general, police services seek to pursue three main objectives: to protect, help and reassure the community; to prevent crime; and to enforce the law. These objectives are closely inter-linked, with many police activities fulfilling more than one objective. In the wake of the Fitzgerald Commission of Inquiry (1989) and the Public Sector Management Commission Review (1993), the Police Service has developed a performance review system which provides an overview of performance in terms of effectiveness and efficiency in delivering policing services.

Subject to the limitations of quality, consistency, comparability and completeness of the police performance indicators,[13] generally speaking, the indicators as a whole show that standard of police service delivery in Queensland is at a broadly comparable level with other major States (see Table 13.12 below). Importantly though, Queensland does well relative to other States on some measures (eg motor vehicle theft and average costs), but does significantly worse on other measures (eg personal safety).

[13] Steering Committee for the Review of Commonwealth/State Service Provision, *Report on Government Service Provision 1995* pp v-vi, AGPS

Table 13.12

Selected Performance Indicators for Police Service by Jurisdiction

	Qld	NSW	Vic	SA	WA
Personal Safety					
Estimated Victimisation Rates per 100,000 population (1995)					
Robbery	1,300	1,700	800	1,100	n.a.
Assault	3,200	2,700	2,400	2,900	n.a.
Sexual Assault	500	500	100	800	n.a.
Property Security					
Estimated Victimisation Rates per 100,000 population (1995)					
Break and Enter	6,300	5,200	3,200	4,600	n.a.
Attempted Break and Enter	5,500	4,100	2,500	4,000	n.a.
Motor Vehicle Theft	1,400	2,100	1,500	1,100	n.a.
Road Safety					
Number of Hospitalisations and fatal road crashes per 100,000 registered vehicles (1994-95)	182	176	116	142	201
Public Order and Safety					
Number of Reported Crimes per 100,000 population (1994)					
Murder	1.31	1.77	1.25	1.77	2.29
Unlawful Entry with Intent	2,296	1,983	1,614	2,437	3,285
Motor Vehicle Theft	517	752	619	636	977
Efficiency of Service Delivery					
Average cost per offender identified using National Automated Fingerprint Identification System (1994-95)	220	111	90	101	87
Average Annual Running cost per vehicle (1994-95)	5,929	13,221	11,048	5,440	7,646
Average Salary per Sworn Officer (1994-95)	52,481	56,009	59,425	52,022	44,085

Source: Steering Committee for the Review of Commonwealth/State Service Provision, *Report on Government Service Provision 1995*, AGPS

In addition to the above performance indicators, data from the Queensland Police Service show that the clear-up rate of reported offences in Queensland has remained steady in recent years, with approximately 60 per cent of personal offences and 20 per cent of property offences being cleared. Enquires with other jurisdictions reveal that the clear-up rates in Queensland for property offences are similar to those achieved in the other major States, but clearance of personal offences is slightly down on the average of the other States.

Periodic surveys show that, on average, around 76 per cent of the Queensland population are satisfied with the level of service provided by police in local communities.[14] While this level of satisfaction in Queensland is slightly above the national average of 68 per cent satisfaction,[15] it is largely driven by high levels of satisfaction in the southern region of the State (incorporating the Toowoomba and Darling Downs regions). The Commission has noted that community leaders in the northern and western regional centres of the State, as well as some in

14 Criminal Justice Commission (1995), *Public Attitudes Towards the Queensland Police Service*

15 Steering Committee for the Review of Commonwealth/State Service Provision, *Report on Government Service Provision 1995*, p 373, AGPS

the metropolitan areas of the south east corner, are far less satisfied with the level of police resources and the corresponding standard of service provided.

13.8 Adequacy of Current Police Resources

Key Points

- ***The police to population ratio has risen in recent years, although it remains below that in other major States. Resources other than staff have not increased commensurably, and there is growing concern within the Service about a lack of adequate non-labour resources (infrastructure) to support the police workforce.***
- ***In the process of allocating police strength around the State, political decisions have concentrated on police numbers, relative to objective determinants of the pattern of need, and there has been limited attention to the full resource implications (including the provision of necessary supporting infrastructure).***

Staff Resources

Despite large population growth in Queensland during recent years, the police to population ratio has risen from 1:538 in June 1989 to 1:516 in June 1995. However, on this police to population measure of police strength, Queensland has less policing than the other major States (see Table 13.13).

Table 13.13

Comparative Police Strengths, 1994-95

	Police to Population Ratio
New South Wales	1 : 465
Victoria	1 : 448
Queensland	1 : 516
South Australia	1 : 407
Western Australia	1 : 407

Source: Steering Committee for the Review of Commonwealth/State Service Provision, *Report on Government Service Provision 1995*, p.373. AGPS and Australian Bureau of Statistics *Australian Demographic Statistics* 3101.0.

While these police to population ratios have traditionally been used as measures of the adequacy of resources and service delivery, their relevance has diminished in recent years. These ratios say little about the adequacy and equity with which police officers are distributed around the State, nor do they reflect the characteristics of the population that is being served or the effectiveness and efficiency of police systems in delivering policing services.

As outlined in the previous section, people in regional centres of the State (outside of the Southern region) have expressed some concern at the standard of service delivery in their areas, possibly reflecting inadequate levels of policing staff and resources.

The number and the location of police officers in Queensland have traditionally been determined by a process in which political decisions (to increase police numbers in particular areas) appear to have played a significant role, relative to objective determinants of the pattern of need. There has apparently been limited regard to the full resourcing implications of such staffing decisions.[16] These sorts of existing planning processes may well have contributed to the current deficiencies that the Police Service acknowledge exist in its service delivery in the State. For example, the Police Service inform the Commission that staffing arrangements in smaller rural stations mean that police officers have to devote too much time to administrative matters, and not enough time to pro-active policing. Further, rigid penalty rate systems mean that the rostering on of operational police officers during peak times of demand is sometimes limited by budgetary constraints.[17]

In suburban centres, studies by the Queensland University of Technology[18] have revealed strong community support for Police Shopfronts, which are designed to increase the visible presence of the police within the community. This survey revealed that 86 per cent of people believe that the presence of police in these shopfronts alleviated the fear of crime, and that the number of criminal incidents fell significantly where shopfronts were in operation.

While police visibility appears to have helped in deterring crime, comments from other agencies in the criminal justice system regarding crime solution indicate their belief that there is a lack of adequately trained police investigators in the State, particularly in the south eastern region. According to the Director of Public Prosecutions, this deficiency has come about as a result of a lack of standardized training and instruction, particularly with regard to Juvenile Aid and sex offences. Further, the Correctional Services Commission argue that the current system of determining police staffing levels (using models incorporating, among other things, crime statistics) is doing a disservice to the State's fight against crime, diverting attention and funds away from programs targeting the underlying causes of crime.

Buildings and Equipment

The Commission was advised that there is growing concern within the Police Service about a lack of adequate non-labour resources to support the workforce.

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16 The Service has recently adopted a staff allocation model which takes account of general factors such as population, crime and traffic, and special factors such as distance, tourism and youth. However, the model does not provide a comprehensive guide to the full resource costs involved with distributing police officers around the State.

17 As part of the Enterprise Bargaining process, a 19 per cent Operational Shift Allowance was introduced on 27 May 1995 in lieu of afternoon, evening and weekend shift penalties. This allowance is now paid to approximately 75 per cent of operational police, and has proved effective in relieving some of the budgetary constraint outlined above.

18 Queensland University of Technology (1995), *Survey of Community Perception of Police Shopfronts*

While police must be supported by good quality and good performance equipment, the current Government budgetary framework only has a few areas in which funds are formally recognised as being for capital purposes. For the Police Service, these are limited to Capital Works (Property and Facilities) and Vessel Replacement. While the Service has received special funding for information technology equipment, radio communications equipment and motor vehicle replacement, other true capital investments (for example, acquisition of a new capability or a substantially upgraded capability) are not specifically identified, and are currently financed out of base funding under the guidelines of strategic asset plans.

Figure 13.4 highlights the fact that a divergent trend has occurred between the number of police officers and capital expenditure in the Police Service.

Figure 13.4

Capital Expenditure per Sworn Officer in Queensland, 1990-91 to 1994-95

Source: *Queensland Police Service Annual Report* and *Queensland Police Service Statistical Review*.

The Police Service has an extensive communications infrastructure which has been progressively developed over many years, but the Service inform the Commission that in recent times, it has had insufficient investment applied to provide the required quantities of modern equipment and to meet the needed network expansion. As such, the Service believes that a marked obsolescence now exists in the network, and this deficiency has been met by an increasing support requirement to keep ageing equipment serviceable. According to the Service, most of this communication equipment needs to be either replaced or significantly upgraded over the next five years, while there is also a need to provide additional radio communications in specific geographic areas where operational policing requirements have increased.

In terms of land and buildings, the Police Service controls some 1,084 properties across Queensland. The Service currently manage existing and new facilities using various asset management strategies and facility development programs. These asset management strategies are relatively new, and the Service advise the Commission that existing planning processes for land and buildings have led to some imbalances in the utilisation of facilities. In the Brisbane metropolitan area for example, there is currently an imbalance between overcrowding in some facilities (particularly Police Headquarters) and under-utilisation of others. These sorts of imbalances may well be the result of existing planning processes failing to take account of the full resource implications of distributing staff around the State.

13.9 Future Demands for Police Services and Resources

Key Points

- *Queensland faces growing demands in all areas of policing, notably (but not only) in areas of fast population growth.*
- ***To meet this demand, the Queensland Police Service projects a need to increase staff levels by 26 per cent over the next ten years, and spend 25 per cent per annum more on infrastructure.***

Demand Projections

Despite the provision of growth funding and additional staff resources in recent years, the Queensland Police Service still faces heavy demands in all areas of policing. Many of these demands are most pronounced in the south east corner of the State, and in the large provincial cities. The Service has become increasingly concerned that, on present trends, the level and mix of resources likely to be available to it will not be sufficient to continue to meet these demands as Queensland enters the 21st Century.

The Police Service must strive to achieve its objectives in a rapidly changing social environment, which places heavy and constantly increasing demands on policing services. This social environment includes changing demographics and socio-economic circumstances, as well as evolving crime trends. It is estimated by the Australian Bureau of Statistics that, by the year 2001, the population of Queensland will exceed 3.6 million, representing an increase of almost 25 per cent over the ten year period from 1991. Population growth in the South Eastern, North Coast and Far Northern Police regions will be particularly significant, with growth in prisoner numbers of 87, 66 and 49 per cent respectively forecast for these areas in the ten years to 2001.

Significant socio-economic factors impacting on the demand for police services include an increasing dislocation of family and traditional values, increased discrepancies of income between the wealthy and the poor, continuing high levels of unemployment (particularly among the young), and the growing importance of tourism to Queensland's economic base. Further, the nature of crime is also changing, with more crime being organised and sophisticated, thus requiring more protracted and sophisticated investigations.

Resource Requirements

On the basis of potential future demand for policing services, the Police Service has estimated the future resource requirements (for both personnel and infrastructure) that would be necessary to maintain the current standard of service delivery in the State, utilising current planning processes. Table 13.14 (below) shows the proposed additional police and civilian positions that the Police Service believes will be required in the next ten years.

Table 13.14

Proposed Additional Police and Civilian Positions, Queensland, 1995-96 to 2004-05

	1995-96	1996-97	1997-98	Subtotal	1998-99 to 2004-05	Subtotal	Totals
Police (sworn)	60	115	125	300	160 per year	1120	1420
Civilians (unsworn)	90	50	60	200	85 per year	595	795

Source: Queensland Police Service (1995), *Towards the 21st Century: Resource Priorities for the Queensland Police Service*, June 1995.

Over the next ten years, this represents an increase in total police staff of 26 per cent, with the number of sworn officers and unsworn civilians increasing by 22 and 38 per cent respectively. The costs associated with these additional police and civilian positions for the ten year period is estimated by the Service to be around $190 million. The Service informs the Commission that the number of additional police officers proposed over the decade has been determined on the basis of the needs to be met, the capacity of the Service to recruit and train officers and the replacement of officer attrition, while the additional civilian employees will allow the release of police officers to return to operational duties.

In addressing infrastructure requirements, the Service must consider capital works, information technology and equipment needs (including vehicles). With analysis of population growth and movement, urban residential development and the impact of commercial activity (such as tourism) on operational demands, the Service has identified infrastructure needs in excess of $480 million over the next ten years. The Police Service's Physical Assets Strategic Plan shows that it projects a need to spend this money at roughly $50 million per annum, and this is around 25 per cent higher than average per annum capital expenditure in recent years.

These identified infrastructure needs include, new and replacement Police Stations and District Offices, upgrading and extension of existing facilities, new facilities for special squads (eg Dog Squad, Water Police), upgrading and replacement of watchhouses, land acquisition, and new and upgraded communication, information management and crime detection equipment. Also included in these estimates are provisions for collaborative arrangements with the

Queensland Emergency Services for joint computer aided dispatch and communication centres. These initiatives have stemmed from the Public Sector Management Commission review of both agencies.

The Police Service believes that the resources outlined above would allow Queensland to enter the 21st Century with a well trained and equipped police service of adequate size, optimally distributed throughout the State, and with the technologies and work practices to enable it to carry out the critical functions of policing at least as efficiently and effectively as current provision.

13.10 Conclusions

Key Point

- ***A clear conclusion is that better planning and resource allocation processes are needed, focusing on objective drivers of policing needs and outcomes desired by the Police Service, and with full resource implications taken into account.***

While the fight against crime must be addressed concurrently on a number of fronts, it is well accepted that the State needs an adequately resourced and well trained Police Service as one of these crime fighting tools. Given the demand projections for police services, it is critical that changing priorities do not concentrate attention on police numbers while overlooking the importance of providing the necessary infrastructure and other non-labour resources required to support them.

The Commission acknowledges that the Service has made improvements to its planning and resource allocation processes in the last three years, and this is evidenced by Police Service documents such as *Towards the 21st Century. Resource Priorities for the Queensland Police Service*. Despite these recent enhancements however, the Commission still believes that a better planning process is needed, consistent with the principles set out in Volume I of this report. Such a planning process would ensure that decisions are made on the number and the allocation of police required to deliver policing outcomes agreed with the Government, in exchange for funding; and that decisions are made with regard to the *full* resourcing implications. It is important that staffing, infrastructure and indeed *all* resourcing decisions are integrated, and that the management of the Service's annual resource allocation is left to managers within the Service itself, at the appropriate level.

The adoption of such planning processes will ensure that police are supported by adequate infrastructure, and that all staff are suitably trained to use the enhanced equipment and technology that will become available as we move towards and into the 21st century. Further, such new planning processes will also highlight the full benefits and resource implications of the current initiatives of the Police Service to develop shared infrastructure relationships with the Queensland Emergency Services.

A 'full resource implication' planning process must go hand in hand with an output approach to funding and service delivery, on the principles set out in Volume 1 of this Report. An explicitly output (and outcome) based planning and budgeting process has been used successfully in Victoria, for example, in the achievement of significantly improved road safety by linking funding explicitly to outcome objectives, with the Police Service then motivated to continually explore initiatives to deploy its resources so as to maximise impact on major outcome measures. In Queensland, there is apparent room for improvement in certain areas of Police Service delivery, particularly in the achievement of personal safety as already noted. As the Victorian experience suggests, an explicitly output or outcome based planning, funding and management approach could be successfully used to target and improve the achievement of personal safety in Queensland.

Recommendation

13.3 Improved planning and budgeting processes are required under which the Government should provide funding against specified policing outcomes, comprehending their full resource costs; and the police service should determine the allocation of its overall resources, including police, to achieve the outcomes.

Fire Services

Key Points

The Queensland Fire Service appears to be more effective in its delivery of fire services than similar agencies in other States, partly influenced by favourable climatic conditions in Queensland. Notwithstanding this result, firefighting resources are currently distributed unevenly around the State, and improved planning processes will be needed to correct this uneven distribution as the demand for fire services increases over the next ten years.

Findings

- *Queensland lies between New South Wales and Victoria in per capita spending on fire services, with the main source of funding being a State fire levy.*
- *The loss of life and property from fire in Queensland is lower than in the other major States for two reasons: the effectiveness of the Queensland Fire Service; and favourable climatic conditions.*
- *Firefighting resources are currently distributed unevenly around the State, partly for historical reasons and partly because political decisions have apparently had limited regard to standardised planning processes which would locate resources according to fire risk-weighted need.*
- *Staffing practices contain anomalies and cost inefficiencies, and the Fire Service is concerned that a growing proportion of its infrastructure (particularly buildings and equipment) has aged to unacceptable levels.*
- *While there has been some cooperation under the joint Queensland Emergency Services umbrella in sharing infrastructure between the Fire and Ambulance Services, there may be much more scope for resource sharing and rationalisation of some functions and activities.*
- *Best practice for the allocation of fire resources appears to be via contemporary standards, taking account of the fire risk associated with all regions in the State (that is, fire risk mapping). Given growing demands, such an approach is needed to achieve maximum service from the available resources.*
- *The main conclusion is that improved planning processes are required which are based on the coverage of fire risk in the State, and which take account of the full resource implications of decisions which are made, including those in regard to infrastructure sharing.*

13.11 Description of Fire Service

Key Point

- ***Queensland lies between New South Wales and Victoria in per capita spending on fire services, with the main source of funding being a State fire levy.***

Prior to 1989, fire services in Queensland were provided through 81 separate Fire Brigade Boards. During 1989-90, legislation was enacted to create a single fire service in the State. Today, the Queensland Fire Service is a division of the Queensland Emergency Services department, along with other divisions ranging from the Ambulance, Counter Disaster and Statewide Services to Fair Trading (Consumer Affairs) and Corporate Services.

The Fire Service's operations are primarily funded by a compulsory fire levy on residents of the State, with legislation enabling collection of these levies by Local Government. The Service is responsible for the protection of persons, property and the environment from fire and chemical incidents and the rescue of persons trapped in vehicles or buildings.

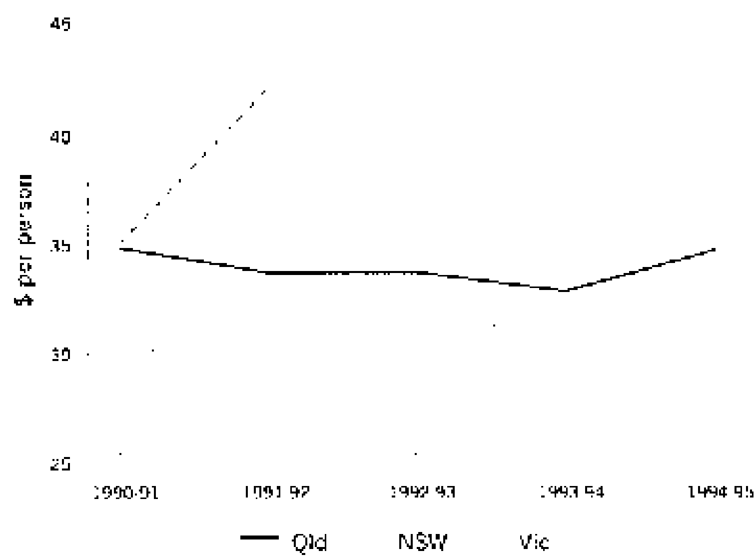
This role includes a range of services relating to fire prevention, education and advice, as well as functions involving inspection, investigation and prosecution aimed at enforcing compliance with fire safety and hazard reduction. As such, the Service is structured with a Coordination unit, as well as Urban and Rural Operations divisions. Within Urban Operations, the State is divided into seven Regions, with Regional Offices in Cairns, Townsville, Rockhampton, Maryborough, Toowoomba, Brisbane and Beenleigh.

The Fire Service currently employs 1,856 permanent urban firefighters and 2,160 auxiliary firefighters, with an additional 46,579 volunteer firefighters (including 2,403 fire wardens and 226 chief fire wardens) also registered. These staff are located throughout the State in 242 urban fire stations and 240 rural fire stations. According to the Budget Papers, the total recurrent expenditure for the Fire Service in 1994-95 was $110.6 million, with capital expenditure for the year totalling $10.3 million.

Figure 13.5 (below) shows recurrent fire service expenditure per capita in a number of major states. While the level of recurrent fire service expenditure per capita in Queensland is clearly higher than in New South Wales, Victoria spends the most among the major States, largely because of the cost inefficiencies resulting from provision of fire services arising from having two separate authorities (the Metropolitan Fire Brigade and the Country Fire Authority).

Figure 13.5

Recurrent Fire Expenditure per Capita, 1990-91 to 1994-95



Sources: *Queensland Fire Service Annual Reports*; NSW Budget Papers; Victorian Country Fire Authority and Metropolitan Fire Brigade Annual Reports; and Australian Bureau of Statistics *Australian Demographic Statistics* 3101.0.

13.12 Performance Assessment of Fire Services

Key Points

- ***The loss of life and property from fire in Queensland is lower than in the other major States for two reasons: the effectiveness of the Fire Service; and favourable climatic conditions.***
- ***Firefighting resources are currently distributed unevenly around the State, partly for historical reasons and partly because political decisions have apparently had limited regard to standardised planning processes which would locate resources according to fire risk-weighted need.***

With the focus of fire service delivery in Australia gradually shifting away from simply fire 'suppression' towards fire 'prevention and suppression', the Queensland Fire Service utilise key performance indicators of both the effectiveness and the efficiency of its fire service delivery. While fire services have traditionally measured their success based on input measures (for example, numbers of fire units and firefighters involved at a fire incident), the Service, where possible, has shifted its focus towards output measures (for example, the rate of fire deaths and injury).

Effectiveness Indicators

Data from the Australian Bureau of Statistics' *Cause of Death* Release indicates that accidental deaths caused by fire and flame (per 100,000 population) in Queensland are lower than in most other Australian States, and lower than in many other countries. In addition, the Fire Service estimate that property fire damage in Queensland is also similarly low by Australian and international standards. While the efforts and the expertise of the Service in minimising loss from fire in Queensland is to be commended, this result has also been influenced by the fact that Queensland has a lower fire threat than in southern States, and in many other countries.[19] The relatively low fire threat exists for the following reasons:

- the climatic conditions in Queensland are less favourable to fire than in southern States (that is, the rainy season in Queensland usually coincides with the hottest part of the year);
- there are fewer house fire hazards in a warmer climate; and
- fire safety legislation in Queensland has been effective in altering building practices to minimise fire and provide fire prevention and suppression facilities.

Notwithstanding these climatic and legislative influences, the Queensland Fire Service does perform well in its efforts to minimise loss from fire in the State.

Efficiency Indicators

As Table 13.15 (below) shows, Queensland is one of the highest spending States in terms of total expenditure on fire service delivery. While the corresponding output of the Queensland Fire Service (loss from fire) is better than in other States (partly influenced by climatic conditions), it is apparent that the eveness of the coverage of Queensland by the Fire Service is not as good as in the other major States. The Service inform the Commission that there are currently excessive numbers of fire stations in some areas of the State (particularly in suburban areas), and considerable under-servicing of other areas (notably in rural areas).

19 Queensland Treasury (1991). *A Report on an Evaluation of the Queensland Fire Service Program*, p.24.

Table 13.15

Total Cost per Capita of Fire Service, 1994

State	Cost per head of Population ($ per person)
Victoria	49
South Australia	47
Queensland	46
New South Wales	38
Western Australia	36

Source: Queensland Fire Service (1995), *Draft Fire Service Delivery Policy*.

The reason for this uneven distribution of resources is twofold. Firstly, the current placement of fire stations is a reflection of the former (disjointed) Fire Board system in Queensland. Further, the fire stations were built according to individual and political influences, with little regard to population trends or the fire risk profile associated with the regions in the State (ie the actual demand for fire service coverage).

13.13 Adequacy of the Fire Service's Resources

Key Points

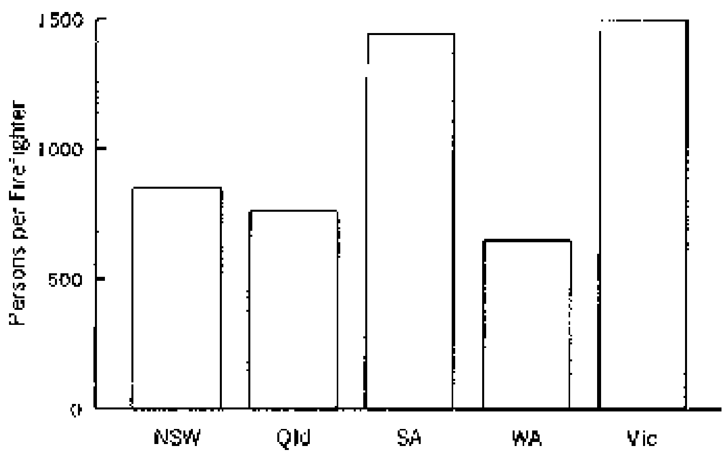
- ***Staffing practices contain anomalies and cost inefficiencies, and the Fire Service is concerned that a growing proportion of its infrastructure (particularly buildings and equipment) has aged to unacceptable levels.***
- ***While there has been some cooperation under the joint Queensland Emergency Services umbrella in sharing infrastructure between the Fire and Ambulance Services, there may be much more scope for resource sharing and rationalisation of some functions and activities.***

Firefighting Staff

Figure 13.6 (below) shows the population protected per urban firefighter (full-time plus auxiliary staff) across the major States. On this firefighter per person measure of fire service strength, Queensland compares favourably with the other States. However, these figures shed little light on the adequacy of the distribution of firefighters around the State.

Figure 13.6

Population Protected per Urban Firefighter, 1995



Source: Queensland Fire Service (1995), *National and International Fire Service Survey*

The Queensland Fire Service believes that there are insufficient rural firefighters in the State. In terms of urban staffing levels, the typical number of crew members on a standard urban pumper in Queensland is one officer and two firefighters (1+2).[20] The average staff level in other States is closer to 1+3, and the Service believes that this is an operationally sound benchmark (but not necessarily a minimum standard) that should be strived for as a medium-term target in Queensland.

Importantly, the staffing policies currently used by the Fire Service are a mixture of systems inherited from the previous Fire Boards system. The Service informs the Commission that, as a result, there are many cases in which staffing arrangements are inappropriate in terms of staff allocation, and cost inefficient in terms of the mix of full and part-time workers.

Firefighting Buildings and Equipment

The Fire Service advises the Commission that a growing proportion of its buildings and equipment has aged beyond acceptable levels.

The nature of fire service delivery means that the Service is heavily dependent on its physical infrastructure and equipment. In terms of buildings, the Service concede that there are a number of permanently staffed fire stations in the larger cities and country communities within Queensland which were constructed in the early part of this century and which no longer meet the needs of the staff or the equipment now in use.

A recent study conducted by the New South Wales Fire Brigade on the economic life of fire service vehicles found that vehicles older than 15 years (for petrol) and 17 years (for diesel) are not economic to maintain. The Queensland Fire Service has a front line fleet of 427

[20] Queensland Fire Service (1995), *National and International Fire Service Survey*

vehicles, with the majority being urban pumpers, and 181 (42 per cent) of them are older than 15 years. Thus, the problem of ageing vehicles is a pressing issue for the Service, and it is currently formulating plans to upgrade its vehicle fleet.

In terms of equipment, the majority of fire stations within the State operate with equipment supplied under the previous Fire Board system, and there is no standardised equipment inventory. As such, the Service informs the Commission that many stations have items of equipment which are either antiquated, unserviceable or have no application in modern firefighting practices, and this is particularly the case in some rural and remote stations.

Location of Fire Stations (Fire Cover)

The Commission was advised that the current placement of fire stations means that resources are distributed unevenly around the State. The major reason for this is that existing fire stations were located according to political whim, with little regard to standardised planning processes. While there is clearly no absolutely right answer in terms of the standard of fire service delivery (zero fire risk is unattainable), other major States have allocated their fire service resources according to contemporary standards, taking full account of the fire risk associated with all regions (ie, risk mapping). This type of planning process is called a 'Standard of Fire Cover', and is utilised in many countries, including the United Kingdom, the United States, Canada and New Zealand.

In recent years, the Queensland Fire Service has worked to develop a Standard of Fire Cover for the application of resources across Queensland, and after several stages, the result has been the development of the draft *Fire Service Delivery Policy* which was released to the Unions and the Assistant Commissioners for comments early this year. Importantly, new fire stations in Queensland are currently being located using contemporary standards which are broadly consistent with those contained in the draft report.

Shared Infrastructure with Other Emergency Services

The co-location of the Chief Executive Officers of the Queensland Fire Service, the Queensland Ambulance Service and Counter Disaster Services within the Queensland Emergency Services promotes the exchange of ideas, and benefits do accrue to the community as a result of this dialogue. The organisations have realised some positive outcomes from proposals for joint infrastructure usage including:

- shared repeater sites for radio communication;
- two joint Queensland Fire Service/Queensland Ambulance Service Communication Centres to be completed at Toowoomba and Cairns;
- continued development of the joint Queensland Emergency Services Computer Aided Dispatch program; and
- proposals to develop joint fire/ambulance stations at Edmonton and Caboolture.

While the benefits that can result from joint facility projects have been recognised by the emergency services, the implementation of such projects has been difficult and flawed along the way, possibly because of the purist bureaucratic approach. 'Tribalism' within the permanent services (particularly Fire and Ambulance) is entrenched, and while the agencies cooperate effectively and professionally, there appears to be little desire to change the status quo.

While the adoption of planning processes which take account of the full resource implications of 'shared' relationships would greatly assist the agencies to identify the benefits of joint infrastructure, clear political support would also be needed to counteract entrenched resistance to such changes. Importantly, the Fire Services in other countries operate with joint infrastructure, with stations across Germany and in parts of the United States and Canada containing standard firefighting vehicles, as well as ambulance vehicles with paramedics on site.

13.14 Future Demands for Fire Services and Resources

Key Point

- ***Best practice for the allocation of fire resources appears to be via contemporary standards, taking account of the fire risk associated with all regions in the State (that is, fire risk mapping). Given growing demands, such an approach is needed to achieve maximum service from the available resources.***

Demand Projections

Despite the fact that there is no approved Standard of Fire Cover in Queensland, the Fire Service does currently use contemporary planning tools to develop options for the provision of infrastructural and staffing needs. As always, the demand for fire services in Queensland over coming years will be driven by population growth in Queensland, the location of the population, climatic conditions, and the inherent fire risk of the buildings and industrial structures being erected.

One of the most important demographics in the State which will drive the need for fire services in coming years is the rapid expansion of rural residential development. There is growing demand for structured firefighting services in rural areas, and the Fire Service forecasts that an eight per cent per annum growth factor for new Brigades will greatly assist to reduce vast Rural Brigade areas to more manageable sizes, leading to more responsive rural residential brigades.

With forecasts of continued State-wide growth in population, the Service informed the Commission that it will continue to allocate resources according to the guidelines from contemporary fire risk mapping, but it anticipates endorsement of its Fire Service Delivery Policy in the near future.

Resource Requirements

According to the Fire Service, it cannot sustain the existing level of fire service delivery within the present level of funding because of:

- the current inequities in both funding and service delivery;
- insufficient discretionary funding is available for key areas such as fleet replacement and capital works; and
- the Service cannot deliver significant staffing increases with current funding.

Given the growing need for fire cover in the State, particularly in rural areas, the Service has estimated the funding that would be required to provide fire services at least as effectively as current provision utilising current planning processes.

With regard to the guidelines from risk mapping techniques, the Fire Service has identified infrastructure needs of $87.3 million during the next five years. The Service plan to spend these resources at an average of $20 million per annum for the next three years (around 50 per cent per annum higher than the average of recent years), falling to around current average levels ($12 million per annum) from 1999-2000 onwards. Included in these estimates are provisions for: new and upgraded fire stations; significant vehicle purchases; equipment upgrading and purchases (particularly communication equipment) and protective clothing purchases.

The Fire Service believe that the resources outlined above would enable emerging fire service delivery requirements to be met, and allow the standard of fire service to be maintained at least at current levels.

13.15 Conclusions

Key Point

- ***The main conclusion is that improved planning processes are required which are based on the coverage of fire risk in the State, and which take account of the full resource implications of decisions which are made, including those in regard to infrastructure sharing.***

The pressing issue for the Queensland Fire Service is that the demand for its services will rise over the next ten years, but its fire stations are not adequately located to meet this demand on a continuing basis. The Fire Service must manage its resources to minimise losses of life and property by fire while ensuring an equitable provision of its services. The Commission therefore agrees that the Service should continue to strive for endorsement of its draft Fire Service Delivery Policy, and adopt a planning and budgeting process which takes account of the full resource implications of implementing this policy. If applied prospectively as well as retrospectively, such a planning process will improve operational performance and cost effectiveness (possibly within existing levels of funding), as well as making clearer the adequacy or otherwise of the Service's infrastructure.

The Commission also believes that there may be infrastructure and other resource sharing possibilities (particularly sharing of land and buildings) between the Queensland Fire Service and the Queensland Ambulance Service, consolidating on current proposals to build two joint facilities. There may also be scope to rationalise some functions and activities. Further, the adoption of a 'full resource' planning process would greatly assist the agencies to clearly identify both the resource implications and the benefits of such infrastructure sharing. However, implementation of joint infrastructure projects would have to be backed by clear political support to counteract any entrenched resistance to the changes.

Recommendations

13.4 The planning and resource allocation processes of the Queensland Fire Service should be re-based explicitly on standards defined in terms of spatial coverage of fire risk, along the lines set out in the Fire Service's draft Fire Service Delivery Policy, considering the full resource implications.

13.5 The Government should establish a taskforce to identify the scope for resource sharing between the Fire and Ambulance Services, and for rationalisation of their functions and activities.

Chapter Fourteen

Local Government

Key Points

Local governments in Queensland carry out more services than those in other States, particularly in urban water and sewerage. There is wide variation in the population and area base of councils, from the largest in Australia (Brisbane City) to some of the smallest. Many are dependant on the State Budget, and over 100 have own source revenues under $20 million, and these fund only two-thirds of their own expenditure. Reforms are needed in the sector's structure, exposure to competition, and other aspects.

Findings

- *Queensland has the highest per capita outlays for local government compared with the other States and the Northern Territory.*
- *Local government in Queensland is dominated in size of revenue and outlays by 17 Councils: many of the remaining Councils having a revenue base which depends on grants and subsidies from other levels of government.*
- *The local government sector plays a significant role in infrastructure provision in urban water and sewerage programs, and in a wide range of other community services which are delivered close to the community they serve.*
- *The application of national competition policy to the local government sector in Queensland will require 17 councils to be subject to competitive neutrality in service provision, but will not be subject to any requirement for competitive tendering. All Councils will need to examine their service delivery and cost structures to deliver efficiencies, particularly in infrastructure provision and in the urban water sector.*
- *The local government sector nationally is in the process of developing benchmarks for the efficiency and effectiveness of service delivery, and councils in Queensland will need to measure performance against these benchmarks, and this will include an examination of efficiencies to be obtained in local government from a review of the boundaries of councils, particularly in provincial areas.*
- *Processes need to be implemented for the integration of state and local government planning processes to ensure that efficiencies are maximised through the coordination of infrastructure development.*

Recommendations

14.1 *The Government should ensure that national competition policy is applied in local government so that:*

- *councils which have significant business activities maximise efficiencies through competitive tendering;*
- *councils covered by the voluntary Code of Competitive Conduct apply the Code fully in their operations;*
- *there are incentives for councils to participate in the national competition reform process; and*
- *the local government sector implements the relevant recommendations on water reform set out in this Report.*

14.2 *The Government should develop a planning framework which ensures effective coordination of state and local government infrastructure provision and maximises private sector involvement.*

14.3 *The Government should work with local government to identify and implement reforms to improve the efficiency of the sector, including:*

- *application of best practice in planning and budgeting as outlined in this Report;*
- *amalgamation of councils where the result would be better value for money for ratepayers;*
- *implementation of appropriate user pays regimes to increase own source revenue, particularly for utilities—to contribute to infrastructure financing and usage costs;*
- *application of pricing on a full accrual basis;*
- *explicit recognition of community service obligations, particularly with respect to the smaller councils in rural areas; and*
- *use of benchmarks in performance assessment.*

Chapter Fourteen

Local Government

14.1 Local Government and Service Delivery

Key Points

- ***The scale and extent of local government services in Queensland differs from other States, where significant services, particularly water and sewerage, are generally delivered through State Government authorities.***
- ***Queensland has the highest per capita outlays for local government compared with the other States and the Northern Territory which reflects the greater range of services provided through local government in this State.***
- ***Queensland has the largest local government in Australia in the Brisbane City Council, and 16 other councils having significant business activities by dollar value, with a wide range of councils by size.***

Legislative Framework

In the Australian Federation, State Governments have the constitutional responsibility for the operation of a system of local government within their own jurisdictions. In Queensland, the legislative framework within which local government operates is largely provided by the *Local Government Act 1993* and the *City of Brisbane Act 1924*. Local Government in Queensland consists of 125 individual councils under the Acts. There are 31 Aboriginal or Island Councils under the *Community Services (Aboriginals) Act 1984* and the *Community Services (Torres Strait) Act 1984*, and, as they are not subject to the same administrative and financial reform processes which are the focus of this discussion, consideration of them is outside the scope of this chapter.

The State legislation which establishes the system of local government in Queensland provides the legal framework which recognises this jurisdiction of government of local area, with a minimum of intervention by the State. Therefore, the State Government provides for local government to exercise a law making role for local laws and an executive role for policy implementation, administration and enforcement of its local laws.

Size and Role of Local Government

The size and geographic circumstances of councils and their needs and service priorities cover an extreme range. Brisbane City with a population of over 780,000, is the largest local government in Australia with a gross budget in the coming financial year of around $1 billion.

At the other extreme, Diamantina Shire with a population of under 250, services an area of some 94,000 square kilometres.

Local government in Queensland plays a significant role in the development of economic and social infrastructure, a role which is more significant than that in any other State in Australia. The relative size and profile of activities undertaken by local government in Queensland, and especially its central role in water and sewerage services, sets it apart from local government jurisdictions in other States. A comparison of the total outlays by purpose for local government in each State is presented in Table 14.1.

Table 14.1

Total Outlays by Purpose for the Local Government, 1994-95, ($ million)

Group	NSW	Vic	Qld	SA	WA	Tas	NT	Australia
Water (a)	77	..	169	..	.	8	..	254
Sanitation and Environment	223	173	218	70	(17)	28	2	697
Recreation and Culture	536	407	286	106	169	32	14	1,550
Transport and Communications	646	504	498	145	243	66	10	2,112
All Other Services	1,147	971	752	335	299	107	21	3,632
Total	**2,629**	**2,055**	**1,923**	**656**	**694**	**241**	**47**	**8,245**
Estimated Resident Population ('000) (b)	6,115.1	4,502.0	3,277.4	1,474.0	1,731.7	473.3	173.9	17,747.4
Outlays per Capita ($)	430.0	456.5	557.0	444.5	400.8	509.2	270.3	2,698.3

Source: Australian Bureau of Statistics *Government Finance Statistics Australia* 5512.0.

Note (a) Excludes expenditure by public trading enterprises in the local government section
(b) As at 30 June 1995.

This Table demonstrates that Queensland has the highest per capita outlays of any local government, and that some purposes, particularly water and sanitation and the protection of the environment, are not performed in some States and the Northern Territory. Water, for example, is provided in most other States through a statutory authority or government department.

Within Queensland, while all local governments have the same basic powers, the scale and extent of the services provided varies considerably according to the needs of their communities and the resources available. This fact is demonstrated by Table 14.2 which presents the Brisbane City Council separately and local government by statistical divisions in the State.

This Table demonstrates the dominance of the Brisbane City Council. This one council has 28 per cent of expenditure on goods, services and land and 25 per cent of the State's population. There is a wide variation in the per capita expenditure by councils reflecting differences in services, infrastructure responsibilities, size of rate base, and dispersion of the population served. It demonstrates a high cost structure for the councils in the three western Queensland Statistical Divisions, which number 35 in total, or over one quarter of all councils.

Table 14.2

Local Authorities: Expenditure on Goods, Service and Land, Queensland, 1993-94 (a)

City/Statistical Division	Number of Councils (b)	Estimated Resident Population (c)	Expenditure on Goods, Services and Land ($'000)	Expenditure per Capita ($)
Brisbane City	1	786,442	697,624	887.06
Brisbane & Moreton Remainder	18	1,227,140	809,079	659.32
Wide Bay-Burnett	21	216,140	161,582	747.58
Darling Downs	22	203,591	146,952	721.80
South West	10	28,776	46,280	1,608.28
Fitzroy	12	179,215	142,023	792.47
Central West	11	13,083	42,104	3,218.22
Mackay	7	116,317	86,430	743.06
Northern	7	192,432	142,354	739.76
Far North	14	195,763	171,033	873.67
North-West	8	37,776	52,326	1,385.17
Queensland (c)	**131**	**3,196,934**	**2,497,787**	**781.31**

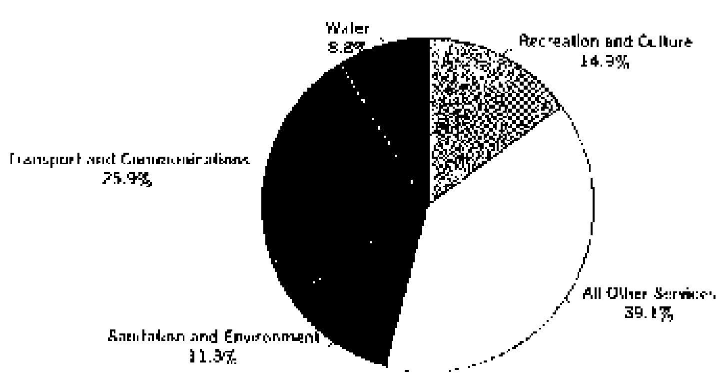
Source: Australian Bureau of Statistics *Local Government Queensland 1993-94* 5502.3.

Notes: (a) 1994-95 data will not be available. The change to accrual accounting across the councils has resulted in data accuracy and comparability problems.
(b) The numbers are pre-amalgamation; there are 125 since amalgamations occurred.
(c) As at 30 June 1994.
(d) Population includes off shore and migratory population of 259 not shown in individual statistical division figures.

The four largest components of local government expenditure are transport and communications, recreation and culture, sanitation and protection of the environment, and water, as presented in Figure 14.1.

Figure 14.1

Local Government Expenditure, Queensland, 1993-94



Source: Australian Bureau of Statistics *Government Finance Statistics Australia* 5512.0.

This profile of activities also means that local government is a larger employer in Queensland than in other States. In Queensland, 3.5 per cent of employed wage and salary earners in 1994 were with local government, compared with the Australian average of 2.7 per cent.

Efficiency Improvements

Local government in Queensland has been involved in a reform process, with measures progressively introduced including corporate planning, accrual accounting, asset management systems and quality assurance. Many of these arose from the introduction of the *Local Government Act 1993* which replaced the more prescriptive approach of the previous legislation. Other reforms include road reform through agreed price performance contracts, competitive tendering and resource sharing and initiatives in reform of the workplace.

The use of information technology has been rapidly adopted by local government. The potential benefits have been enhanced through the development of the Local Government Association of Queensland Net. Over 94 per cent of Councils subscribe to the Net and access 28 databases to assist in operational efficiency. The contract and purchasing services component will provide Councils with information to obtain services at more competitive prices.

In looking at ways to gain efficiencies in reform processes in the future, the role that local government performs in meeting the government's social and economic objectives needs to be explicit. Community service obligations have a role in planning and budgeting processes for local government. In a decentralised State such as Queensland, there is a need to ensure basic services are provided in rural and remote areas, even though such services may not be commercially viable, and pricing models need to make the community service obligations involved transparent. This service delivery role, and the need for improvements in productivity, require consideration of local government areas as the basis for the provision of services.

Review of Local Government Matters

The *Local Government Act 1993* provides for the State Government to review local government matters covering the boundaries of a local government area. Amalgamations occurred as a result of the recommendations of the Electoral and Administrative Review Commission in its review of local government boundaries, and the subsequent reviews conducted by the Local Government Commissioner under powers provided for in the Act. The first amalgamation occurred in November 1993 and the most recent in March 1995. The case for the amalgamations was based on arguments that, in the interest of delivering better value to communities, one council should cover an area which had a community of interest in social and economic terms, was subject to urban over spill, demonstrated growth patterns which would benefit from the coordination of planning between urban and rural areas which had close links, and could achieve improved infrastructure provision in the new geographic area. Therefore, the places where amalgamations were recommended were major provincial cities. The recommendations were accepted by the Government for the cities of Gympie, Mackay, Warwick, Bundaberg, Gold Coast, Ipswich and Cairns (although anomalously, not for some other cities where the case seemed clear--eg Townsville).

The Government has introduced legislation which allows for a process of de-amalgamation, based on the commitment to allow electors of councils to decide the issue, and three councils will be subject to referendum before the end of July. The Government's policy is that, in future, no local government will undergo amalgamation without a referendum on the proposal.

Experience in other States with amalgamation is relevant. The reform of local government carried out by the Victorian Government, with particular support from the business community, had the specific objective of achieving an across the board cut in rates of 20 per cent. The reform involved three key elements: the establishment of a local government board to review boundaries, the appointment of commissioners to manage the councils during the change process, and the appointment of interim chief executive officers for each new council. The reforms resulted in a reduction in the number of councils from 210 to 78 in the two years from December 1992. For example, this involved approximately doubling the average size of Melbourne metropolitan councils from about 57,000 to around 100,000 people. The percentage saving on rates estimated for 1995-96 is 17.7 per cent.[1]

The most significant item on the Victorian local government reform agenda in achieving savings is compulsory competitive tendering, which was introduced in October 1994, with the requirement from the State Government for councils to submit 20 per cent of their total expenditure to competitive tender in 1994-95, 30 per cent in 1995-96 and 50 per cent from 1996-97 onwards.[2] All but five councils met the 20 per cent target, and results to date, while focusing on the achievement of the target, indicate that savings are being made on most of the contracts.[3]

The circumstances for amalgamations in Queensland are different to those in Victoria, considering there is a single capital city local government area already (since 1924), and that local government provides a greater range of services in this State, so that rate comparisons are difficult to make. However, the issues on which the interstate experience remains relevant include: the importance of establishing boundaries for local government having regard to the most efficient sizes of local government areas for service provision and planning activities (depending on local factors); and the potential benefits of compulsory competitive tendering in the local government sector. Victoria's experience also highlights the fact that it is virtually impossible for reforms, such as changing boundaries, to be achieved from within the local government level itself; rather these require action at the state level.

1 Minister's Review, Local Government in 1995, *First Fruits of Reform*

2 Minister's Review, op. cit.

3 Office of Local Government (1995) *Competitive Tendering: Minister's Report on the First Year of CCT*

14.2 Financing Arrangements

Key Points

- *The main source of funds for the local government sector is own source revenue, particularly the general rate levied on land value, providing nearly 84 per cent of total revenue.*
- *The size of the own source revenue base varies widely across councils, with the 101 councils which have a revenue base of less than $20 million raising 66.4 per cent of total revenue from their own sources, with an increased reliance on government funds for their viability.*
- *The local government sector needs to review its revenue base and charging policies for services to increase the application of user charges related to costs, on an accrual basis, and greater opportunity for developer contributions.*

Legislative Framework

Local government financing arrangements are governed mainly by the *Local Government Act 1993* and the Local Government Finance Standard 1994. The effect of this legislative framework is to require local governments to prepare balanced budgets in accordance with their annual corporate and operational plans. Budgets and financial statements are in transition from cash only to accrual, with full asset recognition. A similar framework applies to Brisbane City Council under the *City of Brisbane Act 1924*.

There are two other pieces of legislation which have a major impact on local government financing. The *Statutory Bodies Financial Arrangements Act* requires councils to obtain the agreement of the Treasurer before entering into financial arrangements, in particular borrowings or other forms of capital raising. The *Local Government (Planning and Environment) Act* enables local governments to levy capital contributions from developers.

Revenue Base

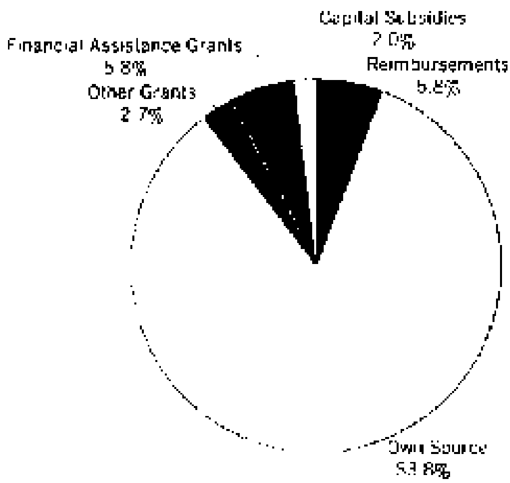
The revenue base of local government is made up of five components:

- own source revenue such as rates, utility charges and developer contributions;
- financial assistance grants from the Commonwealth Government;
- reimbursements by the State Government for work undertaken such as council work on State roads;
- capital subsidies from the State Government for water, sewerage and drainage and state road works; and
- other grants for capital or recurrent cost, such as libraries.

The sector as a whole is overwhelmingly funded from its own revenue sources as Figure 14.2 indicates

Figure 14.2

Local Government Revenue, Queensland, 1993-94



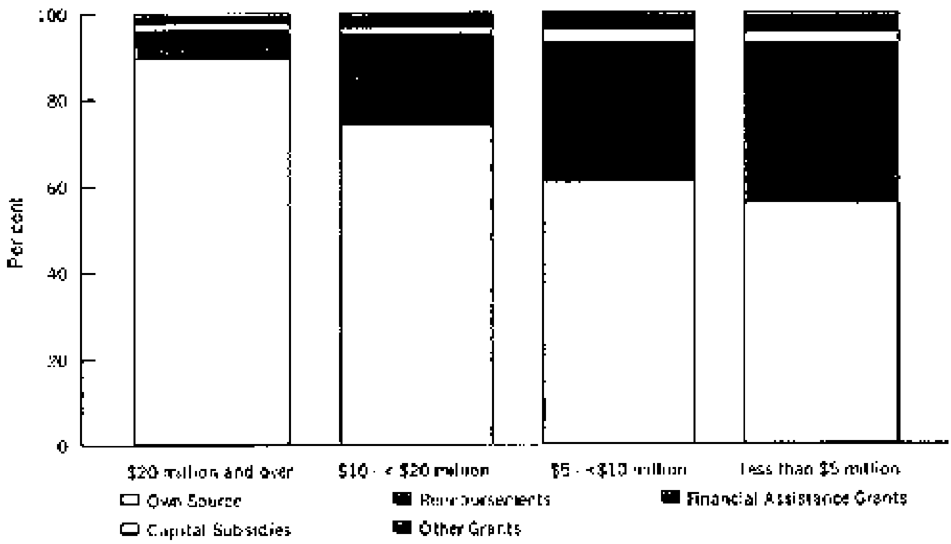
Source: Australian Bureau of Statistics *Local Government Queensland 1993-94* 5502.3; and unpublished data from ABS 1993-94

Figure 14.2 shows that nearly 84 per cent of total revenue is obtained from own sources, with the remainder being approximately ten per cent from the State Government and five per cent from the Federal Government. However, as the size of councils in terms of total revenue is factored in and the sector is segmented accordingly to revenue base, it becomes clear that as total revenue declines, own source revenue as a proportion also declines. This shows an obvious relationship between the size of a council and its rate base as influencing its ability to generate its own revenue. It is the government contributions of financial assistance grants and reimbursements which grow in similar proportion to fund the gap.

There are 30 councils (pre-amalgamation figure) with a revenue base over $ 20 million, with nearly 84 per cent of the State's population. There are 101 councils with a financial base of less than $20 million in total revenue, and the amount raised from own source revenue by these councils represents 66.4 per cent of the total so their reliance on grants and subsidies from the State and Commonwealth Governments is significant. Figure 14.3 demonstrates this profile.

Figure 14.3

Local Government Revenue Sources, Queensland, 1993-94



Source: Australian Bureau of Statistics *Local Government Queensland 1993-94 5502.3*; and unpublished data from ABS 1993-94.

Own Source Revenue

There are four main sources of local government own source revenue.

General Rates Levied on Land Value

General rates are part of a taxation system which is relatively simple and not easily avoided. It is the significant own source revenue for councils who have some discretion to devise rating strategies which they consider more equitable than a single uniform rate. Councils may now levy different levels of general rate on different classes of land; separate rates or charges on all rateable land to finance a particular activity; or special rates or charges on rateable land benefited by a particular activity. Councils also have discretion to grant remissions of rates on a number of grounds including financial hardship. While this has assisted councils to develop equitable rating strategies, there is an issue to consider as to the revenue base of local government and whether it is too narrow and/or inflexible for the demands on councils for services.

There has been much debate on the relative merits of different forms of taxation for local government. For example, the Committee of Inquiry into Valuation and Rating by the Brisbane City Council in 1989, which canvassed property taxes of various kinds, poll tax, local income tax, sales tax, consumption tax, betterment levies, developer contributions and user charges. The question of an appropriate taxation base for local government is likely to be an emerging issue in the near future and is one which councils will need to address to meet concerns about their ability to fund expanding service delivery roles.

Rates/Charges for Utilities

Utility services (water, sewerage, garbage) may be charged on any basis determined by the local government. The type of charging systems used throughout the State range from rates based on land value to user pays volumetric charges. The bases for the pricing models used by local government, the cross subsidisation of services, and the extent of the application of user pays in charging regimes will be addressed as a part of processes to increase efficiencies in the sector.

Developer Contributions/Infrastructure Charges

Infrastructure charges are an important source of funding for new development infrastructure. However, the extent to which they can be used is constrained by how closely the charges relate to the development (nexus) and their possible adverse effect on the cost of new housing. They are currently not accounted for in the cash system but will be in the new accrual accounting system.

General Charges

Councils have very wide powers to improve user charges for services it provides, including the setting of fees for regulatory approvals such as building and rezoning applications. Fines can also be imposed for breaches of local laws. Fees and fines cover items such as car parking and building and rezoning applications. Generally charges for services are intended to recoup only the cost of the service and the cost of administration.

Other Sources of Revenue

While local government as a sector is largely funded by own source revenue, the other sources of funds are important for the majority of councils. The Commonwealth Financial Assistance Grants are distributed through two components, one using horizontal fiscal equalisation which takes into account differences in expenditure need and revenue raising capacity, and the other an identified road component based on a road length and population formula. The revenue from reimbursements is paid to councils for works and services performed on behalf of the State Government. The two main ones are from the Main Roads Department for work councils perform on state roads, and from the Department of Natural Resources for works on stock routes, dingo control and noxious weed control.

Councils usually borrow for their capital works under a borrowing program managed by the Department of Local Government and Planning. For 1995-96, this program was approved at $333 million. When local governments implement capital works, they are normally eligible for subsidies, which are typically 20 per cent, through the Local Government Bodies Capital Works Subsidy Scheme. The budget is $47 million, which implies a capital works program for local government of around $235 million. The subsidy is paid only after the work is completed. This requirement assists those councils, in particular, which have the rate base to service the loan.

Revenue from other grants includes specific purpose State and Commonwealth grants for a wide range of functions including libraries, natural disaster relief, employment relief, and community amenities such as infrastructure for sports grounds and community halls.

Infrastructure Provision and Financing

The two main areas where infrastructure financing is a particular responsibility for local government in Queensland is water and sewerage and roads.

Water and Sewerage Infrastructure

Local government has responsibility for urban water supply and distribution. Local government owns and manages major water supply headworks as well as the distribution system to customers. In some instances, local government obtains treated or untreated bulk water from urban water boards or the Department of Natural Resources. Local government is also responsible for sewerage and drainage. There are about 360 local government water supply schemes serving approximately 600 cities and towns or 94 per cent of the population.

Urban water consumption accounts for about 20 per cent of total water use, but the urban water sector accounts for approximately 80 per cent of total water receipts. Revenue from rates and charges for water supply from all local governments in the State amounted to $444.3 million in 1993-94, although the capital and current expenditure on water for the same year was $328.7 million. For sewerage services, the revenue raised was $326.7 million for an expenditure of $261.5 million, with revenue from ordinary services and other activities being $1.1 billion and the expenditure being $1.9 billion, for 1993-94. This would indicate that councils use the revenue from water and sewerage to cross-subsidise the provision of other goods and services. This picture of revenue and expenditure will change with the introduction of accrual accounting when debt is assigned to water and sewerage infrastructure and depreciation is factored into the financial statements.

Given the very substantial infrastructure asset base of approximately $50 billion for which local government is responsible, councils have developed Total Management Plans for water and sewerage as a specific recognition of the need to build asset management strategies. Net benefits to the system as a whole are improvements in long term infrastructure planning and the ability of the State Government to make efficient grant and subsidy allocations.

The provision of financial assistance through the State's subsidy scheme has been important for local government, although it is a concern of local government that the current level of funding support to assist in the provision of these functions has resulted in a run down in assets and under investment in infrastructure to support growth. The Government has announced an increase in the subsidy rates for capital works on water and sewerage infrastructure from 33.3 per cent to 40 per cent, although this will mainly apply to upgrading of sewerage infrastructure to the tertiary treatment level of operation.

For the 17 councils who meet the level of business activity in these areas under the competitive neutrality requirements of national competition policy as discussed in the next section, the provision and financing of infrastructure will now be part of a reform process driven by application of the policy to local government. For the other councils, there is an obvious need to be part of a reform process in the resource and pricing models for the elements which comprise their own source revenue raising service delivery. As well, the types of reforms for the urban water sector discussed in Chapter Ten are timely in ensuring that the provision of urban water is subject to planning and budgeting processes, including performance benchmarks, which can drive efficiencies and productivity as part of a water industry in Queensland.

Transport Infrastructure

Local government has major responsibility for the development of the road infrastructure in the State through the local road network. The local road network in Queensland represents some 175,000 kilometres and in 1993-94, local government expenditure was more than $450 million on the network, as well as undertaking over $130 million in road works for Queensland Main Roads.

These 'local' roads are located on gazetted land corridors over which local government has control for road purposes. Local governments do not own these corridors, ownership remains with the State. The corridors may be 'opened' and 'closed' at the discretion of the State. The State may, at its discretion, assume control and responsibility of local roads. Similarly, the State may decide a road should no longer be a state controlled road and the road reverts to local government control, (this latter process is often referred to as 'demaining'). There is no formal requirement for the State to financially compensate a local government if the State demains a road(s) in the local government's area.

The State strategic planning process recommended by the Commission in Chapter Eleven recognises the need for a clear specification of the role and function of each level of government relevant to the transport sector, and the clear specification of standards and requirements (outcomes). Local government has participated in some road reforms with road construction on State roads having been opened up for competition through tendering processes and the introduction of agreed price performance contracts. The recommendations in Chapter Eleven on transport planning and the roads network present reforms which will need to be considered in the local government sector, and recommendations on public transport have an impact on the Brisbane City Council. For the more rural and remote councils, reforms will incorporate a consideration of other social and economic objectives through transparent community service obligations.

Financing Local Government

To support enhanced performance initiatives, the Department of Local Government and Planning has commenced a project which will collect and publish the comparative indicative performance data for local governments. This will enable councils to identify areas of service delivery where improvement may be possible and/or desirable. It will also provide the same opportunity to the community. While this has been a State initiative, there is considerable support among local governments. Over 50 per cent of councils have indicated they will participate either immediately or in the near future.

The Department is attempting to assist councils to increase private sector involvement through a project which brings together financiers, investors, councils, academics, lawyers and the State to examine the potential for private sector involvement. While the output of the project will depend on the collective views of the parties possible outputs range from distribution of informative material to councils, model documentation for arrangements, guidance on management of arrangements.

14.3 National Competition Policy

Key Points

- ***Local government and the State government have worked closely in the development of national competition policy principles which will require the introduction of new practices by councils, especially in relation to their business activities.***
- ***There are 17 councils where business activities are of a size that they will be subject to competitive neutrality and they expend 70 per cent of the total outlays of local government.***
- ***The proposed Code of Competitive Conduct needs to be adopted as the basis for benchmarking performance of all Councils, which would include making community service obligations transparent.***

Statement of Application

The draft Statement of Application of the Competition Principles Agreement to Queensland Local Government has been prepared as part of Queensland's obligations. The principles outlined in the document will be the framework for the application of national competition policy in local government and these principles are:

(i) Competitive neutrality reforms will only apply to what could be regarded as 'business activities' of local government.

(ii) The reforms only apply to 'significant business activities', and criteria have been set to identify those business activities that are likely to be of a size to justify the imposition of the reforms. The criteria are based on current expenditure thresholds. Below these thresholds, local government business activities will not be subject to the competitive neutrality reform requirements, but councils will be encouraged to apply a related reform proposal (referred to as the Code of Competitive Conduct) to these activities.

(iii) For those significant business activities which are targeted, the reforms need apply only to the extent it can be demonstrated the benefits of implementation of the reforms outweigh the costs.

(iv) National competition policy will not require compulsory competitive tendering. Local government can decide what activities to make subject to a competitive tendering process, and there are no State requirements for particular local government services to be subject to competitive tendering. Where, however, a competitive tender is sought, local government 'in-house' bids should be made on a competitively neutral basis

(v) Where competitive neutrality is applied, it will not interfere with the capacity of a local government to subsidise the provision of a good or service to particular groups; provided that where a community service obligation payment is made, the level of payment is readily identified in public accounts.

The two types of business activities which are significant for the purposes of the application of national competition policy are defined as follows:

- *Type 1 business activities*—The activity falls within the Australian Bureau of Statistics definition of government trading enterprise; and the activity has a current expenditure, in the case of water and sewerage enterprises combined, greater than \$25 million per annum or, in the case of other enterprises, greater than \$15 million per annum in 1992-93 terms. Activities under this category are: Brisbane public transport; Brisbane and Gold Coast garbage; and Townsville, Logan, Ipswich, Gold Coast and Brisbane water and sewerage.
- *Type 2 business activities*—The business activity has a current expenditure, in the case of water and sewerage enterprises combined, greater than \$7.5 million per annum or, in the case of other enterprises, greater than \$5 million per annum in 1992-93 terms. Activities under this category are: Garbage services of Cairns, Ipswich, Logan, Maroochy and Townsville; and water and sewerage services of Caboolture, Cairns, Hervey Bay, Caloundra, Mackay, Maroochy, Noosa, Pine Rivers, Redland, Rockhampton, Thuringowa and Toowoomba councils.

The dominance of the above councils is demonstrated in Table 14.3 with 70 per cent of the total expenditure by local government in Queensland. For the two types of activities, if it is shown to be appropriate through a public benefit assessment, the local government is to implement a corporatisation model or a business unit model with an equivalent regime and the imposition of debt guarantee fees and regulation equivalent to that applied to the private sector.

Table 14.3

Local Authorities: Expenditure of Funds on Goods, Services and Land, Queensland, 1993-94 (a)

	Expenditure on Goods, Services and Land ($'000)			
Councils	**Ordinary Services and Other (b)**	**Sewerage**	**Water Supply**	**Total**
Type 1				
Brisbane City	550,262	67,955	79,407	697,624
Gold Coast City (c)	149,402	40,253	36,761	226,416
Logan City	60,359	13,744	20,112	94,215
Ipswich City (c)	59,988	9,761	11,867	81,616
Townsville City	54,076	9,931	7,716	71,723
Sub Total	874,087	141,644	155,862	1,171,594
Type 2				
Caboolture Shire	31,191	9,162	13,526	53,879
Caloundra City	27,139	4,924	3,835	35,898
Maroochy Shire	60,842	16,372	11,925	89,139
Noosa Shire	22,760	7,487	5,110	30,357
Pine Rivers Shire	34,164	4,984	7,886	47,034
Redland Shire	47,553	6,191	6,221	59,965
Hervey Bay City	19,473	4,552	3,082	27,107
Toowoomba City	29,852	5,027	8,202	43,081
Rockhampton City	25,184	5,520	7,501	38,205
Mackay City	31,622	3,564	7,954	43,140
Thuringowa City	13,376	2,934	4,972	21,282
Cairns City (c)	52,822	18,510	11,524	82,856
Sub Total	395,978	84,227	91,738	571,943
Rest of Queensland	637,420	35,684	81,146	754,250
Queensland	**1,907,485**	**261,555**	**328,747**	**2,497,787**

Source: Australian Bureau of Statistics *Local Government Queensland 1993-94* 5502.3.

Notes: (a) Includes capital and current expenditure.
(b) Other refers to transport expenditure in Brisbane and Rockhampton, expenditure on gas in Dalby and Roma, and expenditure on electricity in Aurukun and Mornington.
(c) This data refers to the new Cities after amalgamations in 1995, and are obtained by adding as a total the data for the areas concerned although small parts may have been added to another local government area.

The application of national competition policy to councils with significant business activities will require initiatives such as commercialisation and corporatisation and full cost pricing models. The application of competitive tendering should be part of the implementation process, on a service basis. In Victoria, compulsory competitive tendering was based on a proportion of council expenditure. It is considered that a better approach would have been to adopt a list of services as there is likely to be more competition under a list of services approach.[4] It is to be noted that the outcome of compulsory competitive tendering in Victoria indicates that in-house bids have been successful in tendering, after restructuring into business units separate from the rest of council operations and with the application of a largely full cost pricing model.[5] The State Government is also prepared to explore the possibility of providing financial support to councils which undertake national competition policy reforms. This will include an examination of access to the competition payments for those local governments actively participating in the reform process.

The voluntary Code of Competitive Conduct, which will be developed for those councils whose business activities are not covered by the application of competitive neutrality, should be adopted across the sector as part of reforms to enhance productivity. This is in line with the reforms being proposed for implementation across the functions of the State Government in this Commission's report. The Government may also be prepared to explore the possibility of providing financial support to councils which actively participate in the national competition policy reforms. This will include an examination of some access to the competition payments.

Recommendation

14.1 The Government should ensure that national competition policy is applied in local government so that:

- *councils which have significant business activities maximise efficiencies through competitive tendering;*
- *councils covered by the voluntary Code of Competitive Conduct apply the Code fully in their operations;*
- *there are incentives for councils to participate in the national competition reform process; and*
- *the local government sector implements the relevant recommendations on water reform set out in this Report.*

14.4 Planning and Growth Management

Key Points

- *A local government planning framework and an integrated impact assessment and development approval process is needed for the State which covers state and local government economic, social and environmental objectives.*

4 Moore, D. (1996) *Delivering Real Value for Money*. Conference on Local Government by Centre for Public Policy, Centre for Comparative Constitutional Studies.

5 Communication to Commission of Audit from Office of Local Government, Victoria.

- ***A planning framework must provide for the coordination of infrastructure provision by local, state and private providers with the State Government providing strategic direction to achieve its social and economic outcomes.***

A new land use planning and development assessment system is currently being developed in Queensland which will recognise the key role of local government in land use planning and infrastructure delivery. The system needs to provide for the integration of related policies and programs administered by State and local government, so that they are coordinated at a local level.

Local governments across the State have recognised the benefits of regional cooperation in achieving strategic objectives and maximising the use of scarce resources. In south east Queensland, 20 local governments have worked within the South East Queensland 2001 framework to achieve a collaborative planning approach to growth management.

Figure 14.4 also demonstrates the potential for an interactive flow of information to enable consideration of state, regional and local issues.

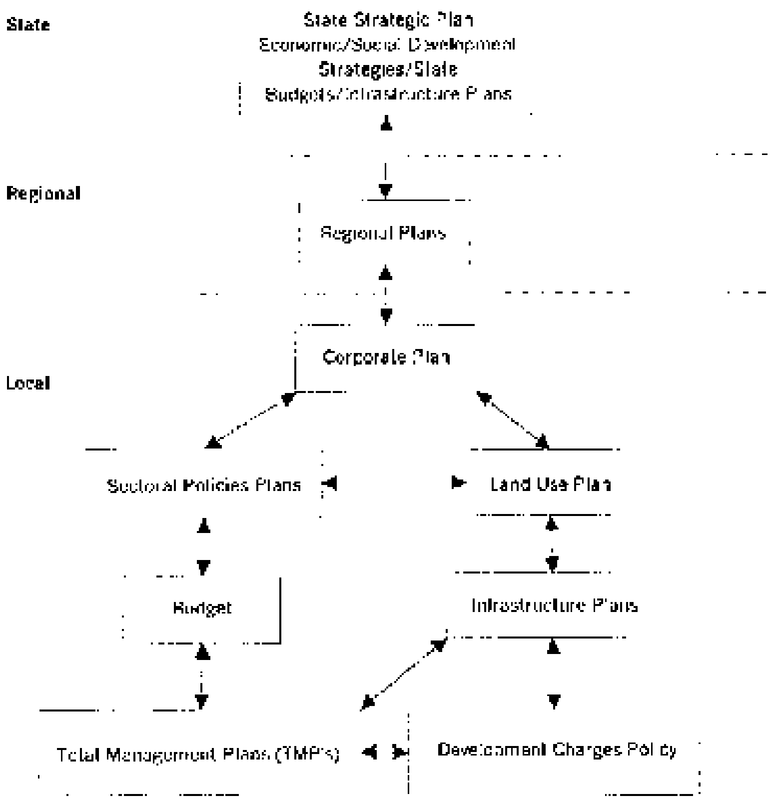
The development of a State Strategic Plan that delivers the coordination mechanism for capital works planning across the State is an important step to develop a best practice system in Queensland. An effective integration system must work on both a horizontal and vertical plane. Horizontal integration is achieved at the state level through cross-portfolio coordination, and at the local level local governments work together assessing plans in and across their region. Vertical integration is achieved when the intentions of state and local governments are assessed and coordinated in a similar way.

The new planning system needs to include a *growth management* strategy as planning schemes will be expected to include details of a preferred path of development. This will have regard to the efficient use of existing infrastructure and least cost provision of new infrastructure based on the identification of short, medium and long development requirements. The preferred path would take into account the cost of providing both 'user pays' infrastructure (water supply, sewerage, etc) and 'social' (deliberately subsidised or taxpayer funded) infrastructure.

The new planning system will need to emphasise capital works planning by requiring local governments to include infrastructure plans in their planning schemes. Detailed catchment based plans and charging formulae for user pays infrastructure will be required and will have to satisfy a number of equity and effective principles resulting in a greater clarification of infrastructure needs and certainty for the development industry.

Figure 14.4

State, Regional and Local Government Planning Framework



Source: The Department of Local Government and Planning

Recommendation

14.2 ***The Government should develop a planning framework which ensures effective coordination of state and local government infrastructure provision and maximises private sector involvement.***

14.5 Directions for Local Government

Key Points

- ***Best practices and processes for Government advocated by the Commission's Report, Volume I, need to apply to the local government sector.***
- ***The boundaries of local government areas will need to be reviewed as a means of increasing the efficiency and effectiveness in service delivery.***

There is a need to examine the possible range of funding mechanisms for specific activities undertaken by local governments. The traditional revenue raising capacity of local government has been almost completely limited to rates levied on the unimproved capital value of land, but fluctuations within an economic cycle and across geographic areas can make this volatile.

This narrow base of revenue raising may result in some councils having increased dependency on grants, or force them to increase significantly their rates. In turn, this may prohibit the development of innovative and cost effective approaches to service delivery. There may be scope for reforms to allow local government to raise its own revenue on the basis of specific service provision by a more user targeted approach.

Local government has traditionally financed infrastructure from own source revenue, loan borrowings and developer contributions in the form of either cash or contributed assets constructed by the developer such as water reticulation and roads. Councils have also owned and operated the infrastructure. Possible strategies for expanding financing options may include tax based leasing, tied infrastructure deposits and differential tariff structures. All of these options are predicated on increased private sector participation.

As the reforms driven by national competition policy are introduced into the local government sector, the financing arrangements and the service provision by the councils will be under scrutiny. As this occurs, there will be scrutiny of other ways to improve efficiency in local government. This will bring pressure on local government to consider the issue of a reduction in the number of councils. As the Federal Minister for Local Government said, amalgamations are a matter for state governments, "but the Commonwealth provides $1.2 billion in funding to local government and, while there are no plans at this stage to review the basis of funding under the *Local Government Financial Assistance Act*, it is possible that at a future date the Commonwealth may seek to link funding to the number of councils in a particular state."[6]

Any review of the boundaries of local government areas in Queensland must focus on the benefits to be gained in terms of delivering an enhanced range of services, ensuring better management of growth, and the coordination of infrastructure provision within the one local government area. This indicates that the original recommendations made for amalgamations still stand, and that it is in the provincial cities and towns that the benefits of amalgamations are likely to be greatest. In the more rural and isolated council areas, some consideration could be given to what the most appropriate form of government at the local level is, particularly for councils which have a low level of own source revenue and no potential to increase.

[6] Speech delivered by the Federal Minister to the Institute of Municipal Management, Canberra 21 May, 1996.

The effective partnership that has been developed with the State Government through the development and implementation of initiatives such as corporate planning and asset management need to continue, together with the reforms which will be driven by national competition policy.

The implementation of appropriate planning and budgeting processes is a key theme for this Commission's report, as presented in Volume I. These processes are important to apply to local government given its significant responsibilities in infrastructure provision in this State. The reforms over recent years have introduced many such processes into the local government sector, and this will provide the basis for ongoing development and reform, with the State Government, in this sector.

Recommendation

14.3 The Government should work with local government to identify and implement reforms to improve the efficiency of the sector, including:

- *application of best practice in planning and budgeting as outlined in this Report;*
- *amalgamation of councils where the result would be better value for money for ratepayers;*
- *implementation of appropriate user pays regimes to increase own source revenue, particularly for utilities—to contribute to infrastructure financing and usage costs;*
- *application of pricing on a full accrual basis;*
- *explicit recognition of community service obligations, particularly with respect to the smaller councils in rural areas; and*
- *use of benchmarks in performance assessment.*

Chapter Fifteen

Other Service and Infrastructure Provision by Government

Central Agencies

Key Points

The best practices for Government outlined in Chapter Three of this Report are relevant to central agencies, including in their role of providing policy advice to the Premier, Treasurer and Cabinet. While central agencies in Queensland have generally performed well, their current functions contain a number of areas of overlap and some functions performed by central agencies should be refocused, rationalised or relocated to an appropriate line department or agency.

Findings

- *Queensland's four central agencies (Department of the Premier and Cabinet, Queensland Treasury, Office of the Public Service and the Department of Economic Development and Trade) contain a diverse range of functions, some of which appear to be ancillary to a central policy or coordination role.*
- *The functions of the Department of the Premier and Cabinet, Queensland Treasury and the Department of Economic Development and Trade include, in each case, an emphasis on economic development, investment and infrastructure policy and planning, which involve some overlap and duplication of responsibilities, with potential for policy and operational confusion.*
- *Savings could be achieved by rationalising or sharing corporate services between the central agencies, as is occurring in other States.*
- *The two key central agencies are the Department of the Premier and Cabinet and Queensland Treasury, and given their role in providing policy advice to Cabinet, increased teamwork and information sharing between the two Departments will be essential.*

Recommendation

15.1 *The Government should commission a comprehensive review of the structure and functions of the departments and agencies currently comprising the* *central agencies of Government—Department of the Premier and Cabinet, Queensland Treasury, the Department of Economic Development and Trade and the Office of the Public Service—to:*

- *focus on and implement the delivery of strategic policy, information, planning, coordination, budgeting and accounting services identified in this Report;*
- *rationalise any inappropriate functions that currently reside in the central agencies and relocate them to the appropriate line department or agency and vice versa; and*
- *eliminate any areas of overlap and duplication.*

Services to Industry

Key Points

There exists a wide range of seemingly overlapping measures and agency responsibilities for services and assistance to industry. There is also a lack of clarity regarding primary responsibility for the promotion of assistance, coordination of firm-specific assistance and policy development. Alternative approaches or means of delivery are rarely considered.

Findings

- *'Good government' policies, consisting of the provision of general education and training, efficient infrastructure and a pro-competitive legal and regulatory framework, are superior to targeted industry assistance, especially if subsidisation by taxpayers is involved.*
- *The range of industry assistance measures at the state level is extensive and includes: direct financial assistance (including grants, concessional finance, some competitive service obligations, and pricing distortions), public sector involvement (trade promotion) and non-financial assistance (preferential zoning, and exemptions from regulations). In 1994-95, it is estimated that industry assistance totalled around $700 million when all forms of assistance are taken into account.*
- *Many of the relevant issues are being addressed by an Industry Commission Inquiry. In particular, the Inquiry will: address concerns with 'bidding wars'; gather information about the extent of government assistance; assess its effects on economic and regional development; and examine a number of policy issues.*
- *Few assistance measures are effectively evaluated. In those cases where there has been an evaluation, partial rather than whole-of-economy impacts have been considered.*

Recommendations

15.2 *The Government should refocus and rationalise departments and agencies involved in the provision of industry assistance so that:*

- *assistance is coordinated with overall Government objectives; and*
- *private sector access to, and comprehension of, government assistance is facilitated.*

15.3 *The Government should undertake a review of industry assistance in Queensland, based on the findings of this Commission and the results of the Industry Commission Inquiry into State Government Assistance to Industry, to:*

- *prioritise programs and rationalise the existing plethora of measures and utilise 'sunset clauses' whenever appropriate;*
- *provide all forms of assistance transparently through the Budget, in the form of direct payments rather than by way of concessions, and through normal Budget planning processes;*
- *enable the private sector to undertake service delivery on a contestable basis; and*
- *establish and implement rigorous processes and techniques for program assessment and evaluation.*

Administrative Services

Key Points

In 1994-95, Queensland Government departments and agencies purchased almost $700 million of goods and services from Department of Public Works and Housing business units. Much of this involved outsourcing of functions. Allowing departments and agencies to choose how much, and from whom, they purchase will facilitate the realisation of the full benefits of outsourcing.

Findings

- *Untying government departments and agencies from specific suppliers will enable them to become more discerning purchasers of goods and services.*
- *As a general rule, government agencies should be free to seek the best deal possible for the provision of goods or services. The only circumstance where government agencies should remain tied to a particular supplier is where there is a clear advantage from a whole of government approach.*

- *If the full benefits of outsourcing and contestable markets are to be realised, government business units must be put on an equal footing with private sector competitors as much as possible.*
- *The pace of untying should be driven by government agencies and not business units. If agencies can immediately shift to more advantageous arrangements and are confident of their ability to manage commercial suppliers, agencies should be free to do so immediately.*
- *As business units can compete for only public sector work following full commercialisation, business units should be privatised to enhance their growth prospects and viability.*
- *Commercialisation and privatisation should be completed within three years. Allowing business units time to become competitive will cost the Government in terms of both of the cost of goods and services purchased and accumulated losses as the inefficient business units continue to operate.*
- *The current telecommunication arrangements have had some unforeseen consequences that have diluted the benefits of outsourcing.*
- *Outsourcing requires commercial expertise and must be managed carefully to maximise the actual benefits.*
- *If government agencies are compelled to outsource from a specific government supplier, many of the benefits of outsourcing are lost or dissipated as the competitive tension and non-public sector environment from which many of these benefits are derived are not realised.*

Recommendations

15.4 *All Government departments and agencies should immediately be untied from Department of Public Works and Housing business units, except where there is a clear benefit from a whole of government approach.*

15.5 *The whole of government initiatives should be evaluated to ensure that there is a clear benefit from this approach and that no agency is worse off from participating in the approach. In the case of fleet management, the Police fleet should be included in the evaluation.*

15.6 *Government business units should have a tax equivalent regime and competitive neutrality payments imposed on them to compensate for any competitive advantage business units may have over private sector competitors.*

15.7 *The Government should seek solutions to community service obligations in a contested market so as to obtain the best price for the desired outcome.*

15.8 *As part of the untying process, any payments to business units on behalf of departments for services should cease immediately and be distributed directly to departments.*

15.9 *A formal independent review of Queensland Government telecommunications should be conducted. The review should report initially before any decision is made to extend the current telecommunications arrangements and preferably by 31 December 1996. It should consider, as a minimum, the attributes of the current approach, the role and functions of Q-TEL, and should outline a framework for new arrangements, consistent with the principles set out in Volume 1 of this Report.*

Service Delivery in Regional Queensland

Key Points

Regional areas in Queensland present special service delivery issues. Some of these differ widely across regions - eg problems of meeting strong growth in demand in North and Far North Queensland and problems of maintaining critical mass and staff in the west. Others are widespread - eg concerns about youth services and policing. Achieving better services for given resources requires more effective coordination and control over resources at regional management levels, and greater use of technology and innovative delivery approaches.

Findings

- *There are problems of coordination in both service delivery and planning for future service needs and supporting infrastructure.*
- *There are problems of attracting qualified personnel to inland areas, particularly in health and education.*
- *A number of areas of Queensland, particularly in the western regions, have deficiencies in upper secondary education, TAFE and higher education.*
- *Significant concerns exist about deficiencies in police numbers in some regions. In several cases, this concern is linked to addressing problems of youth behaviour, alcohol abuse, etc.*
- *Some small communities are unusually highly reliant on public sector employment and concerns exist that unqualified application of market mechanisms such as contracting out may have negative consequences for these communities. For example, the loss of even one position in a very small community can have significant flow-on effects.*

Recommendation

15.10 The Government should meet the special needs of regional areas of Queensland for service delivery and supporting infrastructure by giving priority, across Government and within departments, to:

- *rationalisation and better coordination of the delivery of services across the levels of government;*
- *in particular, more effective coordination - especially at regional and sub-regional levels—of planning for future service needs and supporting infrastructure, involving all relevant service providers (including non-government providers) and authorities, as well as representatives of major users where appropriate;*
- *devolution to regional and sub-regional levels of effective management control over all resources needed to deliver the outcomes for which those levels of management are accountable; and*
- *development of well defined service standards, as a basis for seeking comparable service outcomes across the State, for systematically identifying differential costs and possible community service obligations, and as a basis for making exceptions where achieving standards is not feasible.*

Chapter Fifteen

Other Service and Infrastructure Provision by Government

Central Agencies

Key Points

The best practices for Government outlined in Chapter Three of this Report are relevant to central agencies, in their role of providing policy advice to the Premier, Treasurer and Cabinet. While central agencies in Queensland have generally performed well, their current functions contain a number of areas of overlap and some functions performed by central agencies should be refocused, rationalised or relocated to an appropriate line department or agency.

Findings

- *Queensland's four central agencies (Department of the Premier and Cabinet, Queensland Treasury, Office of the Public Service and the Department of Economic Development and Trade) carry out a diverse range of functions, some of which appear to be ancillary to a central policy or coordination role.*

- *The functions of the Department of the Premier and Cabinet, Queensland Treasury and the Department of Economic Development and Trade include, in each case, an emphasis on economic development, investment and infrastructure policy and planning, which involve some overlap and duplication of responsibilities, with potential for policy and operational confusion.*

- *Savings could be achieved by rationalising or sharing corporate services among the central agencies, as is occurring in other States.*

- *The two key central agencies are the Department of the Premier and Cabinet and Queensland Treasury and, given their role in providing policy advice to Cabinet, increased teamwork and information sharing between the two Departments is essential.*

15.1 Central Agencies in Queensland

Key Points

- *The four central agencies in Queensland, the Department of the Premier and Cabinet, Queensland Treasury, the Department of Economic Development and Trade and the Office of the Public Service, all undertake core functions and some peripheral functions, which may not be appropriate for a central agency.*
- *The four central agencies also have some associated agencies that undertake specialist functions (eg Government Statistician's Office, Bureau of Ethnic Affairs).*
- *The roles of three central agencies (Department of the Premier and Cabinet, Queensland Treasury and the Department of Economic Development and Trade) all contain an emphasis on economic development and project facilitation.*

The role of central agencies generally is to provide advice and support to the executive Government (and, where appropriate, the Parliament) on whole of government coordination, operations and future directions, including the management and monitoring processes of the State's planning, information, budgeting and accounting systems.

The Queensland Government's current main central agencies are:

- Department of the Premier and Cabinet;
- Queensland Treasury;
- Office of the Public Service; and
- Department of Economic Development and Trade.

These agencies are responsible for both core activities and for miscellaneous activities. For example, Queensland Treasury has the preparation of the Budget as one of its core activities, but also has responsibility for the Ministerial Services Branch, which organises staff and other resources for Ministers.

As well as miscellaneous activities located within the main corporate area of the central agencies, these agencies also include 'semi-autonomous organisations'. A listing of the central agencies, their internal organisation and their semi-autonomous organisations is provided in Table 15.1.

Table 15.1

Queensland Central Agencies

Department	Policy Divisions	Related Agencies
Department of the Premier and Cabinet	Coordinator-General	Bureau of Ethnic Affairs
	State Development	Office of Indigenous Affairs
	Government and Executive Services	
	Intergovernmental Relations Branch	
	Legal Branch	
	Regional Offices	
Queensland Treasury	Budget	Queensland Treasury Corporation
	Economics	Office of State Revenue
	Financial Management and Systems	Government Statistician's Office
	Commercial Policy and Projects	Government Superannuation Office
	Government Owned Enterprises and National Competition Policy Unit	Motor Accident Insurance Commission
		Office of Women's Affairs
		Arts Queensland
		State Actuary
		Office of Gaming Regulation
		Golden Casket Lotteries Corporation
Office of the Public Service		Public Sector Training Council
Department of Economic Development and Trade	International Trade Development	
	Project and Investment Development	
	Development Planning	

Functions of the Central Agencies

The core functions of these four main central agencies are described below.

Department of the Premier and Cabinet

The Department provides advice and support to the Premier and Cabinet on overall strategic issues (including the preparation of the State Strategic Plan, referred to in Chapter Three), the review of major projects (with Queensland Treasury and the Department of Economic Development and Trade), and the State's capital works program (with Queensland Treasury).

The Department also provides support to the management of Cabinet and Executive Council meetings, and advice to the Premier on intergovernmental relations issues (eg issues discussed by the Council of Australian Governments).

The Coordinator-General, who has extensive powers over the approval of public and private sector infrastructure projects under the *State Development and Public Works Organisation Act*, is also located in the Department of the Premier and Cabinet, although the role of project facilitation is handled jointly by the Department of Economic Development and Trade, the Department of the Premier and Cabinet and Queensland Treasury.

The Information Planning Branch has the role of ensuring that the Government's information resource is managed and applied strategically for efficient, cost-effective and quality services to both the public and private sectors. The Branch develops standards and guidelines for the use of information by departments and agencies, to reduce the costs of inconsistent approaches to information management by departments.

Queensland Treasury

The Treasury's policy functions are grouped into the following five Divisions:

Budget provides policy advice to the Treasurer and the Cabinet Budget Committee on the preparation of each year's Budget, and variations from Budget estimates in the mid-year review. The Division is also involved in the review of the performance of government programs, and the assessment of policy initiatives from departments. The Intergovernmental Finance Branch of this Division is responsible for the Queensland Government's input to the Commonwealth Grants Commission and seeking a fair share for Queensland of Commonwealth payments to the States and Territories.

Economics provides policy advice to the Treasurer on microeconomic reform issues, including assessing the impact of existing reform measures, and assesses the impact of industry policy measures and proposals. The Division also undertakes statistical analysis and research, economic modelling and forecasting to support the State budget estimates and Government policy decisions.

Financial Management and Systems develops financial management standards for the State public sector, including the measures included in the State's Financial Management Strategy.

The Division also undertakes central accounting functions for the Government, and monitors the financial management systems and practices of different agencies.

Commercial Policy and Projects provides advice to the Treasurer on overall industry policy, infrastructure requirements and development, major projects and proposed industry assistance. The Division provides guidance to proponents of infrastructure and development projects, in conjunction with the Department of Economic Development and Trade. The Foreign Investment Secretariat considers the benefits to the State of foreign investment proposals, and provides advice to the Foreign Investment Review Board on whether projects should proceed.

The Government Owned Enterprises Unit is responsible for policy relative to commercialisation and corporatisation of government owned business activities and for the State's implementation of national competition policy. The Unit is involved in the preparation of Corporatisation Charters, setting the functions and accountability processes for businesses to be corporatised, and in monitoring the performance of Government Owned Enterprises.

The functions of the main agencies of Treasury are:

- Office of State Revenue (which is responsible for administration of the State's taxation legislation);
- Government Superannuation Office (which manages the public sector superannuation schemes in Queensland);
- Government Statistician's Office (which provides statistical services to the Queensland Government); and
- Office of Gaming Regulation (which regulates private sector gaming activities).

Arts Queensland and the Office of Women's Affairs are now attached to the Treasury Portfolio.

Office of the Public Service

The Office of the Public Service has been established to support agencies to develop an impartial, accountable and responsive workforce, consistent with the Government's vision for the public service. Specific services provided by the Office of the Public Service include: leadership and management development; organisational management; development of workforce principles and practices; senior executive employment services; and advice on equity and merit issues.

The Government plans to introduce legislation to replace the current *Public Sector Management and Employment Act 1988* and the *Public Sector Management Commission Act 1990* in July 1996, which will outline the overall framework in which the Office of the Public Service will operate. Other legislation coming within the responsibility of the Office are the *Equal Opportunity in Public Employment Act 1992*, the *Public Sector Ethics Act 1994* and the *Whistleblowers Protection Act 1994*.

Department of Economic Development and Trade

The Department's key functions are to formulate and implement the State Government's Economic Development Strategy, and to strengthen and diversify the State's economic base.

The functions of the Divisions of this Department are:

International Trade Development concentrates on facilitating exports, through the operation of overseas offices that assist in marketing and the operation of assistance programs for exporters.

Project and Investment Development provides facilitation for major investment projects, and makes contact with potential investors to attract additional investment to Queensland.

Development Planning is responsible for preparing the State Economic Development Strategy and providing input to the State Strategic Plan, advising on infrastructure requirements and on the State's industry assistance measures.

15.2 Performance Assessment of Central Agencies in Queensland

Key Points

- ***In 1994-95, the running costs of central agencies in Queensland were comparable to the costs of central agencies in other States. However, other States have rationalised corporate services for central agencies, and Queensland appears to have scope for sharing resources among its central agencies.***
- ***While it can be difficult to provide objective assessment of policy advice, the performance of central agencies in providing advice needs to be subject to assessment and feedback.***
- ***The overlap in the functions of the Department of the Premier and Cabinet, Queensland Treasury and the Department of Economic Development and Trade has the potential for policy and operational confusion.***

As noted above, central agencies in the various States, mainly comprising the Departments of the Premier and Cabinet and the State Treasuries, undertake a range of ancillary and, in some cases, quite unrelated functions in addition to the core functions they provide. The level of core services also varies between States. These differences make a comparison of interstate costs difficult. One example of this is the level of fiscal control exercised in Queensland through the central accounting system and the financial and budget monitoring processes, which are considerably more centralised than in most other States, where responsibility for monitoring functions is more widely spread.

The 1994-95 running costs reported by the agencies in Queensland and the other States were recast by the Commission with the aim of constructing comparable core service delivery costs. Although not conclusive, the results for that period indicated that the costs of core service delivery in the central agencies in Queensland was broadly in line with those of other States. Since that time, however, other States have moved to rationalise corporate services functions within the central agencies as a cost-saving initiative. This would appear to be a sensible measure, which could and should be progressed in the Executive Building complex in Brisbane, where some facilities are already effectively shared (such as library services).

While cost comparisons are difficult enough, there is no simple method of benchmarking the quality of policy advice given in regard to the general running and future direction of government. Ultimately, the executive Government has to determine the appropriate level and quality of advice, and provide feedback on performance to the central agencies. It should be noted that, despite some practical difficulties in measuring and monitoring the performance of policy departments, there is no justification for exempting these agencies as special cases in terms of the degree of accountability and contestability the Commission recommends should be the norm for all government departments and agencies.

While the current functions of the Department of the Premier and Cabinet, Queensland Treasury and the Department of Economic Development and Trade each place a laudatory emphasis on economic development, investment and infrastructure policy and planning and major project facilitation, it is evident that there is considerable overlap and duplication of responsibilities in these areas. Apart from the potential for deadweight losses due to resources being devoted to duplicated effort, the costs of policy and operational confusion, especially when considering the interaction with the private sector of these areas, are likely to be high.

15.3 The Appropriate Role of Central Agencies

Key Points

- ***The core functions of central agencies involve setting objectives and policies, planning and overall resource allocation, promoting the use of best practices, and performance assessment.***
- ***Other functions currently undertaken by central agencies should be devolved to line agencies.***

Chapter Three of this Report, in its model of best practices and processes for the operations of government, has already implicitly indicated the Commission's view about certain aspects of the appropriate functioning of central agencies.

In particular, the recommendations of Chapter Three include the following issues that are relevant to the role and functioning of central agencies:

- establishment of an appropriate fiscal responsibility and transparency framework and legislation to require annual reporting against the objectives and outputs specified in this framework;
- adoption of a cycle of strategic (as well as corporate and business) planning in which objectives are set, means to achieve them identified and results reviewed;
- coordination of planning (especially at the regional level), but not in a directive role, and especially not so as to transfer responsibility and risk to Government;
- movement to accrual budgeting (and accounting) with service agreements becoming the vehicle for the system of contracts and increased flexibility in purchaser-provider arrangements, development of long run (ten year) projections of the Budget, and development of an improved capital budgeting process;
- establishment of a system of regular benchmarking of performance across Government;
- involvement of the private sector in the provision of services and supporting infrastructure, but in transparent ways, including in which the risks are explicitly borne by the party best able to carry them;
- reporting by the Auditor-General on the adequacy of risk management practices; and
- reviewing government owned businesses, improvement in competition and removal of conflicts of interest on Boards of government corporations.

The key features of the proper role of central agencies include a whole of government role in policy—especially in terms of setting strategic objectives and directions—and in the assessment of the progress of performance in achieving the objectives of the government. There are also issues of leadership and of servicing the collective Ministry.

A business analogy is appropriate: the Cabinet may be seen as the Board of Directors, with the Premier as the Chairman of the Board of the Government, and the Treasurer as the Director of Finance of the Board. Parliament may be seen as representing the shareholders of the business, holding in trust the votes of the public. Central agencies correspond to the head office or corporate headquarters, and assist the Board in setting strategic objectives and policies, in planning and overall resource allocation, in promoting the use of best practices and in performance assessment. Line departments and agencies correspond to the production units of the business. The key clients of central agencies are the Premier, the Treasurer and the Cabinet who are purchasing head office services from them. The key clients of line departments and agencies are the customers to whom they sell services—in many cases the Premier who purchases services for and on behalf of the public, and in others, the public itself which purchases the services of the department or agency directly through user charges.

All activities of government that do not relate to such head office functions should operate in, and if necessary be devolved to, line departments or agencies, which arrange for the actual delivery of services and supporting infrastructure to the community.

15.4 Options and Directions for Central Agencies in Queensland

Key Points

- ***The Department of the Premier and Cabinet and Queensland Treasury should work together closely, with an increased emphasis on teamwork and information sharing.***
- ***The Office of the Public Service should remain as a central agency.***
- ***The Government Statistician's Office should take over the role of purchaser of information on behalf of the Government, including information now collected by the Registrar-General which would be relevant to the Statistician's role.***

Implementation of the recommendations of Chapter Three (and recommendations elsewhere throughout this Report) clearly imply major efforts will be needed in and by the central agencies.

While these agencies have performed historically very well—the relative size of the State Government's net worth provides evidence of their effectiveness—this Report has concluded that the State has to improve its historical ways of working, simply because of the likely future deterioration in its financial outlook.

The Commission sees that the two key central agency departments are the Department of the Premier and Cabinet and Queensland Treasury.

These Departments must work together closely. Both have the direct responsibility of serving the Cabinet and providing it with advice. The Department of Premier and Cabinet provides a service as a secretariat to Cabinet and the Executive Council, but also, more importantly, it serves the Premier and the Cabinet in a key policy advice role. The Treasury serves, with the Department of Premier and Cabinet, the Cabinet Budget Committee and provides policy advice on all submissions made to the Cabinet.

While it is important to keep intact the spirit of these separate two main central Departments, it is, at the same time, critical to foster a culture of teamwork and information sharing between them. The organisation of the Departments should become more flexible, with more use of team structures, both within and between them. The characteristics of good issue based teams have been described by the United Kingdom Treasury in terms shown in Table 15.2. The creation of such cross-divisional and cross-departmental teams should be complemented with high quality information technology, to facilitate teamwork and information sharing.

Table 15.2

Characteristics of Issue-Based Teams

An issue based team should be:

- a separately-constituted group,
- with a clear team leader,
- a specific objective,
- clear terms of reference,
- an identified timetable,
- dedicated resources, and
- a separate budget

Source: HM Treasury (1994) *Fundamental Review of Running Costs*.

The role of the Coordinator-General, which is held by the Director-General of the Department of the Premier and Cabinet, is critically important. This role should not be directive, but does include:

- development and specification of the Government's objectives through the State Strategic Plan;
- outlining the policy and coordinating planning across the whole of government (including the regions) for capital projects—noting that this has to be done in a way which complements the capital budgeting processes of Queensland Treasury;
- facilitating major projects and outlining the framework for industry assistance—noting that this also needs to complement the capital budgeting processes of Queensland Treasury, and
- providing advice (in conjunction with Queensland Treasury) on overall economic policy (especially with respect to microeconomic reform) to the Government.

The role of the Under Treasurer is also critically important. The salient functions of the Under Treasurer include:

- being the primary source of financial, budgetary and related economic advice to Government;
- coordinating and advising on, the Budget, resource allocation process of Government, including capital budgeting assessment, and asset and liability management (including privatisation) as integral components of that process;
- managing the Government's financial risks (including contingent liabilities), and related financial accounting and reporting systems;
- providing advice (in conjunction with the Department of Premier and Cabinet) on overall strategic planning and prioritisation across Government;
- developing (in conjunction with the Coordinator-General) an integrated capital works program for the State and complementing the role and function of the Coordinator-General;

- establishing and maintaining performance assessment systems and contracts; and
- providing world best practice leadership in skills, systems and methodologies concerning economic, financial and budgetary issues across government.

The Office of the Public Service should remain as a central agency, possibly reporting to both of the two main central agencies operating in accordance with the Commission's recommended new ways of working.

Examples of functions which appear to be duplicated within the central agencies include major project facilitation, microeconomic reform and economic policy. Examples of functions which appear to be inappropriately placed within the central agencies are services to industry and industry assistance.

On the other hand, one example of where an agency appears to be wrongly located (outside the central agencies) is that of the Registrar-General—an office which is responsible for keeping records of vital statistics (ie births, deaths, marriages, etc)—which has important synergies with the Government Statistician's Office.

This example provides an interesting case study. The current location of the Registrar-General within the Department of Justice would seem to have more to do with administrative arrangements for registering vital statistics through Courthouses, than with ensuring that the information is collected in accordance with planning purposes. For instance, estimates of the population, and its characteristics, are important for planning and funding reasons, as well as reasons of legal registration. There is no reason why the Government Statistician's Office could not enter into a contract with the Department of Justice, (or some other organisation, possibly private sector) to supply registration services. The Government Statistician, who is responsible for the provision of accurate and timely planning information to the Government should, however, be the purchaser and should be responsible for the specification of the data required and its standards.

Recommendation

15.1 The Government should commission a comprehensive review of the structure and functions of the departments and agencies currently comprising the central agencies of Government—Department of the Premier and Cabinet, Queensland Treasury, the Department of Economic Development and Trade and the Office of the Public Service—to:

- *focus on and implement the delivery of strategic policy, information, planning, coordination, budgeting and accounting services identified in this Report;*
- *rationalise any inappropriate functions that currently reside in the central agencies and relocate them to the appropriate line department or agency and vice versa; and*
- *eliminate any areas of overlap and duplication.*

Services to Industry

Key Points

There exists a wide range of seemingly overlapping measures and agency responsibilities for industry assistance. There is also a lack of clarity regarding primary responsibility for the promotion of assistance, coordination of firm specific assistance and policy development. Alternative approaches or means of delivery are rarely considered.

Findings

- *'Good government' policies, consisting of the provision of general education and training, efficient infrastructure and a pro-competitive legal and regulatory framework, are superior to targeted industry assistance, especially if subsidisation by taxpayers is involved.*
- *The range of industry assistance measures at the state level is extensive and includes: direct financial assistance (including grants, concessional finance, some competitive service obligations, and pricing distortions), public sector involvement (trade promotion) and non-financial assistance (preferential zoning, and exemptions from regulations). In 1994-95, it is estimated that industry assistance totalled around $700 million when all forms of assistance are taken into account.*
- *Many of the relevant issues are being addressed by an Industry Commission Inquiry. In particular, the Inquiry will: address concerns with 'bidding wars'; gather information about the extent of government assistance; assess its effects on economic and regional development; and examine a number of policy issues.*
- *Few assistance measures are effectively evaluated. In those cases where there has been an evaluation, partial rather than whole-of-economy impacts have been considered.*

15.5 Current Industry Assistance in Queensland

Key Points

- *There are 540 industry assistance programs provided by a wide range of Queensland Government departments.*
- *The Budget cost of identified Queensland Government industry assistance programs in 1994-95 was around $700 million when all readily identifiable forms of assistance, including revenue forgone, are taken into account.*

State Government Assistance

The development of new industries relevant to the State's resource base and its competitive advantages and the expansion of existing industries with growth potential and local value-adding are fundamental to strengthening and developing the State economy and to raising the proportion of highly skilled jobs in the labour force. There are many programs and measures of industry development, investment attraction and export assistance and major project facilitation, which have been put in place to support the achievement of these objectives.

At present, Queensland has 540 State industry support programs. Their Budget cost in 1994-95 was over $350 million. Few of these measures provide substantial direct financial assistance to industry. Many involve provision of information and advice of value to industry, often pertaining to Government requirements and databases. Provision of services aimed at increasing the international competitiveness of enterprises through improved management or training is also prominent.

Industry assistance is also provided through other policies, including:

- irrigation water users benefit from the Government's pricing policy for water where no attempt is made to raise the $150-200 million a year required to provide a return on capital;
- benefits are provided through competitive service obligations for non-bulk rail freight, which in 1995-96 included an operating subsidy of $126 million in respect of the freight network; and
- much of the Government's funding of research, development and application ($115 million in 1992-93, 70 per cent of it for rural industries) is not explicitly included in industry assistance programs.

Major direct industry assistance in 1994-95 was provided by the following departments:

- Treasury - $117 million, mainly for tax exemptions, concessions and rebates, emergency assistance and rural adjustment payments;
- Primary Industries - $115 million, excluding water supply, mainly for extension services and infrastructure;
- Premier's - $36 million, in export market support, export development, project facilitation and overseas trade offices;
- Transport - $30 million in transport subsidies and infrastructure;
- Tourism, Industry and Small Business - $62 million, in information and advice, industry extension, research and development, major project incentives, Indy Car Grand Prix and Queensland Tourist and Travel Corporation (this is apart from tax expenditures, which provide significant assistance to small and medium sized business. In the case of payroll tax, this is roughly the same as the tax collected);

- Justice - $17 million, in funding for films, television and arts; and
- Minerals and Energy $9 million, for safety and research programs and facilitation of business development.

Commonwealth Government Assistance

Major Commonwealth Government assistance programs available in Queensland in 1994-95 and 1995-96 included:

- programs designed primarily to encourage employers to take on or train employees;
- programs aimed at lifting competitiveness through enhanced firm performance, eg AusIndustry management enhancement programs;
- export assistance, eg AusTrade's Innovative Agricultural Marketing Program;
- support for research and development (eg the 150 per cent tax concession), research and development grants, the Rural Industries Research and Development Corporation and Cooperative Research Centres; and
- a range of industry-specific subsidies.

No aggregate data are available for funding of Commonwealth assistance to Queensland. While in some areas the Commonwealth and State work cooperatively (eg AusIndustry programs), there is clearly a danger of duplication, overlap and double-funding in the complex array of programs on offer from different levels of government. As an example, the Industry Commission cautioned in its 1995 Report on Research and Development that State assistance for rural research and development was in some cases 'topping up' Commonwealth assistance which was already much greater than that provided to other industries.

The Economic Planning and Advisory Commission estimated that, in 1988-89, total Commonwealth assistance to industry was equivalent to 22 per cent of the revenue from corporate taxation. The Commonwealth Government has indicated recently that it will reduce industry assistance as part of its fiscal tightening.

15.6 Performance Measurement and Evaluation

Key Points

- *There is no coordination of the myriad of assistance measures.*
- *The processes for prior evaluation, prioritisation and performance assessment of assistance measures need to be improved.*

Performance measurement and evaluation is critical to the efficient and effective functioning of industry assistance regimes:

- prior to implementation, it allows an assessment of the value of proposed programs this provides a basis not only for selecting, rejecting or modifying each proposal, but also for prioritisation between proposals;
- during and post-delivery, it allows an estimation of the effectiveness of the program, its strengths and weaknesses and the need for any modification or discontinuance; and
- comparisons of evaluations using a consistent methodology provide a basis for improved program design.

The only data available on this matter have been collected for the Industry Commission and indicate that few programs are effectively evaluated. Even where there is more rigorous evaluation, in almost all cases it is still partial, rather than assessing whole of economy impacts.

There is a need to improve evaluation techniques. In particular, there is a need to address questions of the following nature:

- What would have happened in the absence of intervention?
- How does the experience of assisted firms compare with that of non-assisted firms?
- Were market conditions in the evaluation period different from those prior to it?

There is clearly great scope for improvement in evaluation techniques and their application in Queensland, including greater use of cost benefit analysis and general equilibrium modelling and analysis.

Evaluation of Assistance

Information to support evaluation is scarce. Some points arising from this limited information are:

- *need for regular and independent review*—where programs contain a formalised and objective review process, there tends to be greater opportunity for improvements to be made—a cost-benefit analysis with a consistent methodology would allow comparisons between programs;
- *justification of government involvement* some programs have defined a perceived market failure and the way in which a program might correct the deficiency, but none assesses alternative modes of achieving the same objectives;
- *clear identification of goals* while the majority of assistance programs were formulated to address specific concerns, there is little, if any, precise definition

of what is to be achieved and the extent of the contribution a particular assistance program might have towards those desired outcomes—there is also scant description of the direct linkage between the inputs of the program and the desired outputs;

- *transparency*—simplicity in program design and application not only permits easy measurement of effectiveness and performance, it also provides a common basis for comparison between different programs; and
- *broader impacts*—though it is difficult in many cases to quantify the extent of the flow-on effects a particular assistance measure might have, it is essential that the positive and negative spill-over effects of a program be evaluated, even if it is only on a qualitative basis.

While evaluation of an assistance program in isolation might suggest a net benefit, this might not be the case when the program is viewed in the wider context of whole of economy impacts.

15.7 Future Needs

Key Points

- ***With unchanged policies, and maintenance of outlays/revenue forgone in real per capita terms, total outlays/revenue forgone in 2004-05 would be in the order of $880 million at 1994-95 prices.***
- ***Alternative approaches to industry assistance, including recourse to private sector provision, do exist and greater attention should be directed to their utilisation.***

Current Approach

Because of insufficient information, forecasts of future industry assistance program needs and their financial implications, on the basis of current policy, can only be estimated very roughly. At best, it can be concluded that with unchanged policies and maintenance of outlays/revenue forgone in real per capita terms, total outlays/revenue forgone in 2004-05 is likely to be in the order of $880 million at 1994-95 prices.

Alternative Approaches

Policy Hierarchy

Current assistance measures have been usually generated from the perspective of a single agency, and often in an ad hoc or reactive way, rather than from an overarching assessment of which measures will best contribute to a Government's overall economic objectives.

The first step for the Government is to proceed with clearly defining its economic goals and a hierarchy of supporting objectives, as part of the State Strategic Plan.

The following are key policy targets in a hierarchy developed by Queensland Treasury:

General Economic Development

The use of government resources would be best applied to the general improvement of the Queensland economy. This includes the pursuit of sound fiscal policy, promotion of free trade and the encouragement of investment in the State, by ensuring competitive economic and social services and a professional marketing of key attributes, rather than through discriminatory incentives.

Market Facilitation

Market facilitation policies seek to improve the efficient operation of the market by increasing competition and reducing or removing existing impediments and friction. This includes: the provision of generally available information; the arrangement of supervisory bodies for consumer (and producer) protection with a mandate to balance protection with market development; the minimisation of inhibiting regulatory and transaction costs; and provision of appropriate infrastructure, education and training.

Strategic Assistance

Strategic assistance aims to bring about changes in industry structure which would not result from market forces, or to accelerate or counter changes arising from market forces, in order to pursue a strategic aim of Government. Use of strategic assistance implies a belief that Government intervention to modify industry structure will produce an outcome superior to that which would arise from market forces.

The use of such assistance is reasonable only in the case of market failure. The externalities that may give cause for strategic intervention include: merit goods and public goods; barriers to entry; and short term investment horizons (especially where benefits flow to future generations).

Overseas and Australian evidence tends to suggest that strategic intervention has not been important in explaining industry success when compared with other factors such as factor endowments, competition in product markets and technology

Broad Assistance

The use of modes of assistance to industry for which there is very broad eligibility should occur only where there is substantial market failure or disasters. Broadly available assistance puts a heavy drain on government finances, and the breadth of distribution may mean that the benefit may be spread too thinly to be significant to the recipient. However, widely available assistance is less distorting than firm specific assistance.

An important condition for broad provision of government assistance is that it should have a limited time span and diminish over time. This is to prevent dependency on government assistance.

Firm Specific Assistance

In some instances, governmental assistance is given to individual firms for bailouts, start-ups or relocation incentives. The major problems associated with this method of aid are that there is a tendency to transfer funds from more viable firms (through the taxation system) to less viable ones and a tendency to analyse firm specific assistance in isolation, and not within the context of the broader economy. In general, firm specific assistance is to be avoided.

Once the hierarchy is established, the focus should be on:

- giving preference to policies at the top of the hierarchy;
- moving down the hierarchy only where there are compelling reasons to do so; and
- replacing existing policies with policies higher in the hierarchy wherever possible.

This approach would allow for significant rationalisation of agency responsibilities and the range of programs with a view to:

- achieving a better fit between overall government objectives and individual measures; and
- improving access and understanding of government assistance by the private sector.

Options for Service Delivering Industry Assistance

There is no single model for delivering industry assistance in Queensland. Programs may be delivered directly by an agency, in part by an agency and in part by an external provider, solely by an external provider, or through the provision of subsidies.

In some cases there is a degree of duplication in service provision. For example, services to small business have been provided by the Queensland Small Business Corporation, its parent department, the Department of Tourism, Small Business and Industry, and a number of private industry bodies such as the Queensland Chamber of Commerce and Industry and the Metal Trades Industry Association. In other cases, there is competition from a public sector body (such as the Queensland Tourist and Travel Corporation) in an area already well served by the private sector.

As there are few comparable assessments of the net benefits of programs, it is difficult to assess the most appropriate form of delivery.

As discussed in Volume I, in instances where the private sector can better achieve government output objectives, the government should allow it to do so. The facilitation of market forces for public benefit not only reduces the burden on public finance, it also gives assistance programs greater market orientation. Ultimately, this should achieve the government's objective of eliminating market failure without the associated risk of governmental failure. Importantly, this opens up the provision of services to competition, flexibility and market driven innovation.

One recent example of such an initiative is the Corporation Builders Seminar Series. The Corporation Builders presumes that high search and transaction costs in the venture and development of capital markets in Queensland are most effectively addressed by measures developed primarily by players in the market.

This initiative has proved very effective in achieving its aims of reducing search and transaction costs and introducing new sources of finance. Being free of bureaucratic constraints, the Corporation Builders has gone far beyond its original aims. A new company has been set up with American partners which provides access to NASDAQ and to major opportunities through counter-trade and United States offset deals. With the benefits of access to NASDAQ (better value in terms of amounts raised relative to share of equity sold, lower cost of capital raisings and greater liquidity) several parties in Singapore have expressed an interest in financing Queensland projects or in direct investment in Queensland. The Corporation Builders is an important example of the alternative paradigm of how government can more effectively achieve their objectives, at minimal cost to the Budget.

Another example of how a government initiative can contribute to business infrastructure development is the Queensland Enterprise Workshop Program. Enterprise Workshops began in the University of Queensland Graduate School of Management in 1984 with the assistance of a NIES grant, as part of a national program. In 1989, the centre became self-funding and operated out of the University of Queensland as a private concern. It moved from the University at the end of 1993 to form the Achaeus Institute of Entrepreneurship and now operates as a joint venture with Bond University, offering services on a user-pays basis.

Overall, there is a strong case for rationalisation and coordination of industry assistance programs, for a greater degree of private sector involvement and for greater contestability in delivering assistance.

Industry Assistance for Primary Industries

The Department of Primary Industries (DPI) and the Department of Natural Resources (previously Department of Lands) have a key role in supporting the production and development of agriculture, forest, fisheries, water and land use in Queensland. This role extends from monitoring and management of the State's natural resources, to technical advice and partnerships with primary producers to improve productive capacity and economic returns, through to advanced research and development in these important industries.

The Department of Primary Industries and the Department of Natural Resources have a responsibility for delivering a range of services and activities to the wider Queensland community including primary producers, industry groups, processors, consumers, commercial developers, interest groups, educational institutions, local authorities and other State Government departments and Commonwealth Government departments.

The Queensland Rural Adjustment Authority's primary function is to properly and fairly administer State and Commonwealth approved schemes of assistance to primary producers and small businesses in Queensland. In carrying out its primary function, the Authority administers an extensive range of schemes directed at achieving Government objectives in rural adjustment and sustainable agricultural production. Total funding (administered through Queensland Treasury) of $73.9 million was provided in 1994-95 (interest subsidies were $63.4 million and concessional loans were $10.5 million).

The Commission believes that beneficiaries of the activities of these agencies should be required to meet part of the costs of delivering services, particularly those services which offer private benefits. This has already been adopted in some service areas such as the implementation of commercial practices in DPI Forestry and Water Services Programs. This strategy will mean that the identification and valuation of assets controlled by these programs will become critical, as target rates of return will be affected by these decisions. While the private sector is reluctant to fund capital works, fee for service arrangements should contribute towards maintenance and replacement costs of key assets, particularly in the water supply and research areas.

As the commercialisation process proceeds, it is likely that some asset rationalisation will occur to reduce overheads and better service customers. Changes in the service delivery for Water Services, DPI Forestry and Natural Resource Management Programs due to commercialisation will affect the long-term asset holdings of these programs. However, it is envisaged that productivity improvements resulting from this process will enable enhanced service delivery in the future.

The Government's policy of regionalisation will result in a significant proportion of assets, such as office buildings, plant and equipment, being located in country centres to match service delivery priorities. Before capital investment in such assets occurs, however, the Commission suggests that the opportunities for interdepartmental sharing of assets will need to be investigated in an effort to minimise asset duplication, while still delivering improved services to regional clients.

The Commission encourages plans to increase collaboration between DPI and other service providers including CSIRO, universities, departments in other States and private sector companies and organisations. For asset planning, this will mean better utilisation of existing assets through linkages with the private sector, services for other government organisations, and the like

These agencies have a responsibility to be collaborative and innovative in the way information is generated and distributed. It is likely that greater use of assets, particularly those related to information delivery through technology, will be required to adequately deliver services to clients in the future. These agencies have an imperative, through innovative research and development, to promote Queensland's comparative advantage in primary industries. These agencies need to develop technologies and methods to enable primary producers to better meet market requirements and lower their costs of production.

Productivity improvements, stemming from technology and research and development innovations, will increase the competitiveness and economic value of Queensland's primary industries.

Recommendations

15.2 *The Government should refocus and rationalise agencies involved in the provision of industry assistance so that:*

- *assistance is coordinated with overall Government objectives; and*
- *private sector access to, and comprehension of, government assistance is facilitated.*

15.3 *The Government should undertake a review of industry assistance in Queensland, based on the findings of this Commission and the results of the Industry Commission Inquiry into State Government Assistance to Industry, to:*

- *prioritise programs and rationalise the existing plethora of measures and utilise 'sunset clauses' whenever appropriate;*
- *provide all forms of assistance transparently through the Budget, in the form of direct payments rather than by way of concessions, and through normal Budget planning processes;*
- *enable the private sector to undertake service delivery on a contestable basis; and*
- *establish and implement rigorous processes and techniques for program assessment and evaluation.*

Administrative Services

Key Points

In 1994-95, Queensland Government departments and agencies purchased almost $700 million of goods and services from Department of Public Works and Housing business units. Much of this involved outsourcing of functions. Allowing departments and agencies to choose how much and from whom they purchase will facilitate the realisation of the full benefits of outsourcing.

Findings

- *Untying government departments and agencies from specific suppliers will enable them to become more discerning purchasers of goods and services.*
- *As a general rule, government agencies should be free to seek the best deal possible for the provision of goods or services. The only circumstance where government agencies should remain tied to a particular supplier is where there is a clear advantage from a whole-of-government approach.*
- *If the full benefits of outsourcing and contestable markets are to be realised, government business units must be put on an equal footing with private sector competitors as much as possible.*
- *The current telecommunication arrangements have had some unforeseen consequences that have diluted the benefits of outsourcing.*
- *Outsourcing requires commercial expertise and must be managed carefully to maximise the actual benefits.*
- *If government agencies are compelled to outsource from a specific government supplier, many of the benefits of outsourcing are lost or dissipated as the competitive tension and non-public sector environment from which many of these benefits are derived are not realised.*

15.8 Background

The Department of Public Works and Housing provides a range of services to government through its Commercialised Services Business Units and Divisions of the Government Services Group (see Table 15.3).

Table 15.3

Public Works and Housing Services to Government

COMMERCIALISED SERVICES

Business Unit	Key Services	Operating Revenue 1994-95 $ million
Project Services	Design consultancy and project management	55.7
Q Build	Building and construction services including maintenance	228.3
QPM Property Management	Leasing of office, commercial and other accommodation	(a) 248.3
GOPRINT	Printing and marketing and distribution of legislation	23.6
Q-FLEET	Motor vehicle leasing and fleet management services	57.8
Sales & Distribution Services	Stationery, janitorial, furniture, hardware and other supplies	22.3
CITEC	Information services and information technology services	61.9

GOVERNMENT SERVICES GROUP

Division	Key Output	Operating Budget (b)
Services	Strategic and policy advice on procurement	
Building	Policy advice on management of government build assets	
State Archives	Identifying, preserving and making available worthy records	$22.5 million
Q-TEL	Policy advice on government telecommunications issues	
Legal & Contractual	Policy and strategy advice in legal and contractual matters	

Source: Queensland Treasury

Note: (a) Includes rent which will be paid into a separate Trust Fund in 1995-96.

(b) A breakdown of the Operating Budget for Government Service Group Divisions is unavailable.

Most of the goods and services provided by the business units are to clients who do not have a choice of suppliers.

The operations of the commercialised business units will be considered in this chapter in the context of Chapters Two and Three of Volume I of this Report. Specifically, the future role of government business units in the provision of services to government will be considered. The current telecommunications arrangements and role of Q-TEL will also be considered in the context of outsourcing arrangements.

15.9 Major Issues

Key Points

- ***Untying government departments and agencies from specific suppliers will enable them to become more discerning purchasers of goods and services.***
- ***As a general rule, government agencies should be free to seek the best deal possible for the provision of goods or services. The only circumstance where government agencies should remain tied to a particular supplier is where there is a clear advantage from a whole-of-government approach.***
- ***If the full benefits of outsourcing and contestable markets are to be realised, government business units must be put on an equal footing with private sector competitors as much as possible.***

Most government agencies in Queensland are directed to purchase services from a given government supplier. This monopoly supply situation dissipates competitive tension and reduces efficiency. Further, if services are provided to government agencies rather than purchased by them, as is the case with building maintenance, then there is no incentive for government agencies to limit their consumption.

Untying government agencies from specific suppliers would enable them to become more discerning purchasers of goods and services. Price signals would be strengthened and existing distortions in consumption patterns caused by non-contestable markets would diminish, resulting in a sharpened focus on service delivery and program priorities. For example, if government agencies paid for building maintenance from their base allocation, it would give them greater control over their budgets and provide an incentive for them to more efficiently manage their maintenance costs in relation to other agency priorities.

As a general rule, government agencies should be free to negotiate arrangements for the provision of goods and services with any supplier. All services provided by business units should be subject to an agreement stating exactly how much the arrangement will cost and what services will be provided for that price. Business units should not incur costs that are not provided for in such agreements. That is, the entire cost of running the business unit will be attributable to the activities of that unit.

The only circumstance where government agencies should remain tied to a particular supplier is where there is a clear advantage from a whole of government approach, for example in purchasing power. These arrangements must, however, remain contestable if they are to benefit the government over time.

If the full benefits of outsourcing and contestable markets are to be realised, government business units must be put on a level playing field with private sector competitors as much as possible, so that the accumulated skills and expertise of the business units are not undervalued in the market place and so that the business unit does not receive any unfair advantage from having been or being part of government. As business units can compete for only public sector work following full commercialisation, business units should be privatised to enhance their growth prospects and viability. Commercialisation and privatisation should be completed within three years. Allowing business units time to become competitive will cost the government both in terms of costs of goods and services purchased and accumulated losses as the inefficient business units continue to operate.

As a first step in this direction, a tax equivalent regime and competitive neutrality payments should be imposed on all business units to adjust for income tax and other cheaper inputs to which the business unit have access by virtue of being part of the public sector. To the extent that business units have a competitive disadvantage derived from being part of the public sector (for example, Human Resource Management arrangements), the business unit should not be compensated for these as this would mean the government would be paying a higher price for a service than if it was provided by the public sector. If competitive disadvantage payments were made, the government would be paying for institutional disadvantages and would not achieve the most efficient outcome.

15.10 Outsourcing—Lessons from The Telecommunications Experience

Key Points

- ***The current telecommunication arrangements have had some unforeseen consequences that have diluted the benefits of outsourcing.***
- ***Outsourcing requires commercial expertise and must be managed carefully to maximise the actual benefits.***
- ***If government agencies are compelled to outsource from a specific government supplier, many of the benefits of outsourcing are lost or dissipated as the competitive tension and non-public sector environment from which many of these benefits are derived are not realised.***

Outsourcing in not a panacea for all problems with service delivery. Unforeseen consequences of the current telecommunication arrangements are a good example of how the benefits of outsourcing can be diluted.

In 1992, the Queensland Government sought offers from industry for the establishment of a facilities management regime in relation to the Government's telecommunications needs. The proposed regime was to be established with the objectives of:

- lowering telecommunications service costs;
- improving services to users; and
- stimulating industry development.

In August 1992, the Queensland Government and Pacific Star Communications (Queensland) Pty Ltd entered into a contract for a period of five years. Government departments were required to use the services provided by the facilities manager.

Q-TEL, a division of the Department of Public Works and Housing, manages the contract on behalf of the Queensland Government. It is responsible for providing policy advice on whole of government telecommunications and planning and overall management of whole of government telecommunications services.

Pacific Star (Qld) Pty Ltd is the Government's facilities manager. It is owned by Telecom New Zealand and Bell Atlantic (who also has a significant holding in Telecom New Zealand). The role of the facilities manager is to negotiate optimal arrangements for the customer with telecommunications service providers (Telstra, Optus and others).

SunNET Pty Ltd is the operational arm of Pacific Star. SunNET enters into agreements with the service providers and bills government agencies. SunNET contains all the operational expertise and contractual arrangements required to operate the Government's telecommunications arrangements. The Government has a $1 option to purchase SunNET unencumbered for $2 upon termination of the facilities management agreement with Pacific Star.

Many agencies are frustrated with the current arrangements and resent being captive to the whole of government approach as, in some cases, this leaves them unable to control their strategic direction. Some larger agencies feel disadvantaged by having to comply with whole of government arrangements.

Changes in the market place since 1992 have made the current arrangements costly. The current level of savings could be achieved without a facilities manager. The savings are now much more accessible to agencies themselves, though the original level of savings could not have been achieved without the whole of government approach.

The remuneration formula for Pacific Star has been criticised in that it is based largely on the total bill for the Queensland Government. This is clearly inconsistent with the objective of obtaining maximising savings from rationalisation and other efficiencies. Q-TEL argue that the billings aspect of the formula was commercially necessary to provide sufficient incentive for Pacific Star to aggregate departments. It has also been criticised for not placing sufficient emphasis on service levels.

The areas of greatest dissatisfaction with the current arrangements relate to billing procedures. Most agencies are unhappy with the billing procedure and level of service. They report that billing is typically late and inaccurate. Furthermore, Q-TEL has to rely on SunNET for information to verify savings.

Q-TEL's role is also problematic. Q-TEL is not a service provider but derives its revenue from the level of service delivery. Despite Q-TEL's primary function being the provision of policy advice, most of its funding now comes from fees imposed on departments in relation to management of the Facilities Management Agreement. There is potential for a conflict of interest in Q-TEL's involvement in providing government with policy advice on telecommunications and deriving revenue from its management of the Facilities Management agreement. The policy advice and contract management functions and other commercial functions of Q-TEL should be separated and as a minimum located in different areas of Department of Public Works and Housing. Policy development functions should be Budget funded, while commercial operations should be funded from profits on operations on the same basis as any other commercial business unit in the Department of Public Works and Housing.

The remuneration formula should ensure that Pacific Star is given the commercial incentive to maximise savings and other objectives of the Queensland Government. The majority of Pacific Star's fees (81 per cent since the inception of the Facilities Management Agreement) have been derived from total billings with only 19 per cent derived from savings.

Despite the Government having to give Pacific Star advice in August 1996 if it wishes to continue the current agreement, no formal whole of government approach to new arrangements has as yet been undertaken. It was recommended by the Information Policy Board Telecommunications Review Report in December 1995 that a process be instituted to promote a realignment with government objectives, requirements and expectations, from both an agency and whole of government perspective.

The Department of Public Works and Housing should establish and chair a Cabinet approved interdepartmental working group to develop a detailed strategy and implementation plan to deliver new arrangements as described in the Information Policy Board Telecommunications Review Report in December 1995. Although these issues have been considered by the Q-TEL Strategic Coordination Committee, a formal independent review of the current and possible future arrangements is warranted.

This review should be completed before any commitment is given to extend the current arrangements. It should, as a minimum, consider the merits of the current arrangements, review the role and function of Q-TEL and ensure that any future arrangements are consistent with the principle provided in Volume I of this Report.

To maximise benefits from a coordinated approach to the management of telecommunications across government, future arrangements should be consistent with the principles of devolution. Given the pace of change in the telecommunications industry, government telecommunications technology procurement should be subject to increased contestability to enable innovative solutions to be considered with appropriate risk management. Agencies proposing to undertake or acquire unique applications for telecommunication systems should be required to develop a cost-benefit analysis of alternative solutions already existing in government as part of their business plans prior to any procurement.

Recommendations

15.4 ***All Government departments and agencies should immediately be untied from Department of Public Works and Housing business units, except where there is a clear benefit from a whole of government approach.***

15.5 ***The whole of government initiatives should be evaluated to ensure that there is a clear benefit from this approach and that no agency is worse off from*** *participating in the approach. In the case of fleet management, the Police fleet should be included in the evaluation.*

15.6 Government business units should have a tax equivalent regime and competitive neutrality payments imposed on them to compensate for any competitive advantage business units may have over private sector competitors.

15.7 The Government should seek solutions to community service obligations in a contested market so as to obtain the best price for the desired outcome.

15.8 As part of the untying process, any payments to business units on behalf of departments for services should cease immediately and be distributed directly to departments.

15.9 A formal independent review of Queensland Government telecommunications should be conducted. The review should report initially before any decision is made to extend the current telecommunications arrangements and preferably by 31 December 1996. It should consider, as a minimum, the attributes of the current approach, the role and functions of Q-TEL, and should outline a framework for new arrangements, consistent with the principles set out in Volume I of this Report.

Service Delivery in Regional Queensland

Key Points

Regional areas in Queensland present special service delivery issues. Some of these differ widely across regions—eg problems of meeting strong growth in demand in North and Far North Queensland and problems of maintaining critical mass and staff in the West. Others are widespread—eg concerns about youth services and policing. Achieving better services for given resources requires more effective coordination and control over resources at regional management levels, and greater use of technology and innovative delivery approaches.

Findings

- *There are problems of coordination in both service delivery and planning for future service needs and supporting infrastructure.*
- *There are problems of attracting qualified personnel to inland areas, particularly in health and education.*
- *A number of areas of Queensland, particularly in the western regions, have deficiencies in access to upper secondary education, TAFE and higher education.*
- *Significant concerns exists about deficiencies in police numbers in some regions. In several cases, this concern is linked to addressing problems of youth behaviour, alcohol abuse, etc.*
- *Some small communities are unusually highly reliant on public sector employment, and concerns exist that unqualified application of market mechanisms such as contracting out may have negative consequences for these communities. For example, the loss of one position in a very small community can have significant flow-on effects.*

15.11 Overview of Regional Queensland

Key Points

- *The demand for services varies greatly across Queensland, from regions with slow growing, static or declining population and economic activity such as Western Queensland, to high growth regions such as North and Far North Queensland. High growth regions face strong growth in the need for services and supporting infrastructure, while in areas such as Western Queensland, the problems relate more to retaining critical mass in service delivery and the like.*

- ***A general perception of erosion of indirect incentives and inequity in employment conditions, a dearth of suitable housing, a lack of educational opportunities and limited scope for professional development, all contribute to make service in the rural and remote communities less attractive than in the larger population centres of the State.***
- ***Concerns exist in all regions about certain issues such as youth and community services and policing, and planning and delivery coordination.***

Service Delivery Challenges in Regional Queensland

The provision of quality government services to rural and remote communities is more expensive than delivery of the same services in an urban setting. Additional costs are involved in travelling, community consultation, staff allowances and incentives, increased wages associated with more flexible hours of duty, special equipment, increased maintenance, training and communications.[1] While some of these costs are of a transitory nature associated with new initiatives, there are ongoing costs which continue to be greater than those for the delivery of the same services in a metropolitan environment. Vast distances, climatic extremes, staffing difficulties and limited infrastructure all add to the cost of service delivery to rural and remote regions of the State.

Dispersion and low population density create the fundamental challenge of accumulating sufficient demand for a service at an accessible delivery point to warrant the cost of providing that service. The problem increases in proportion to the dispersion of population. In terms of equity of access, it is the very small and isolated rural and remote communities which tend to receive only minimal services. While the range of needs in these communities may be as broad as in metropolitan areas, or nearly so, the volume of potential customers is often too small to warrant the establishment of a separate service delivery point.

For people in these areas, this often means that there are considerable distances to travel to gain access to specialised services. Restricted access roads (especially in the northern and western parts of the State) and limited public transport can combine with topographic and climatic extremes to disadvantage rural and remote residents in access to services.

Understandably, service in some areas of the state is not always an attractive prospect especially where facilities are limited, the climate is extreme and conditions generally harsh. Residing in many of the less populous areas of the State involves a compromise on certain quality-of-life factors, relating to climate, available community activities, cost of living, media and communications facilities, available attractions and entertainment, the quality of schooling and support services, etc. With the advent of dual income families as the norm, the mobility of many staff has been reduced as both partners are tied to employment and in some cases, child and aged care responsibilities.

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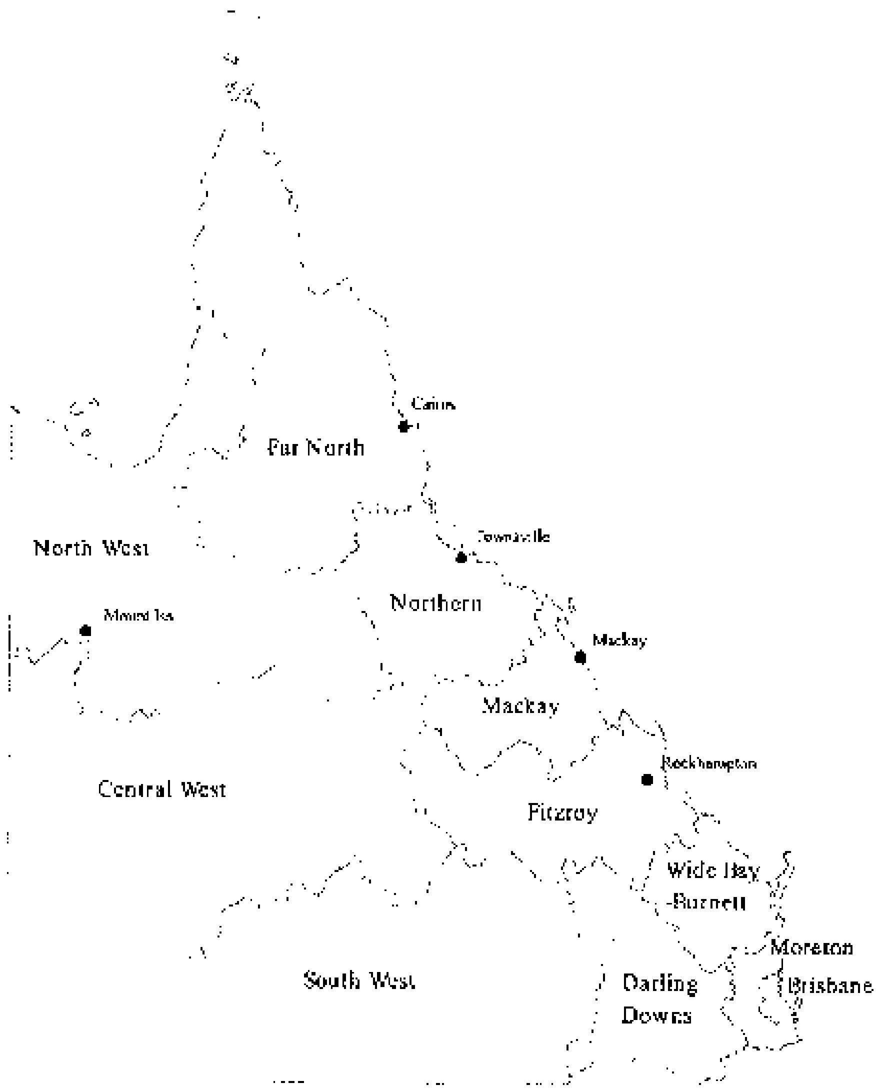
[1] Office of Rural Communities (1995), *Queensland Rural Regions Advisory Council Review Report*, p 27.

Map 15.1

Queensland Statistical Divisions



Source: Queensland Government Statistician's Office.

Characteristics of Regional Queensland

Table 15.4

Characteristics of Queensland Statistical Divisions

	Area (sq km)	Estimated Residential Population as at 30 June 1995 (p)	Average Annual Growth 1990 to 1995 (a) (per cent)
Brisbane-Moreton	22,207	2,073,289	2.9
Wide Bay-Burnett	52,392	222,521	3.2
Darling Downs	90,245	205,400	1.4
South West	322,436	28,369	(0.5)
Fitzroy	123,654	181,928	1.9
Central West	371,064	12,945	(0.7)
Mackay	69,011	118,733	1.7
Northern	101,306	195,314	1.6
Far North	267,645	200,920	2.3
North West	312,155	37,698	(0.3)
Total Queensland (b)	**1,732,654**	**3,277,373**	**2.5**
New South Wales	801,600	6,115,100	0.9
Victoria	227,600	4,502,000	0.6
Australia	**7,682,300**	**18,054,000**	**1.1**

Source: Australian Bureau of Statistics, *Catalogue No. 3201.3 and 3101.0.*

Notes: (a) estimated residential population at 30 June

(b) includes unincorporated islands.

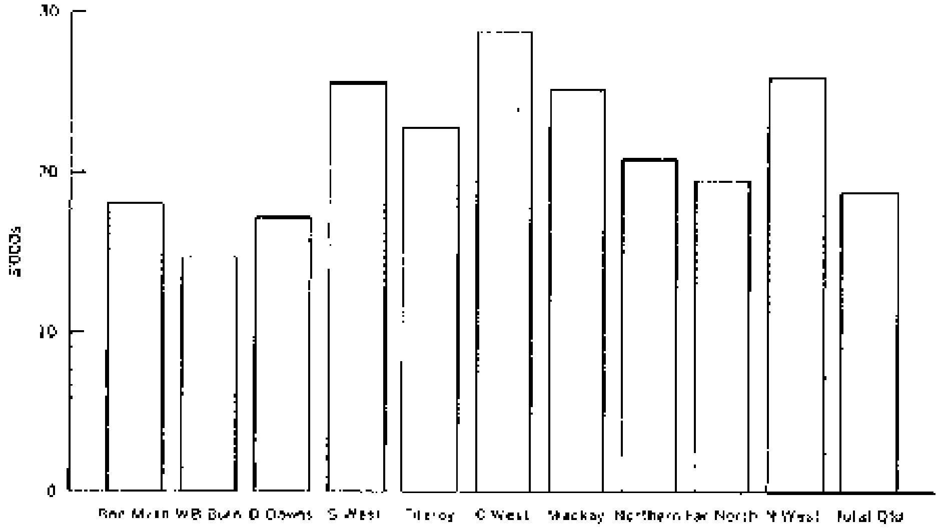
(p) preliminary.

Table 15.4 above shows the areas, populations and population growth rates of Queensland's regions. Regional areas (see Figure 15.1) contribute heavily to the Queensland economy, absolutely and on a per capita basis, and indeed make a greater contribution on the latter basis than the South East corner. With the exception of Wide Bay-Burnett and the Darling Downs, all non-metropolitan statistical divisions recorded higher per capita gross state product than the State average in 1990-91 (latest data available). Western Queensland is particularly productive on a per capita basis. The Brisbane-Moreton region recorded gross state product per capita below the State average.

Despite high per capita production, the level of economic activity in western Queensland has declined over the past decade. Between 1986-87 and 1990-91, the South West, Central West and North West regions all recorded negative growth in gross regional product (see Figure 15.2). This poor regional performance reflects a combination of declining gross state product per capita over the period and the continued effects of negative population growth.

Figure 15.1

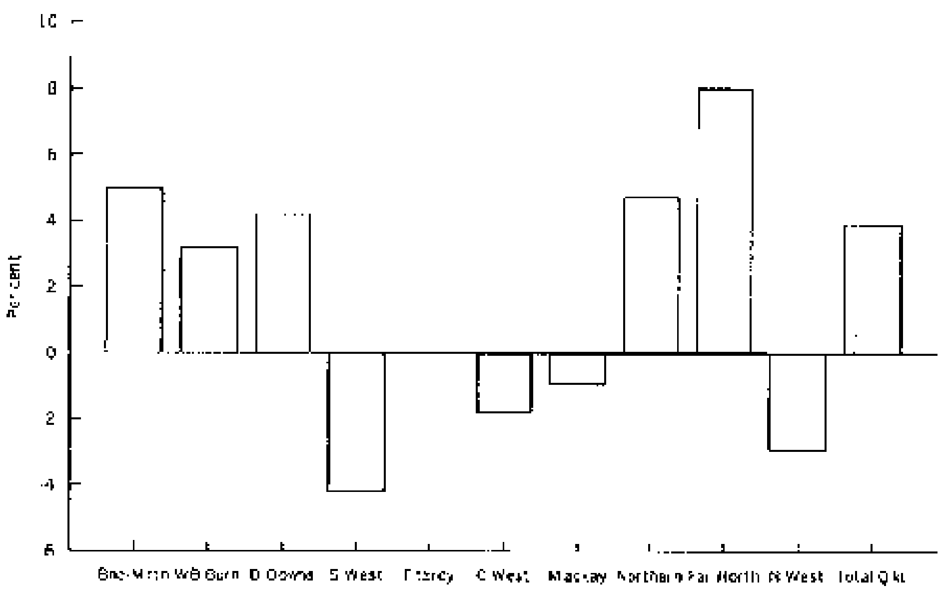
Gross Regional Product per Capita 1990-91 (Constant 1989-90 Prices)



Source: Government Statistician's Office, *Estimates of Gross Regional Product Queensland, 1986-87 & 1990-91*

Figure 15.2

Gross Regional Product at Market Prices, Queensland (Constant 1989-90 Prices) (Annual Growth, 1986-87 to 1990-91)



Source: Government Statistician's Office, *Estimates of Gross Regional Product Queensland, 1986-87 & 1990-91*

Population projections for these regions indicate that numbers are expected to remain relatively constant over the next 15 years.[3] The decline in population has resulted from residents migrating out of these regions and, even if slower, this may continue to be a factor inhibiting economic growth in the region in the future. The sustained period of drought conditions experienced in these regions in recent years has no doubt impacted significantly on these trends. However, the vicissitudes caused by the drought have been compounded by the disadvantages that rural and remote regions have with access to many basic services.

The pressure of demand for services varies greatly across regional Queensland. In particular, two greatly differing regions can be identified. Western Queensland is a declining region, characterised by widely dispersed communities and negative economic and population growth. In contrast, regions such as the North and Far North are currently experiencing strong economic growth, and population growth well above the national average. This high population growth rate has significant implications for the demand for services such as education, health, etc. Additionally, economic development in these regions is driving the need for further economic infrastructure such as water, energy, roads, other transport linkages, etc.

These illustrations serve to emphasise why regional Queensland cannot be treated as a single entity. Innovative new methods of service delivery will be required to meet the particular needs and circumstances of all regional communities, to the best standards achievable with the resources available, and as far as possible, to the same standards in all communities.

While steady improvement in service delivery has occurred generally, regional community organisations have expressed concern about fragmentation and duplication of services by the Commonwealth and State Governments. A brief tour of Queensland's major regional centres was undertaken by the Commissioners in May 1996, in order to gain some insight into concerns and issues regarding service delivery in these regions. Local Government representatives, State Government department representatives and business and community leaders were all invited to express their views (see Boxes 15.1, 15.2 and 15.3 for a cross-section of views on a range of topics). The discussion below of service delivery issues in regional areas is largely sourced from meetings and submissions from these regional representatives.

Several consistent themes emerged from the views expressed to the Commission in regions regarding specific areas of service delivery. These included concerns about:

- inadequate youth and community services;
- police service deficiencies;
- problems of attracting and retaining qualified personnel; and
- problems of coordination at the regional level among all relevant service providers and authorities in respect of both service delivery and planning for future service needs and supporting infrastructure.

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3 Department of Housing, Local Government and Planning (1994), *Population Projections for Queensland and Statistical Divisions 1991-2031 and Local Government Areas and Statistical Districts 1991-2011*.

15.12 Service Delivery Issues

Key Points

- ***Regional communities face significant barriers in attracting and maintaining professional staff in many areas, but particularly health and education staff.***
- ***Significant deficiencies exist in upper secondary, TAFE and higher education facilities, particularly in Western Queensland.***
- ***Major developments in regions of Queensland are driving the need to provide new infrastructure, particularly transport linkages.***

Health

Accessibility of health services is a major issue for people in remote and rural areas, who often do not have access to services which are taken for granted in urban areas. This issue is not only relevant for remote areas, but for any small community where transport to a larger centre is not readily available

Alchohol abuse has been identified as one of the biggest problems in relation to health, and also has damaging effects on virtually every aspect of life in communities in which it is frequent, posing issues for the whole gamut of services including health services, youth, community and police services. This complex problem is particularly evident in the Far North and Gulf regions—to differing extents in different communities.

Staffing problems, whether they be high staff turnover, or inadequate or inappropriate training, affect the basic adequacy of health service and delivery. The frequency and emphasis of comments to the Commission on this issue suggest that attracting and retaining health staff in rural and isolated regions is a major service delivery issue throughout Queensland's inland regions.

There appears to be a serious shortage of doctors and other specialist staff in most inland areas. This evidently arises from a lack of incentives for professional staff to move to these areas. Additionally, there is a concern that specialist visits, although greatly appreciated, are too infrequent. It was also regularly mentioned that these services are heavily attended. The issue of providing effective incentive packages to key health and other service delivery workers in isolated areas needs to be investigated as a matter of priority.

It is worthy of note that, in some cases, government funding remains unspent because bureaucratic rules prevent payment for staff at the levels required to attract staff to remote locations. At a minimum, these rules need close review. More generally, in line with the principle of involving the consumer in service decisions, it is important that local communities in remote areas have flexibility to determine their own service priorities. Where funding limitations or issues of equity limit the level of support, local communities should have scope to 'top up' government assistance to provide needed service levels. This latter element is particularly relevant in providing zone allowances, subsidised housing and so on, to attract professional skills into remote regions.

Considerable concerns also exist about the quality of ambulence care delivered to rural and remote regions. Comments provided to the Commission indicate widespread deficiencies, particularly relating to the effectiveness of 'ring-up' services for ambulances. In many rural and remote regions of Queensland, calls for assistance may be directed to offices many hundreds of kilometres away.

This problem is compounded by a lack of dispatch staff knowledge regarding the location of some small towns. This results in critical delays in the dispatch and travelling time of ambulances to these areas. This needs to be addressed as a matter of urgency. The organisational processes of dispatching centres needs to be improved markedly. The introduction of better information services will assist dispatchers to identify and locate ambulance service recipients. The introduction of such information systems should reduce ambulance dispatch time to regional areas, and is therefore encouraged by the Commission.

Education

Another area of disadvantage to rural communities is the lack of adequate education facilities for those who choose to remain in these regions to extend their education to the degree they desire. There is a particular need in the western areas to establish better education facilities, better research facilities, and better access to tertiary institutions. The difficulty is that young people move away from these areas to educate themselves and consequently, very rarely return. This is inter-related with the problem of the inability of these regions to attract professional staff. Advances in information technology and distance delivery offer some prospect of finding better solutions and greater flexibility at the regional level.

Unemployed people in rural and isolated areas face significant barriers in accessing vital services such as vocational training or education. There are particular deficiencies in the areas of upper secondary, TAFE and higher education. The strength of rural communities depends on the skills available in those communities. To ensure that communities can take advantage of future development opportunities, people in regional communities will need greater access to a wider range of skills training.

There appears to be a high turnover rate for principals and teachers in schools in rural areas. The high turnover is often related to teachers gaining points in remote areas to access job opportunities in city centres. This creates discontinuity of learning programs, skilling of teachers and administrators, on-going induction of new members and the capacity to attract and hold the range of qualified staff to service country areas particularly.

The different client service standards, and interpretations of this term, that exist around the State pose a set of concerns, centring around existing distributive models of resource allocation. These are based generally on a 'numbers' model for resource allocation without, or with very limited consideration of, issues such as real costs of transportation for services (eg visiting specialists to country schools), different levels of experience and expertise, need for staff induction and retraining when transfers and resignations occur, and so on.

Box 15.1

"There is a critical need to establish, in a place like Mount Isa or certainly western areas, better education facilities, better research facilities, education going into tertiary areas as well. This is an area where I do say we need a great deal of support. At the present time, if a young person from a property wants a further education, they have got to go away to boarding school somewhere ... the difficulty is that they have to take themselves away to do all of the studies and consequently, they very rarely come back ..."
(Representative, Shire Council), North West region

"The region is characterised by a variety of schools, small and large, urban and very remote.. it is also characterised by a massive turnover in staff. About 60 per cent of our principals for example, will change within three years, somewhere around the same percentage in staff and in remote country schools, we are talking in the vicinity of 80-90 per cent. It is also interesting to note the large difficulty in getting qualified teachers to come to country areas ..."
(Senior Officer, Department of Education, Capricornia Region)

"The demands will mean therefore we are looking to probably double the sort of facilities that we have available at the moment, and my point is at the moment, well specifically coming from Catholic Education's perspective, we get insufficient funding now to meet the needs within our own sector, so that if these demands are going to be confronting us over the next 10-15 years, we would be looking for a considerable increase in funding from the State and not only the State, but the Federal Government, to meet those sort of needs."
(Representative, Catholic Education Office, North Queensland)

"I think for example in terms of public sector housing for teachers and other workers in isolated areas and we have estimated that in over five years, we will probably need to spend about $8 million in the education sector alone to provide housing for our workers in those isolated spots."
(Senior Officer, Department of Education, Peninsula Region)

Needs in the south east corner are different to those in other parts of the State. Schools in the south east corner are also able to attract other services, both from other government agencies and also from private industry, much more readily than those outside the south east, even in major coastal cities such as Townsville and Cairns. The concern is basically that resourcing should be provided to allow achievement of a standard outcome, taking into account significant factors such as distance which affect resource costs differently across the State.

The non-government education sector is facing similar problems to the public education system. In certain areas (notably, North and Far North Queensland) high population growth poses enormous resource implications for both government and non-government education.

It seems clear that the issues of quality of life and dual income potential are factors encouraging education personnel to stay in, or migrate to, the south east of the State. Issues which need to be addressed in attempting to ensure quality of service in remote or isolated locations, and which have budget and delivery implications, include those of allowances, housing and capacity for transfer. The issue of housing is clearly significant. A key 'attraction' is that good quality furnished accommodation will be available at a moderate rental. This enables savings for teachers, and reduces the need to bring quantities of goods with them.

There appears to be a lack of public housing and substandard private housing, in many regional centres. Indeed the stock of housing may not be sufficient to meet the needs of the relatively high proportion of low-income earners residing in regional areas quite apart from public sector employees. Public housing in regional areas, regarded as a category of social infrastructure, may be a candidate for a community service obligation. As Queensland Treasury[3] has noted, one of the categories of community service obligations includes, "provision at no charge or below cost of services which would not be provided on purely commercial grounds, eg infrastructure for regional development." Investigation into this possibility should be a matter of priority.[4]

Roads and Transport

The supply of quality transport infrastructure, particularly road and rail infrastructure, is a significant issue in regional areas. Many of the existing roads are now facing the impact of an imminent increase in traffic that will come with new development projects such as the Korea Zinc project in the Townsville region and the Ernest Henry and Century Zinc mines in the North West. These developments are 'pushing' the need to provide new infrastructure, particularly transport linkages. This may be the most important development requirement for potential industrial investors in regional areas.

Recognising that the appropriate standard in a particular situation is a matter of economics, vast areas of the State contain no bitumen roads at all and users have to rely on expensive sea and air transport during the wet season in some places. The State's beef roads also appear to be deteriorating steadily.

Again, noting the economic issue, large regions are not served by a rail network, and most of the existing system is substandard. Access to the ports is another significant issue. There is a

3 Queensland Treasury (1996), *Community Service Obligations: An Issues Paper*, p 1.
4 The general issue of community service obligations is discussed in Volume I.

need to coordinate other infrastructure planning with the port systems' plans for strengthening capabilities, particularly to improve the efficiency of road and rail access to and from the ports.

Box 15.2

"In vast areas of the region, especially in Cape York, there are no bitumen roads at all and people have to rely on expensive sea and air transport during the wet season ... the main coastal rail line from Townsville to Cairns is substandard compared to the areas to the south and although investment is taking place in it, Queensland Railways planning seems to see it being kept at a lower standard than areas further south ... large parts of the region are not serviced by rail and most of the existing system is substandard."

(Representative, Chamber of Commerce, Far North Queensland)

"I want to stress that we here in Townsville have the spotlight of potential investment well and truly upon us and that much of that potential investment and consequent economic gain to Queensland is contingent on the efficiency, condition and adequacy, to use the terms in the Terms of Reference, of a range of infrastructure, social and economic."

(Representative, City Council, North Queensland)

"Our rural roads and highways, whilst getting better, have short life cycles and require constant maintenance and simply fail in comparison to the roads in the south east corner ... further, commitment made by state governments to local government for infrastructure has been nothing short of a joke. The city alone has significant requirements in the sewerage and drainage area which only receive scant assistance from the State Government."

(Representative, business peak body, North Queensland)

" .. there have been some rail lines considered for closure, not only through Central Queensland, but throughout Queensland...concern is that through the closure or proposed closure of these, we are actually cutting down on the potential for local economic growth in all of the affected areas."

(Representative, City Council, Central Queensland)

"The areas that we recognise as being in urgent need of attention and increased funding are water, rail, transport and port upgrading. In particular, in water it is estimated that with current coal mine expansion and the establishment of new coal mines, we could see up to a 58 per cent increase in coal production by the year 2000."

(Representative, business peak body, Central Queensland)

The reliability of water supply and waste water disposal are major challenges for large parts of regional Queensland. Many of these are located in dry regions and many of the activities of coastal regions have the potential to impact upon a very sensitive marine environment. Waste water treatment and disposal facilities require constant improvement if they are to remain adequate. Many regions note the imminent impact of Government initiatives for improved standards of effluent and the subsequent financial implications for these regions.

Decent sewage treatment is a basic contributor to community hygiene and health. Consideration is required of the measures needed to ensure adequate provision of these basic services. Several communities throughout regional Queensland have no reasonable sewerage system and others face serious problems, especially in the Cape region.[5] The Queensland Government, through the Department of Primary Industries, is attempting to address this issue in some communities; nonetheless, severe deficiencies remain.

Law and Order

Law and order concerns seem to be particularly prevalent in regional Queensland. Problems mentioned include the fact that Police are not always available and sometimes no help is available during weekends and early morning hours, when calls are usually diverted to larger stations, sometimes hundreds of kilometres away.

Box 15.3

"The other area that needs to be addressed and this is very difficult to quantify as to the cost, but it is a problem that is occuring both in small local authorities and large local authorities all over the State, and that is some sort of review of juvenile justice. The cost of the current Juvenile Justice Act and the lack of responsibility for juveniles in our community is something that is causing us problems. It is causing us problems in the fact that we don't have enough police to police it and when they can police these problems, they don't have any major effect."
(Representative, Shire Council, Central Queensland).

"We have a population of 3,500 in the town area and between 8,500-9,000 in the shire and if they (police) are out on one case, and if you have either a domestic violence case or something, Mackay is half an hour away."
(Representative, Shire Council, Central Queensland)

"The last point I would mention would be law and order in the community. With the amount of unemployment and scarce police facilities and policing function, all those matters come together in a situation where law and order is sadly lacking."
(Representative, Shire Council, Gulf Region)

5 Winer, M (1995), *Service and Infrastructure of Cape York Peninsula*, p 254

Additionally, concerns exist about measures to address juvenile crime, particularly with respect to the repetition of crimes such as vandalism and juvenile breaking and entering. Alcohol abuse also seems to be quite widespread in northern areas of Queensland. However, it is noted that many of these concerns are related to broader socio-economic problems, and not just to the adequacy of existing police resources. Many regions are in need of youth or community development officers to assist with these types of issues.

15.13 Improving Service Delivery in Regional Queensland

Key Points

- ***Government initiatives such as the Queensland Government Agent Program, where a single agent is able to provide a range of government services through a single delivery point, have the potential to help provide expanded services to some regional areas.***
- ***High reliance on public sector employment in some small communities has important implications for the introduction of market-type mechanisms such as contracting-out.***

Technology

Technology has the potential to do one of two things. It could allow concentration of a service at a central location (ie provision from a central office in the south east or on the coast), or it could allow delivery from wherever the expertise rests, even if that expertise happened to be in a remote area. The point is that technology should not be seen as a means of advancing a philosophy of centralisation. Rather, it should be seen as a means by which those responsible for service delivery at a particular location, and their customers, can marshall a range of resources from wherever they are located.

When considering options for enhanced service delivery, technology will increasingly present itself as a means of providing the widest possible range of high quality, low cost service delivery solutions for rural and remote communities. However, high technology delivery systems will not necessarily provide the desired quality of service if the information content of the service is not tailored to suit the client, by a professional 'on the ground' or otherwise in contact. Conversely, many residents in isolated areas lack familiarity with recent technological advances and a technology driven solution may make access to the service more difficult unless this is addressed.

As each community is different, with its own wants and needs, service delivery will still require the human or face-to-face element to be successful, particularly where complex or specialist individual services are involved and the quality of the communicative relationship determines the quality of the delivery outcome. Nevertheless, appropriately combined with human interaction, technology appears to offer significant potential to improve service delivery in regional areas.

Initiatives

Strengthening public administration in regional Queensland should be an important priority. Access and service delivery in the regions have been inhibited by centralisation of public servants and decision making in the Brisbane central business district. In recent years, some initiatives have been introduced to redress that imbalance. These include:

- Countrynet, established in 1994 by the Office of Rural Communities to coordinate three program areas with a direct relationship to rural communities;
- the Queensland Government Agents Program, providing one-stop information and service centres; and
- the Queensland Departments Information Access Link mobile information displays and 1-800 telephone information and referral service.

In some communities, Government Agents effectively represent the whole of government and are required to provide information to the public about any government program or service on-the-spot, or by referral to relevant agency contact officers. There are currently 28 Government Agents throughout Queensland and there is evidence of strong community support for this program.

The Commission encourages the Government Agents program, but recognises that significant dissatisfaction still exists in some regional areas with respect to the locations and extent of services provided.

Concerns expressed to the Commission, regarding the lack of *real* services, need to be addressed as a matter of urgency. The Government Agents Program, while well meaning, needs to be re-focused. The introduction of better information technology should enable the facilitation of more client-focused service delivery.

This type of program has great potential for development and should ensure that even the most remote communities can transact necessary business with government departments effectively.

Other Issues

There is a concern in some regions that the recent move towards contracting-out may encourage larger south east Queensland based contractors to compete for contracts on a move-in-move-out basis. In such circumstances, the distributional aspects of government expenditure could be significantly diluted and the regional impact of government investment somewhat wasted.

In some communities, there exists great reliance on public sector employment. In these cases, the possibility of employment losses due to contracting out has enormous implications, especially in small communities. For example, as a representative from a North Western Shire

Council pointed out to the Commission, the loss of one position can have significant flow-on effects:

> "Another problem we have and, this applies to all Shires out west, is you might be only losing one policeman out of two, but all of a sudden there's three kids come out of school and all of a sudden, instead of four teachers, you've got three teachers, and all of a sudden that's two families out of the town. Then all of a sudden, the shop keeper puts someone off in the shop. People might say it's only one policeman, but it turns out three of four different families leave town and half a dozen kids, and like I said, it's not only Boulia Shire, it's all over the west."

This issue will need to be looked at closely in the future when market-type mechanisms, such as contracting out, are being considered in these small communities which are heavily reliant on public sector employment. It does not necessarily mean that those mechanisms have no application in such areas. For example, even if certain ancillary services were reserved to public (or simply local) providers in small communities in certain areas, the services could still be arranged under output-based service agreements with funding regularly set at the competitive benchmark level determined over other areas, with due allowance for local factors such as distance.

Improving Service Delivery

Government's investment in social and economic infrastructure needs to take account of the special circumstances which exist in regional areas. The planning process for social infrastructure needs to acknowledge the high demand placed on social services by the Aboriginal and Torres Strait Islander population, tourists and other target groups. In addition, the construction and maintenance standards of economic infrastructure, such as roads and rail services, need to take into account the specific physical demands stemming from the region's unique environmental factors. Both of these examples have cost implications which should be factored into the resource allocation processes adopted by government.

Duplication and overlap of current services exist in many areas of regional Queensland, instead of a well-integrated service delivery framework. There is a need for greater coordination between the Commonwealth and the State in some of these areas. The Commission endorses the initiatives of the State Government aimed at improving collaboration on program planning, development and administration in rural regions communities. However, the Commission considers that further action is needed by the Commonwealth and State Governments to minimise duplication of services in regional areas. Actions proposed need to take into account the role of local governments in planning and coordination at the local level, indeed of the roles of all relevant service providers and authorities.

There appears to be a poorly integrated planning and coordination framework at the regional level, particularly with respect to service expansion and supporting infrastructure investment. Much decision-making is still centralised rather than under regional and sub-regional management, even though it could be exercised at those levels and this would facilitate more effective delivery of services for given resources (eg maintenance, school transport). Although there has been a move towards regionalisation in recent years, there is evidently still insufficient local management autonomy and control over resource inputs needed to deliver the outcomes that local management is, or should be, accountable for. If devolution does not accompany regionalisation, then the aim of better outcomes and greater customer satisfaction for given resource use will not be achieved. Central control is inherently more inflexible and unable to respond as quickly to changing local needs, and what is being suggested here is simply the principle of subsidiarity: no level of management should exercise a function that can more effectively be exercised at a lower level of management.

One issue bearing on the ability to achieve good coordination is that the various regional boundaries identified for departments such as health, education, etc are different, leading to lack of identification by staff, in some areas, about which region they fit into.

In this regard, there is a lack of well defined service standards and associated frameworks for identifying possible community service obligations, or at least factors impinging differentially on delivery costs, in parts of regional Queensland. If explicit service standards could be developed, this would facilitate either making the quality of service in regional areas comparable with that in metropolitan areas, or at least identifying on a clear basis where the standard cannot feasibly and economically be met.

Recommendation

15.10 The Government should meet the special needs of regional areas of Queensland for service delivery and supporting infrastructure by giving priority, across Government and within departments, to:

- *rationalisation and better coordination of the delivery of services across the levels of government;*
- *in particular, more effective coordination especially at regional and sub-regional levels—of planning for future service needs and supporting infrastructure, involving all relevant service providers (including non-government providers) and authorities, as well as representatives of major users where appropriate;*
- *devolution to regional and sub-regional levels of effective management control over all resources needed to deliver the outcomes for which those levels of management are accountable; and*
- *development of well defined service standards, as a basis for seeking comparable service outcomes across the State, for systematically identifying differential costs and possible community service obligations, and as a basis for making exceptions where achieving standards is not feasible*

Chapter Sixteen

Other Government Businesses

Key Points

Queensland Government forest plantations are now reaching maturity and operating profitably. However, the current system of pricing and allocating the native forest outputs reduces revenue and encourages inefficient use of forest products. The introduction of market based pricing and allocation is essential for achieving a better financial performance and in encouraging more efficient use of forest products by the timber industry.

The case for the Government retaining ownership of the Queensland Abattoir Corporation and Brisbane Markets Authority appears to be weak, given the ability of private firms to provide these services. The marketing and regulatory roles of the Queensland Sugar Corporation should be separated to be consistent with the structural reform principle.

The Queensland Government's home ownership assistance programs are subject to a separate review commenced in May 1996. As a revised Commonwealth-State Housing Agreement is due to commence in 1997-98, the State Government is unlikely to be encouraged in the future to use Commonwealth funding to provide home ownership assistance, and the Government may be able to assist low income earners through the public rental system.

The Office of Gaming Regulation plays a role both in the regulation of private gaming activities and in the supply of gaming machines to private operators. The role of the Office of Gaming Regulation in procuring gaming machines appears to be no longer necessary.

The Queensland Tourist and Travel Corporation provides general tourism promotion services and also operates a wholesale travel agency service (Sunlover). To ensure competitive neutrality with private operators, Sunlover should be privatised, subject to an assessment of the impact of the sale on the representation of small tourism operators.

Queensland retains a heavy involvement in the ownership and operation of financial institutions that is anachronistic in view of their historically poor cost performance, and the problems that other States have encountered with deposit-taking institutions.

Forestry

Findings

- *The establishment of Forestry as a commercial business unit has provided a clearer commercial focus. Nevertheless, the pricing and allocation of native forest timber inhibits the capacity of Forestry to earn revenue and reduces the incentive to the efficient use of native forest timber by mills.*
- *Forestry also conducts quarrying operations. Its use of an administrative pricing basis distorts the consumption patterns of industry users.*
- *Forestry is required to develop corporate and business plans, and regularly report on performance. In practice, however, these arrangements appear to be ineffective when remedial action is required (when performance falls short of planned levels).*
- *A recent benchmarking study indicated that Forestry had higher average costs than most other State Government and private plantation owners, and suggests considerable room for improvement.*
- *To increase the efficiency of resource use and financial performance of forestry operations, privatisation of Forestry is necessary.*
- *Before privatisation, a strategic forestry and environmental planning framework would be required to ensure substantial development.*

Recommendation

16.1 Forestry operations should be privatised, with the Department of Natural Resources maintaining responsibility for strategic planning and attendant regulations, and setting appropriate forest management standards.

Primary Product Statutory Bodies

Findings

- *In recent years the Queensland Government has replaced many statutory marketing boards with producer cooperatives.*
- *Several organisations (the Queensland Sugar Corporation, Grainco and Australian Quality Egg Farms) still have exclusive powers over marketing. These powers are due to expire over the next two years for grains and egg marketing, while the sugar industry is the subject of a separate Commonwealth-State review to report by the end of this year. The regulatory*

powers exercised by the Queensland Sugar Corporation should be separated from its marketing functions, to be consistent with competitive neutrality.

- *The State Government also owns the Brisbane Markets Authority and the Queensland Abattoir Corporation, which are exempt from State taxes and dividend requirements.*
- *It appears that the State Government could dispose of the Queensland Abattoir Corporation (which operates in a competitive market) and the Brisbane Markets Trust, which could be opened to competition.*

Recommendation

16.2 *The Government should sell the Queensland Abattoir Corporation and the Brisbane Markets Authority, subject to the prior introduction of competition for the Authority.*

Home Purchase Assistance Programs

Findings

- *The Queensland Government's home ownership assistance programs are the subject of a separate review requested by the Minister for Public Works and Housing.*
- *The current programs, the Home Ownership Made Easier (HOME) loan and Rental Purchase Plan, were introduced in 1990, when both inflation and market mortgage rates were significantly higher than today. However, demand for both types of loan has declined as housing lending interest rates have declined, and a large proportion of remaining borrowers in the programs now have an outstanding mortgage balance exceeding the value of their property.*
- *The Commonwealth Government is reviewing the Commonwealth-State Housing Agreement, which has previously earmarked funding for home ownership. In the future, the Commonwealth-State Housing Agreement is likely to concentrate on affordability for rental housing rather than promotion of home ownership.*
- *In these circumstances, the State Government should review whether it should continue to provide assistance for home ownership through lending programs.*

Recommendation

16.3 *Given the changes to the Commonwealth-State Housing Agreement being proposed by the Commonwealth Government, the Government should review whether it should continue to provide assistance for home ownership.*

Gaming Activities

Findings

- *The Queensland Government operates two major gaming agencies—the Totalisator Agency Board and the Golden Casket Lotteries Corporation. Private gaming activities are regulated by the Office of Gaming Regulation in Treasury.*
- *The corporatisation of the Golden Casket Lotteries Corporation will need to separate any regulatory functions of the Corporation from its commercial functions.*
- *As the State Government bears a risk in owning the Totalisator Agency Board (eg due to competition from other gaming activities), it would be appropriate for the State to obtain a return on its equity through the payment of dividends and tax equivalent payments in addition to revenue from turnover tax. This would be consistent with competitive neutrality principles.*
- *As clubs and hotels have been operating gaming machines profitably for several years, the Office of Gaming Regulation should pass on the responsibility for purchasing gaming machines to private gaming organisations.*

Recommendations

16.4 The Office of Gaming Regulation should pass responsibility for purchasing gaming machines to private gaming organisations, and establish a list of approved types of machines and gaming activities for this purpose.

16.5 The Government should corporatise, or preferably privatise, the Golden Casket Lotteries Corporation and the TAB. The regulatory functions of these organisations should be transferred to the Office of Gaming Regulation.

Queensland Tourist and Travel Corporation

Findings

- *The Queensland Tourist and Travel Corporation operates both as a general tourism promotion body for the State and as a travel agent, through its Sunlover Holidays division.*
- *The operation of Sunlover Holidays has led to complaints from private tourism operators that it competes unfairly with private travel agents as a result of access to information.*
- *There is a strong case for separating Sunlover and Queensland Tourist and Travel Corporation functions and little justification for government ownership of a travel agency. The Corporation should concentrate on its industry wide tourism promotion activities. While arrangements are put in place for the sale of Sunlover, the Corporation should establish separate accounts for Sunlover, and ensure that all costs are accounted for when determining the profit on Sunlover operations.*

Recommendation

16.6 The Sunlover Holidays travel agency business should be sold.

Public Financial Enterprises

Findings

- *The Queensland Government retains a heavy involvement in the ownership and operation of financial institutions in the State.*
- *While the earnings performance of the State's deposit-taking institutions has been similar to market averages in recent years, all three institutions are high cost producers of financial services relative to industry standards.*
- *While there is a case for government involvement in financial markets, this case generally stops at regulation and does not extend automatically to government ownership of financial institutions.*

- *As an adequate private market exists for all forms of deposit taking within Australia, it is difficult to mount a defence for continuation of the current high level of government ownership of these financial institutions.*
- *Recent developments in the bidding for Metway Bank have shown a willingness on the part of the Government to divest itself of ownership in Queensland's deposit-taking institutions, and the Commission supports this initiative.*
- *Notwithstanding its strong performance, there is little justification for government involvement in the funds management industry through the Queensland Investment Corporation.*
- *The case for divestment of Queensland Treasury Corporation is less compelling, with the key to continued high performance being to ensure that its market is contestable.*

Recommendations

16.7 In the event that the current proposal for a merger of Queensland based financial institutions does not proceed, the Government should pursue other means to divest itself of the assets concerned.

16.8 The Government should fully deregulate compulsory third party insurance, allowing private insurers to set their own premium levels.

16.9 The Government should:

- *evaluate the benefits, costs, risk and other implications of privatising the Queensland Investment Corporation (QIC); and*
- *at a minimum, permit those public sector trustees who are currently constrained to invest public superannuation only with QIC to invest outside QIC, and permit QIC to compete for funds management outside the public sector.*

16.10 The Government should increase contestability for the Queensland Treasury Corporation (QTC) by permitting all Government entities to use alternative funding sources to QTC.

Chapter Sixteen

Other Government Businesses

16.1 Introduction

The Queensland Government operates a number of significant trading and financial enterprises in addition to the transport, energy, and water corporations. The principles of competitive neutrality and contestability are applicable to these activities, but in practice a number of the State Government's trading enterprises operate as monopolies and do not pay tax equivalent payments.

Where the State activities are conducted on a monopoly basis (eg Forestry, Brisbane Markets Authority), the priority is to introduce competition and to ensure that these enterprises conform with competitive neutrality principles. The case for sale is strong in the case of trading activities already operating in a competitive market, such as the Queensland Abattoir Corporation, the Totalisator Administration Board, Golden Casket and the Queensland Tourist and Travel Corporation's Sunlover Travel Agency Division.

In financial markets, the appropriate role for Government is to establish regulation for private operators. Therefore, it appears to be unnecessary for the Government to continue its current degree of ownership and operation of financial institutions in the State. The State owned financial institutions that mainly serve private customers (such as the Queensland Industry Development Corporation and Suncorp) should be privatised. A similar case holds for the Government's funds manager, the Queensland Investment Corporation, although its strong performance in recent years means that there is no immediate pressure to privatise it on efficiency grounds. The performance of Queensland Treasury Corporation, while historically strong, could be sharpened by increasing contestability for its services.

Forestry

Key Points

Queensland Government forest plantations are now reaching maturity and operating profitably. However, the current system of pricing and allocating the native forest outputs reduces revenue and encourages inefficient use of forest products. The introduction of market based pricing and allocation is essential for achieving a better financial performance and in encouraging more efficient use of forest products by the timber industry. Privatisation of Forestry operations within a strategic forest and environmental management framework would promote efficiency and value adding by the industry.

Findings

- *The establishment of Forestry as a commercial business unit has provided a clearer commercial focus. Nevertheless, the pricing and allocation of native forest timber inhibits the capacity of Forestry to earn revenue and reduces the incentive to the efficient use of native forest timber by mills.*
- *Forestry also conducts quarrying operations. Its use of an administrative pricing basis distorts the consumption patterns of industry users.*
- *Forestry is required to develop corporate and business plans, and regularly report on performance. In practice, however, these arrangements appear to be ineffective when remedial action is required (when performance falls short of planned levels).*
- *A recent benchmarking study indicated that Forestry had higher average costs than most other State Government and private plantation owners, and suggests considerable room for improvement.*
- *To increase the efficiency of resource use and financial performance of forestry operations, privatisation of Forestry is necessary.*
- *Before privatisation, a strategic forestry and environmental planning framework would be required to ensure substantial development.*

16.2 Range of Activities Undertaken

Forestry production in Queensland is undertaken mainly by the Department of Primary Industries Forestry. The major activity of Forestry is the production of plantation timber (softwood), which accounts for 85 per cent of its timber sales. The remaining 15 per cent of timber sales come from native forests (hardwoods). Forestry also operates quarries in various areas of the State.

Forestry was established as a commercial business unit within Department of Primary Industries on 1 July 1995. Following commercialisation, Forestry is required to achieve a commercial rate of return on assets, and pay equivalent payments and dividends. Regulation of the forestry industry, primarily environmental, is now handled by the Department of Primary Industries. Treasury undertakes monitoring of Forestry's financial performance.

16.3 Performance of Forestry Operations

Key Points

- ***The DPI Forestry's estate is reaching maturity, allowing Forestry to operate profitably even with relatively high costs and limited revenue from native forest and quarrying activities.***
- ***Forestry was commercialised in 1995, but remains within the structure of the Department of Primary Industries, and uses the Department's corporate services, which increases Forestry's costs. Under these arrangements, Forestry is less accountable for commercial results than if it were independent from the Department.***
- ***The most effective way of increasing accountability for commercial results is to privatise Forestry. In the interim, the Government would need to establish appropriate forest management standards and regulations, to ensure that the privatised Forestry operations and any competitors operate on a sustainable basis.***

DPI Forestry's estate is reaching maturity, allowing for a steady level of timber to be harvested with little new investment. Therefore, Forestry can operate profitably even with relatively high costs and limited revenue from native forest and quarrying activities.

Table 16.1

Department of Primary Industries – Forestry's Projected Profits, 1995-96 to 1999-2000, ($ million)

	1995-96	1996-97	1997-98	1998-99	1999-00
Earnings before Interest and Tax	13	20	21	21	15
Interest Expense	9	9	10	10	9
Net Profit before Tax	4	10	11	11	6
Tax Expense	2	4	4	4	2
Net Profit After Tax	3	7	7	7	4

Source: Department of Primary Industries

A benchmarking study of State and Territory and major private sector forestry activities conducted for the Standing Committee on Forestry found that Department of Primary Industries had the second highest costs for plantation establishment and maintenance among the participants. While some of these higher costs result from climatic factors, the study indicates that Forestry has significant scope for reductions in its costs of plantation establishment and maintenance.

Forestry has estimated it could increase productivity by five per cent per year over the next five years, with additional productivity improvements planned for its Enterprise Bargaining agreement. Forestry suggests it could reduce operating costs by $20 million per year.

The key sources of savings are reductions in head office and corporate services costs, and through closing some small plantations.

The pricing and allocation of plantation timber produced by Forestry is determined by market forces. However, native forestry timber title allocations are based on traditional entitlements and prices are set on an administrative basis. As a result, prices for native forest timber are set at a lower level than purchasers would pay in the open market.

The disadvantage of this system is that timber tends to be allocated to low value processing, even though processors who would use the timber for higher value purposes are unable to gain access to allocations. A move to market based pricing and allocations of native forest logs would ensure that logs were used for higher value purposes, which would serve both economic and environmental objectives.

Quarry materials are also subject to administrative pricing, which also results in inefficient use of these products. Forestry could obtain an additional $10 million per year in revenue from the use of market pricing for native forest products, and an extra $1 million to $2 million from market pricing of quarry outputs.

The introduction of market based pricing, combined with cost savings of $20 million from productivity improvements, would increase Forestry's profit by more than $30 million by 1999-2000.

16.4 Accountability

The previous Queensland Government decided to postpone the planned corporatisation of Forestry in favour of commercialisation (partly in response to environmental concerns). Consequently, Forestry continues to operate within the Department's structure. However, this has several disadvantages for Forestry operations, as the business unit remains tied to Department of Primary Industries' corporate services (which restricts Forestry's ability to obtain services which best suit its needs) and permits the Department of Primary Industries to undertake some non-commercial functions through Forestry (eg industry development).

Therefore, the Commission considers that DPI Forestry needs to be separated from the structure of the Department of Primary Industries. The most effective way to achieve this would be to privatise DPI Forestry operations.

In the interim, it would be necessary for the Government to place forestry operations on a more competitive basis, by changing the pricing and allocation systems for native forest timber and quarrying products. The Government, through the Department of Natural Resources, would need to establish forest management standards to ensure that the privatised Forestry operations, and any competitors, adopted sustainable practices for forest resources, particularly native forest resources.

Recommendation

16.1 Forestry operations should be privatised, with the Department of Natural Resources maintaining responsibility for strategic planning and attendant regulations, and setting appropriate forest management standards.

Primary Product Statutory Bodies

Key Points

The case for the Government retaining ownership of the Queensland Abattoir Corporation and Brisbane Markets Authority appears to be weak, given the ability of private firms to provide these services. The marketing and regulatory roles of the Queensland Sugar Corporation should be separated to be consistent with the structural reform principle.

Findings

- *In recent years the Queensland Government has replaced many statutory marketing boards with producer cooperatives.*
- *Several organisations (the Queensland Sugar Corporation, Grainco and Australian Quality Egg Farms) still have exclusive powers over marketing. These powers are due to expire over the next two years for grains and egg marketing, while the sugar industry is the subject of a separate Commonwealth-State review to report by the end of this year. The regulatory powers exercised by the Queensland Sugar Corporation should be separated from its marketing functions, to be consistent with competitive neutrality.*
- *The State Government also owns the Brisbane Markets Authority and the Queensland Abattoir Corporation, which are exempt from State taxes and dividend requirements.*
- *It appears that the State Government could dispose of the Queensland Abattoir Corporation (which operates in a competitive market) and the Brisbane Markets Trust, which could be opened to competition.*

16.5 Marketing Authorities

Key Points

- *In the past five years, many of Queensland's agricultural marketing authorities have been amalgamated or converted into producers' cooperatives. However, several authorities retain exclusive powers over marketing under legislation.*
- *The exclusive marketing powers for Grainco and Australian Quality Egg Farms are due to expire over the next two years. The powers of the Queensland Sugar Corporation are the subject of a separate joint Commonwealth-State review.*
- *If the sugar industry review concludes that a single marketing body can represent the sugar industry effectively, there would be a case for ensuring the Queensland Sugar Corporation does not undertake regulatory as well as marketing functions.*

Traditionally, the marketing of agricultural products in Queensland has been undertaken by marketing boards established under legislation. In the past five years, most of these boards have been amalgamated or converted into producers' cooperatives. An exception is the Queensland Sugar Corporation, established in 1991, which has both regulatory and commercial activities. The future of the Queensland Sugar Corporation will be determined by the joint Commonwealth-State review of the sugar industry which is due to present its report by the end of 1996.

The Queensland Sugar Corporation is not a state owned business, but its powers are derived from State legislation. The Corporation has exclusive powers over the marketing of Queensland sugar cane, and is also responsible for assigning cane to producers. There may be a conflict between its role in marketing sugar cane, and in assigning growing areas to producers. Even if the sugar industry review concludes that a single marketing body can represent the industry more effectively than individual growers selling separately, there would be a case for removing the regulatory powers from the Corporation.

Two other marketing bodies that have exclusive powers to acquire and sell products established in legislation are Grainco and Australian Quality Egg Farms. The exclusive powers of these organisations are due to expire in June 1997 (for Grainco) and December 1998 (for Australian Quality Egg Farms). The review of the relevant legislation will take place as part of the legislation review process under the Competition Principles Agreement, and the industry may need to demonstrate that the benefits from having a single marketing body exceed the costs. Neither of these bodies performs a regulatory role.

16.6 Queensland Abattoir Corporation

Approximately 30 privately owned abattoirs operate in Queensland, in competition with five operated by the Queensland Abattoir Corporation (owned by the State Government). As the meat processing market is competitive, the role in the market for a state owned company is not obvious. At the moment, the Queensland Abattoir Corporation does not pay tax-equivalent payments or dividends to the Government. The Corporation should therefore be considered as a candidate for privatisation. In the interim, the Government should ensure that the Corporation operates on a competitively neutral basis with private abattoirs, and pays taxes and dividends.

16.7 Brisbane Markets Authority

The Brisbane Markets Authority operates the fruit and vegetable markets for the Brisbane metropolitan area. Private traders rent space from the Authority to market produce in the Brisbane area. The Authority does not pay tax equivalent payments or dividends to the State Government. At the moment, the exclusive coverage of the Brisbane area by the Authority is due to expire at the end of 1998.

Traders operating at the Brisbane Markets have expressed interest in buying out the markets. If a buy-out by traders coincided with the introduction of competition for the Brisbane Market, this would reduce the danger of a private monopoly replacing a public monopoly. As public ownership of the markets appears to be inconsistent with the arrangements for marketing other primary products, the Government should consider divesting itself of the Brisbane Markets if traders are willing to offer a sufficient price.

Recommendation

16.2 *The Government should sell the Queensland Abattoir Corporation and the Brisbane Markets Authority, subject to the prior introduction of competition for the Authority.*

Home Purchase Assistance Programs

Key Points

The Queensland Government's home ownership assistance programs are subject to a separate review commenced in May 1996. As a revised Commonwealth-State Housing Agreement is due to commence in 1997-98, the State Government is unlikely to be encouraged in the future to use Commonwealth funding to provide home ownership assistance. The Government may be able to better assist low income earners through the public rental system.

Findings

- ***The Queensland Government's home ownership assistance programs are the subject of a separate review requested by the Minister for Public Works and Housing.***
- ***The current programs, the Home Ownership Made Easier (HOME) loan and Rental Purchase Plan, were introduced in 1990, when both inflation and market mortgage rates were significantly higher than today. However, demand for both types of loan has declined as housing lending interest rates have declined, and a large proportion of remaining borrowers in the programs now have an outstanding mortgage balance exceeding the value of their property.***
- ***The Commonwealth Government is reviewing the Commonwealth-State Housing Agreement, which has previously earmarked funding for home ownership. In the future, the Commonwealth-State Housing Agreement is likely to concentrate on affordability for rental housing rather than promotion of home ownership.***
- ***In these circumstances, the State Government should review whether it should continue to provide assistance for home ownership through lending programs.***

The previous Queensland Government established the current home ownership programs, the Home Ownership Made Easier (HOME) loan (later renamed the Queensland Housing Loan), and the Rental Purchase Plan in 1990. The Home Ownership Made Easier program operated with a low initial deposit and escalating repayments, to allow borrowers to enter into home ownership at an earlier stage than they could through the commercial housing market. The Rental Purchase Plan (initially called HOME Shared) allowed borrowers to take out a loan to purchase a share of a property (at least 25 per cent) and pay rent to the Department on the remaining value of the property.

These programs operated initially with fixed interest loans, which were at a lower rate than the variable rate loans offered by banks at that time. However, borrowers found that the interest rates became less attractive as market interest rates declined through the first half of the 1990s. Borrowers with a higher level of equity in their homes and a higher capacity to pay refinanced their properties in the private market. Other borrowers in weaker financial circumstances needed to remain with the Home Ownership Made Easier loans program with relatively high, fixed interest rates and repayments increasing each year.

The Government responded to these developments during 1993 and 1994 by gradually reducing the fixed interest rate on new loans, reducing the annual rate of escalation of repayments and offering variable rate loans as an alternative to fixed rate loans. Since that time, loan arrears have increased and a growing proportion of existing borrowers now owe more than their original loan principle. Despite these adjustments, demand for new loans continued to decline, and the Government suspended new lending in 1995.

The HOME Loan and Rental Purchase Plan products are better suited to a period of relatively high inflation in housing prices and incomes, and high interest rates. With their emphasis on fixed rate lending however, they are not well suited to the present environment, especially as strong competition between bank and non-bank lenders is maintaining downward pressure on interest rates.

Under the Commonwealth-State Housing Agreement, the Commonwealth Government has earmarked funds for the States to provide home ownership assistance. The question for the Queensland Government is how best to achieve this in view of the unsuitability of the existing schemes.

The Commonwealth Government is proposing a new model for the Commonwealth-State Housing Agreement, which will target the Commonwealth's grants to rental assistance for individuals. The Queensland Government may not receive Commonwealth funding to operate a home ownership program in the future. However, further negotiations between the Commonwealth and the States on the Commonwealth-State Housing Agreement will need to take place before the new model takes effect.

In May 1996, the Minister for Public Works and Housing announced that the Queensland Government home ownership programs would be reviewed, noting the difficulties that remaining borrowers have encountered. This review is due to be completed in the next few months.

Recommendation

16.3 Given the changes to the Commonwealth-State Housing Agreement being proposed by the Commonwealth Government, the Government should review whether it should continue to provide assistance for home ownership.

Gaming Activities

Key Points

The Office of Gaming Regulation plays a role both in the regulation of private gaming activities and in the supply of gaming machines to private operators. The role of the Office of Gaming Regulation in procuring gaming machines appears to be no longer necessary.

Findings

- *The Queensland Government operates two major gaming agencies—the Totalisator Agency Board and the Golden Casket Art Union Office. Private gaming activities are regulated by the Office of Gaming Regulation in Treasury.*
- *The corporatisation or privatisation of the Golden Casket Lotteries Corporation will need to separate any regulatory functions of the Corporation from its commercial functions.*
- *As the State Government bears a risk in owning the Totalisator Agency Board (eg due to competition from other gaming activities), it would be appropriate, at a minimum, for the State to obtain a return on its equity through the payment of dividends and tax equivalent payments in addition to revenue from turnover tax. This would be consistent with competitive neutrality principles.*
- *As clubs and hotels have been operating gaming machines profitably for several years, the Office of Gaming Regulation should pass on the responsibility for purchasing gaming machines to private gaming organisations.*

The Queensland Government's role in gaming activities is in the following areas:

- *commercial gaming operations* through the Totalisator Agency Board, which operates betting activities for racing and other sports, and the Golden Casket Lotteries Corporation, which operates State Government sponsored lotteries.
- *taxation of gaming activities*, consisting of taxation applied to the turnover of hotels and clubs operating gaming machines, and the turnover of the Totalisator Agency Board, the Golden Casket Lotteries Corporation and the State's casinos; and
- *regulation of private gaming activities* by the Office of Gaming Regulation, in the Treasury portfolio, with the Totalisator Agency Board and the Golden Casket Lotteries Corporation also undertaking some regulatory functions.

Both the national competition policy agreements and the State's corporatisation policy require commercial and regulatory functions to be separated. However, under current arrangements in

Queensland, both the Golden Casket Lotteries Corporation and the TAB undertake some regulatory activities.

For example, under the Lotteries Act, the Golden Casket Lotteries Corporation has the power to establish the rules of lottery games, to supervise the drawing of lotteries, undertake authorisation of new agents and dispose of unclaimed prizes. The Totalisator Agency Board has the power to make decisions on disputed tickets.

It would be more appropriate for the Office of Gaming Regulation to take over these regulatory functions, and to permit the Golden Casket Lotteries Corporation and the TAB to concentrate on gaming operations or to be sold.

The Office of Gaming Regulation would need to increase the resources it devotes to supervision with these changes. It should be able to redirect resources, however, by passing on to private operators its current role of purchasing gaming machines and hiring them to private operators. The Government took on this role originally to relieve clubs and hotels of the initial capital cost of purchasing machines. The rental charge was intended to recover costs within five years.

Since then, technology has advanced and many clubs and hotels are seeking to replace their current machines. Under these circumstances, it seems appropriate to give the clubs and hotels the responsibility for purchasing their own machines. This would remove the risk to the State of carrying debt to purchase machines which are being overtaken by new technology. It also avoids any conflict between the Office of Gaming Regulation's role as machine owner and its regulatory role.

With the transfer of ownership, the role for the State Government would be to approve a range of games and machines that could be used by clubs and hotels, and to ensure that collusion between gaming operators and machine manufacturers did not take place.

Generally, the taxation rates applied to gaming in activities are comparable with the rates in other States. In the case of the Totalisator Agency Board , the Queensland Government has some equity in its operations (through assets accumulated by the Board), but does not receive a return on this equity. The Totalisator Agency Board has been proposed as a possible corporatisation candidate by the Queensland Government, and corporatisation would provide the Government with the opportunity to obtain dividends and tax-equivalent payments from the Board's net profits. This could provide the State with a return to offset the risk of its investment in the Board, which is facing competition from new forms of gaming and from new technology that may reduce its market share. Given that there is no compelling case for the Government to run an operation such as the Totalisator Agency Board, the Commission would prefer to see it sold.

Recommendations

16.4 *The Office of Gaming Regulation should pass responsibility for purchasing gaming machines to private gaming organisations, and establish a list of approved types of machines and gaming activities for this purpose.*

16.5 *The Government should corporatise, or preferably privatise, the Golden Casket Lotteries Corporation and the TAB. The regulatory functions of these organisations should be transferred to the Office of Gaming Regulation.*

Queensland Tourist and Travel Corporation

Key Points

The Queensland Tourist and Travel Corporation provides general tourism promotion services and also operates a wholesale travel agency service (Sunlover). To ensure competitive neutrality with private operators, Sunlover should be privatised, subject to an assessment of the impact of the sale on the representation of small tourism operators.

Findings

- ***The Queensland Tourist and Travel Corporation operates both as a general tourism promotion body for the State and as a travel agent, through its Sunlover Holidays division.***
- ***The operation of Sunlover Holidays has led to complaints from private tourism operators that it competes unfairly with private travel agents as a result of access to Queensland Tourist and Travel Corporation information.***
- ***There is a strong case for separating Sunlover and Queensland Tourist and Travel Corporation functions and little justification for government ownership of a travel agency. The Corporation should concentrate on its industry wide tourism promotion activities. While arrangements are put in place for the sale of Sunlover, the Corporation should establish separate accounts for Sunlover, and ensure that all costs are accounted for when determining the profit on Sunlover operations.***

The Queensland Tourist and Travel Corporation is established as a statutory authority, with the objective of marketing and developing tourism in Queensland. The Corporation's funding comes from three sources:

- the Queensland Government Budget (estimated at $29.5 million in 1995-96);
- the operating surplus from wholesale and retail agency activities; and
- contributions by the private sector to cooperative marketing activities ($6.2 million in 1994-95).

The payment from the State Government Budget for 1995-96 ($29.5 million) is similar to expenditure by other State and Territory Governments on tourism promotion, although other Governments have increased their expenditure significantly in recent years. (See Table 16.2 below).

Table 16.2

Expenditure on Tourism Promotion by State Governments ($ million)

	1991-92	1992-93	1993-94	1994-95	1995-96 (est.)
Queensland Tourist and Travel Corporation	23.5	23.8	23.4	24.6	29.5
Tourism Victoria	18.4	20.9	22.5	28.5	27.5
Tourism New South Wales	18.3	17.5	28.8	32.4	29.5
South Australian Tourism Commission	16.5	17.0	17.0	29.3	27.6
Western Australian Tourism Commission	19.4	19.7	20.0	22.5	22.8
Northern Territory Tourism Commission	16.1	15.2	16.8	21.9	22.6

Source: Queensland Tourist and Travel Corporation.

Queensland has a lower expenditure on tourism promotion per visitor than any other State or Territory, except for New South Wales. One reason for this relatively low level of expenditure is that Queensland's natural attractions reduce the need for a high level of promotion to attract visitors. The intensity of competition among the States nevertheless requires the Government and Queensland Tourist and Travel Corporation to ensure that the State Budget contribution is used to maximum effect, including through increased cooperative marketing with the private sector.

Queensland Tourist and Travel Corporation also operates retail travel agency activities (through the Queensland Government Travel Centres) and wholesale activities (through Sunlover Holidays). Some private sector tourism operators have suggested that Sunlover has a competitive advantage over private travel agents due to its government ownership. While Queensland Tourist and Travel Corporation's Annual Reports indicate that Sunlover trades profitably, the Corporation does not publish separate accounts for Sunlover or indicate how costs are attributed to Sunlover's operations.

The competitive neutrality principle requires that government enterprises do not enjoy net competitive advantages over private competitors, and therefore Queensland Tourist and Travel Corporation should ensure that Sunlover is covering all costs of its operations.

There is no shortage of private sector travel agencies throughout Australia. There is no information or market failure to justify government involvement in travel services. Given that Queensland Tourist and Travel Corporation 's core business is Statewide tourism promotion, the Government should consider selling Sunlover. A precedent for Queensland Tourist and Travel Corporation disposing of a non-core business was the sale in 1994 of the ATLAS computer system. The sale of Sunlover would remove any potential problems with competitive neutrality between public and private travel agents, although a privatised Sunlover would be in a very strong position in the travel agency market (as 55 per cent of operators represented by Sunlover do not sell products through any other major wholesaler). Therefore, the initial impact on competition in the tourism market of a sale of Sunlover would need to be assessed before the sale took place.

Recommendation

16.6 The Sunlover Holidays travel agency business should be sold.

Public Financial Enterprises

Key Points

Queensland retains a heavy involvement in the ownership and operation of financial institutions that is anachronistic in view of their historically poor cost performance and the problems that other States have encountered with deposit-taking institutions.

Findings

- *The Queensland Government retains a heavy involvement in the ownership and operation of financial institutions in the State.*
- *While the earnings performance of the State's deposit-taking institutions has been similar to market averages in recent years, these institutions are high cost producers of financial services relative to industry standards.*
- *While there is a case for government involvement in financial markets, this case generally stops at regulation and does not extend automatically to government ownership of financial institutions.*
- *As an adequate private market exists for all forms of deposit taking and insurance within Australia, it is difficult to mount a defence for continuation of the current high level of government ownership of these financial institutions.*
- *Recent developments in the bidding for Metway Bank have shown a willingness on the part of the Government to divest itself of ownership of these institutions, and the Commission supports this initiative.*
- *Notwithstanding its strong performance, there is little justification for government involvement in the funds management industry through the Queensland Investment Corporation.*
- *The case for divestment of Queensland Treasury Corporation is less compelling, with the key to continued high performance being to ensure that its market is fully contestable.*

16.8 State Owned Financial Institutions in Queensland

Key Points

- *The Queensland Government retains a heavy involvement in the ownership and operation of financial institutions in the State.*

- ***While the earnings performance of the State's deposit-taking institutions has been similar to market averages in recent years, all three institutions are high cost producers of financial services relative to industry standards.***

Introduction

Government owned financial institutions, both Commonwealth and State, have long been a feature of the Australian financial system. Overall, experience with these institutions has been less than positive, with most jurisdictions either privatising or winding up their institutions over the past decade, often in distressed circumstances. In this respect, Queensland stands against the national trend with a significant and continuing involvement in this sector.

The distinctive features of Queensland's government owned financial institutions are their breadth of coverage and the dominant position that they hold in some markets: government involvement in the financial sector ranges from insurance to merchant banking and real estate; while the dominant position of government owned institutions is best illustrated by Suncorp Building Society which is not only the largest building society in Queensland, but also in the country.

While the financial performance of these institutions appears to have been similar to market averages in recent years, most are high cost producers of financial services relative to market standards. As such, there are important long-term issues, both financial and political, involved in continued government participation in this sector.

In recent times, the Queensland Government has shown a willingness to address these potential problems through its proposed merger of the State's deposit-taking institutions with Metway Bank, and subsequent progressive divestment of the combined asset by the Government. While the outcome of this proposal is still uncertain, the Commission supports the initiative by the Government to divest itself of the State owned deposit-taking institutions.

Suncorp Insurance and Finance

Suncorp is a highly diversified State Government owned financial institution with total assets of more than $9.0 billion. Constituted under the *Suncorp Insurance and Finance Act 1985*, the group comprises Suncorp Insurance and Finance, Suncorp Building Society Limited, Suncorp Finance Limited, Suncorp Advisors and Administrators (superannuation), Suncorp Investment Management Limited, L.J. Hooker and Graham and Company Limited (a merchant bank). The group also owns 40 per cent of the commercial real estate company Knight Frank Hooker, and has a 44 per cent shareholding in the Bank of Queensland. Government ownership has provided Suncorp with a number of advantages, including a strong credit rating resulting from a guarantee of its insurance obligations.

Suncorp offers perhaps the broadest range of products and services in the retail market of any financial institution in Australia. In broad terms, the group is involved in:

- general insurance, including personal commercial and corporate lines, and compulsory third party insurance ;
- life insurance and superannuation, including financial protection, death and disability, investment linked and capital guaranteed savings products, and superannuation administration;
- retail banking, including retail deposits, housing and personal loans;
- commercial finance; and
- a small involvement in financial advisory services and real estate.

Suncorp's overall business strategy focuses on the integration of the various elements of its business, relying to a large extent, on the cross-selling of its products to the same customer base. While the group is dominant in the Queensland general insurance market, and has a major presence in the other Queensland financial services markets (except commercial finance), it has only a minor presence outside Queensland.

Figures 16.1 and 16.2 show that the earnings performance of Suncorp has been similar to that of its competitors in recent years (the sharp drop in performance of the major finance companies in the early 1990s is dominated by a small number of large bank-owned financiers). As Figure 16.3 shows however, Suncorp is a high cost producer of financial services by industry standards, with a cost to income ratio for its building society around 20 per cent higher than the average in the regional banking industry (given its size, Suncorp Building Society is more directly comparable with regional banks than with other building societies).

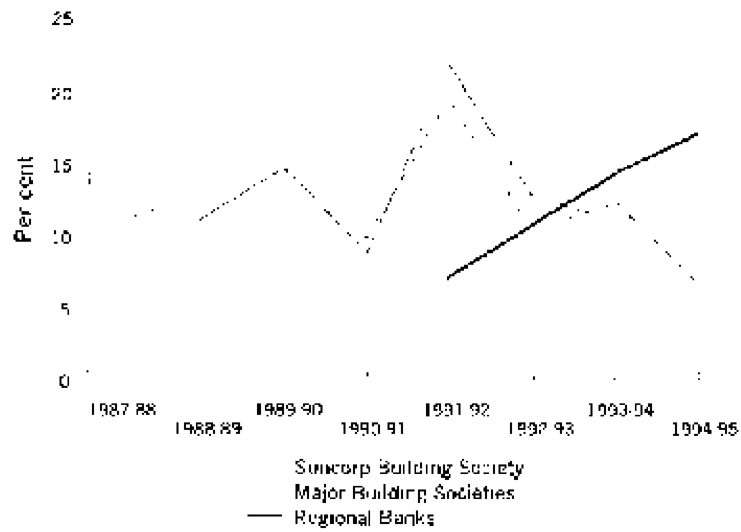
Figure 16.1

Suncorp Finance, Comparison of Returns: Operating Profit after Tax as a Percentage of Average Net Assets

Source: *KPMG Peat Marwick Financial Institution Performance Survey*

Figure 16.2

Suncorp Building Society, Comparison of Returns: Operating Profit after Tax as a Percentage of Average Net Assets

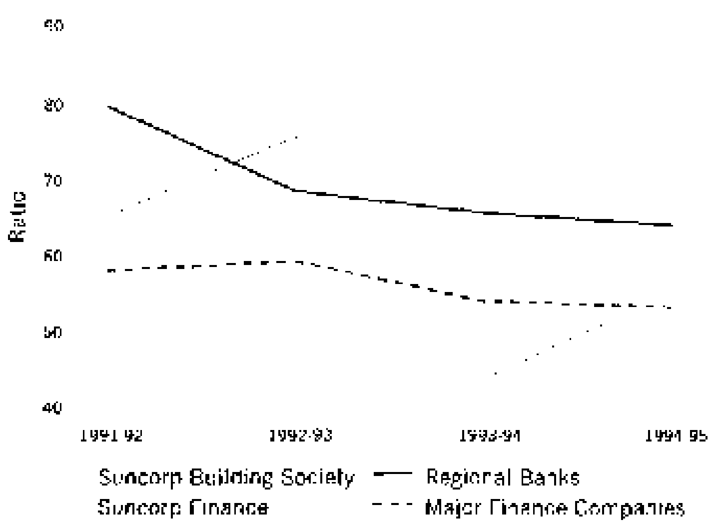


Source: *KPMG Peat Marwick Financial Institution Performance Survey.*

Note: Data for Regional Banks is only available from 1991-92 onwards

Figure 16.3

Cost Performance of Suncorp: Cost to Income Ratio



Source: *KPMG Peat Marwick Financial Institution Performance Survey.*

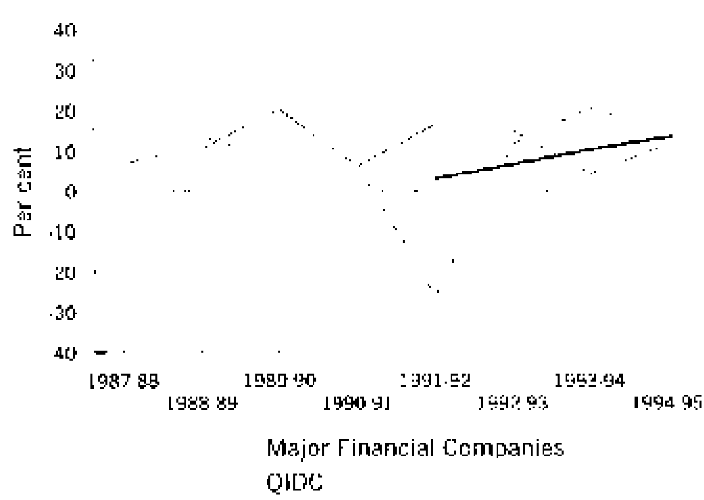
Queensland Industry Development Corporation (QIDC)

The Queensland Industry Development Corporation's (QIDC) is a State Government owned and guaranteed financial institution. Its competitive strategy focuses on its role as a financier to Queensland industry. QIDC is constituted under the *Queensland Industry Development Corporation Act 1994*, and is supervised by the Reserve Bank of Australia (on a voluntary basis). With a total asset base of $2.8 billion, QIDC is small relative to other banking institutions, being approximately Two per cent of the size of the average major bank.

QIDC is currently looking to broaden its involvement in Queensland's financial sector from being a lender primarily to the rural sector to becoming a provider of a more comprehensive range of banking services to Queensland business. Current services include agribusiness cheque accounts, bridging loans, business cheque accounts, commercial bills, corporate and financial advice, development capital, fleet leasing, foreign exchange, forward rate agreements, guarantees, interest rate swaps, project finance, standby facilities, term loans, trade finance and working capital. QIDC also offers a wide range of investment products including call deposits, cash management accounts, commercial bills, negotiable certificates of deposit, industry bonds and term deposits.

Figure 16.4

QIDC, Comparison of Returns: Operating Profit after Tax as a Percentage of Average Net Assets



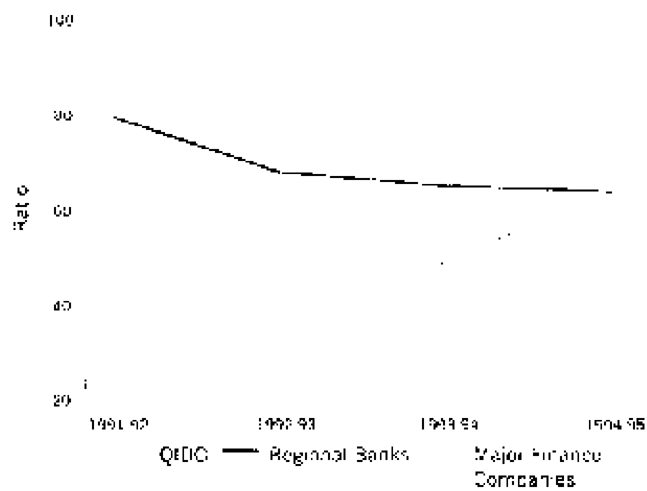
Source: *KPMG Peat Marwick Financial Institution Performance Survey.*

Note: Data for Regional Banks is only available from 1991-92 onwards.

QIDC is neither a bank nor a finance company, although it has characteristics of both. For that reason, Figure 16.4 compares returns earned by QIDC with the performance of the major Australian finance companies and regional banks. As can be seen, the performance of QIDC has been at comparable levels with the average for banks and finance companies in recent years. In terms of cost efficiency, although QIDC's cost to income ratio is currently superior to that of Suncorp, it is has grown strongly during recent years to be quite high by industry standards (see Figure 16.5).

Figure 16.5

Cost Performance of Queensland Investment Development Corporation: Cost to Income Ratio



Source: *KPMG Peat Marwick Financial Institution Performance Survey.*

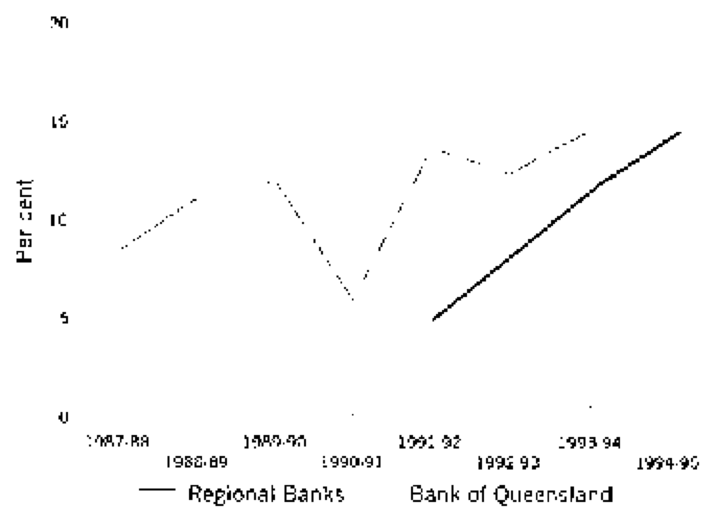
Bank of Queensland Limited

While the Bank of Queensland is a publicly listed company, the Queensland Government is the major shareholder, through Suncorp's 44 per cent shareholding in the bank. A number of Suncorp directors and the Suncorp CEO also sit on the Bank of Queensland board. The Bank of Queensland is a retail bank, providing a wide range of banking services through 96 branches and agencies, largely in the south east corner of the State and in major coastal centres. Its primary lending focus is in the housing sector (which makes up 59 per cent of its loan book), but it also provides consumer loans, commercial lending and leasing services. With an asset base of $2.2 billion, the Bank of Queensland is small relative to other banking institutions.

In terms of financial performance, Figure 16.6 below indicates that the Bank of Queensland's returns in recent years have compared favourably to the industry average. In terms of cost efficiency, the Bank of Queensland's cost to income ratio currently falls between that of Suncorp and the QIDC, but has grown in recent years to be quite high by industry standards (see Figure 16.7).

Figure 16.6

Bank of Queensland, Comparison of Returns: Operating Profit after Tax as a Percentage of Average Net Assets



Source: *KPMG Peat Marwick Financial Institution Performance Survey.*

Note: Data for Regional Banks is only available from 1991-92 onwards.

Figure 16.7

Cost Performance of Bank of Queensland: Cost to Income Ratio

Source: *KPMG Peat Marwick Financial Institution Performance Survey.*

Queensland Treasury Corporation (QTC)

The Queensland Treasury Corporation (QTC) is Queensland's central financing and liability management authority, solely constituted by the Under Treasurer in accordance with Section 7 of the *Queensland Treasury Corporation Act 1988*. Prior to 1991, QTC operated as a division of the Queensland Treasury, but it has since been restructured as a separate and autonomous authority.

The organisation currently has a total asset base in excess of $23.9 billion. QTC's role as Queensland's central financing authority involves it borrowing funds in both domestic and international markets by issuing a variety of debt instruments, with the obligations under such debt instruments guaranteed by the Treasurer on behalf of the Queensland Government. These borrowed funds are on-lent to various Government departments, local authorities, government owned enterprises and other Queensland public sector bodies. Participation in QTC is voluntary for Local Authorities and government owned enterprises, but is compulsory for government departments.

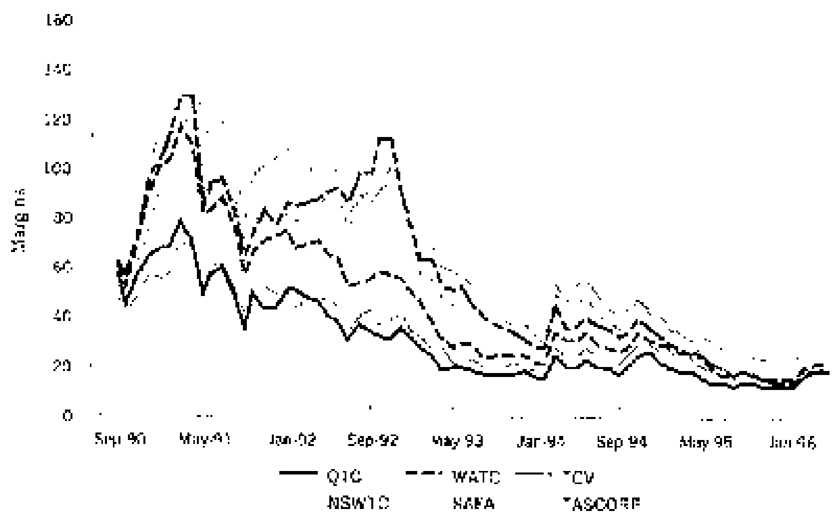
QTC's formal responsibilities include:

- provision to the Queensland public sector of liability and financial risk management advice;
- establishment of short-term and long-term funding facilities in Australian and overseas capital markets;
- marketing the credit of the State of Queensland and QTC's funding facilities to Australian and overseas investors and financial intermediaries;
- management of interest rate and foreign currency exposures;
- financing major infrastructure and capital needs of its Queensland public sector clients; and
- cash management services.

As QTC borrows primarily through a number of Australian Dollar Bond programs, QTC's performance as an issuer can be assessed by comparing the borrowing costs on these bonds against the costs for other Government issuers in Australia. As Figure 16.8 shows, QTC is currently the leading semi-government issuer in Australia.

Figure 16.8

Government Bonds: Margins to Commonwealth Bonds: Ten year duration



Source: Queensland Treasury Corporation.

QTC has also performed well in its debt pool management, with the actual cost of funds being lower than their benchmark cost of funds in every year since its establishment. The combined historical savings from this liability management and the benefits from the relative borrowing margin, shown in Table 16.3 are estimated by QTC to be $576.1 million for the period 1 July 1998 to 30 December 1995.

Table 16.3

Benefits from Queensland Treasury Corporation Operations Historic Performance from July 1988 to December 1995

Service	Improvement on Benchmark Per cent per annum	Historical Savings $ million
Debt Pool Savings against benchmark		
Superseded Debt Pools	0.40	196.10
Floating rate Debt Pool	0.11	9.40
12 Year Debt Pool	0.21	5.60
9 Year Debt Pool	0.29	1.30
6 Year Debt Pool	0.33	2.70
3 Year Debt Pool	0.32	0.60
Cash Fund	0.16	13.80
Medium Term Investment Fund	0.32	1.40
Benefit from Debt Management		**229.9**
Benefit from Borrowing Margin		**346.2**
Total Benefit		**576.1**

Source: Queensland Treasury Corporation.

Queensland Investment Corporation (QIC)

Formerly the Investments Division of Queensland Treasury Corporation, the Queensland Investment Corporation (QIC) was established in 1991 as a commercially oriented funds manager, wholly owned by the Queensland Government. QIC has the trusteeship and management of the Queensland Investment Corporation Investment Trust and is co-owner of Q Invest Limited, a company specialising in retirement planning for public sector employees. With a further five investment trusts (pooled sector funds), QIC has approximately $13 billion of funds under management and total assets in excess of $19.3 million, making it one of the ten largest fund managers in Australia. As a government owned corporation, QIC pays dividends and amounts in lieu of income and other taxation to the State annually.

The trusts which QIC manages are wide and varied in nature. The Queensland Investment Corporation Investment Trust is a balanced fund holding a diversified portfolio of assets comprising cash, Australian and offshore equities, Australian and offshore fixed interest and property. Each of the funds in the pooled sector funds represents a single class of asset, and clients may tailor portfolios by varying the amount they have invested in each fund. Q Invest Limited is a joint venture between QIC and the Government Superannuation Office to provide a financial advisory service and a range of investment products suited to the investment needs of retiring public servants and other individuals.

QIC has two groups of clients. Participation in QIC for the first group is compulsory, this group includes all public sector employee contributions to funds such as State Service Superannuation, Government Superannuation (Go-Super) and State Public Sector Superannuation (Q-Super). Each of these contributor groups has a separate Board of Trustees. This group also includes the superannuation funds under the control of the Treasurer (eg Government employers' superannuation contributions). Participation in QIC for the second group, which includes some of the public trading enterprises (for example, ESI (Electricity) Superannuation) is voluntary.

Table 16.4

Performance of Fund Managers: Average Returns on Funds

Fund	3 year return	1 year return
QIC	11.07	10.03
Similar Managers	9.86	12.73
All Managers	9.86	12.74

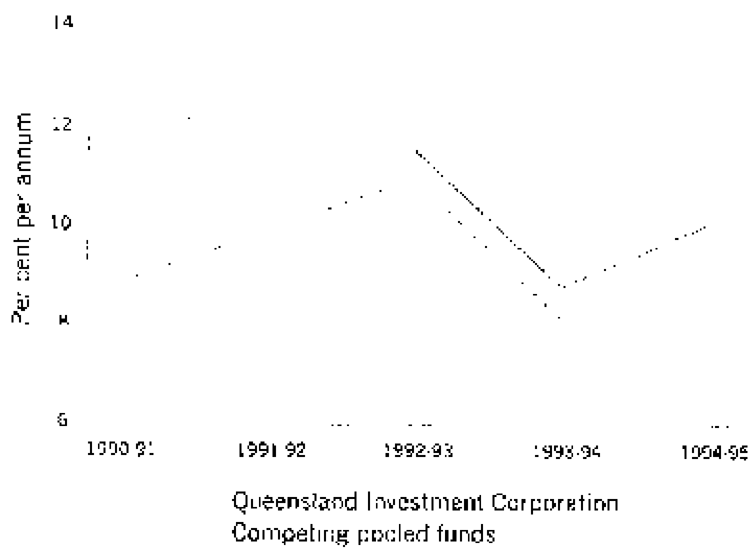
Source: Queensland Investment Corporation, Corporate Profile, as at 30 April 1996

Table 16.4 shows the current performance of QIC relative to other fund managers. In recent years, QIC's investment return has compared favourably with the average market return for managers with comparable levels of risk. Further, Queensland Investment Corporation's

Investment Trust has outpeformed the average return on competing funds in every year since its inception (see Figure 16.9).

Figure 16.9

Queensland Investment Corporation Investment Trust Returns vs Average of Competing Pooled Funds



Source: Queensland Investment Corporation, Corporate Profile.

16.9 The Appropriate Role for Government in Financial Markets

Key Points

- *While there is a case for government involvement in financial markets, this case generally stops at regulation and does not extend automatically to government ownership of financial institutions.*
- *As an adequate private market exists for all forms of deposit taking and insurance within Australia, it is difficult to mount a defence for continuation of the current high level of government ownership of these financial institutions.*
- *Recent developments in the bidding for Metway Bank have shown a willingness on the part of the Government to divest itself of ownership of these institutions, and the Commission supports this initiative.*

- ***Notwithstanding its strong performance, there is little justification for government involvement in the funds management industry through the Queensland Investment Corporation.***
- ***The case for divestment of Queensland Treasury Corporation is less compelling, with the key to continued high performance being to ensure that its market is fully contestable.***

The case for government involvement in financial markets is well established. While financial services embody many of the essential characteristics of physical goods and services, there is widespread recognition that financial markets are sufficiently different from conventional goods and services markets to warrant a higher level of regulatory intervention; that case does not extend automatically to government ownership of financial institutions.

Unlike contemporaneous trade in physical goods and services, financial transactions involve the passage of time. By their nature, financial transactions involve promises to make payments at specified times, in specified amounts and in specified circumstances. Such promises inevitably involve uncertainty and yet play a fundamental role in the efficient functioning of commerce, facilitating the settlement of trade and channelling resources efficiently across time and space.

The more sophisticated the economy, the greater its dependence on financial promises and the greater its vulnerability to failure of the financial system to deliver against its promises. The case for government intervention is boosted by the need for consumer protection. This need arises primarily from the informational imbalances that exist between financial institutions and retail consumers of financial services—an imbalance that is not entirely removed by disclosure requirements. The importance of finance and the potential for financial failure to lead to systemic instability introduces an over-riding market failure that has been the focus of government intervention for most of the twentieth century.

The case for involvement in financial markets, however, usually stops with financial regulation. There is no major market failure in financial markets and there is no shortage of private sector suppliers of financial services. While government owned financial institutions can be used as a vehicle for social policies, there is no efficiency gain from using them as the distribution vehicle in preference to alternative, more transparent methods. Indeed, the potential for social policies to interfere with the normal costing and pricing of competitive financial products is a major drawback to using them for this purpose.

Only in underdeveloped financial systems, where private institutions do not exist, is there a case for government ownership and provision of financial services. In those circumstances there is also a strong motivation for the government owned institutions to be replaced by private institutions as quickly as can be sustained by the financial market (see Box 16.1 below).

Box 16.1

The Dangers of State Ownership of Financial Institutions

A recent study by the World Bank examined the circumstances and events leading up to 18 banking failures in different countries around the world, ranging from Argentina and Chile through to Japan, Norway and Sweden. Of the 18 failures, 13 were in countries with State ownership and control of financial institutions (see Table 16.5 below).

While these bank failures occurred for a combination of reasons (eg problems with ownership, deficiencies in governance and internal controls, lack of competition and market discipline and deficiencies in laws, regulations and supervision etc), the World Bank study concluded that state ownership contributed to the banking problems in each case, and was the dominant linking factor among countries experiencing banking problems

Table 16.5

Significant Episodes of Banking Problems

Country	Signs of Failure	State Ownership
Argentina 1980-82	Runs and failures.	Yes, large.
Argentina 1989-90	Nonperforming assets, general runs, forced renewal of time deposits	Yes, still dominated with 45 per cent of deposits, 64 per cent of assets and 71 per cent of loans.
Argentina 1995	Runs, illiquidity, insolvencies and credit crunch.	Still dominant in States and Provinces with 40 per cent loans and deposits.
Chile 1981-83	Runs (not major) and distress borrowing.	One, very large.
Estonia 1992-93	Deteriorating loans, runs and illiquidity	The savings bank.
Japan 1992-present	Interventions, mergers and runs at credit unions.	The large postal savings bank.
Norway 1987-93	Heavy losses, insolvencies, crisis at the end of 1991.	Yes, important.
Philippines 1981-87	Overdue loans, runs, flight to cash and insolvencies.	Yes, 36 per cent of all bank assets.
Spain 1977-85	Illiquidity, central bank intervention.	The largest banks are/were private, but state banks owned roughly 40 per cent of assets.
Sweden 1990-93	Collapse of property market, heavy loan losses, interventions.	One very large bank that failed owned 20 per cent of assets.
Thailand 1983-85	Gradual loan deterioration, followed by runs.	The (government owned) savings bank.
Uruguay 1982-87	Nonperforming loans, runs, and illiquidity.	2 large.
Venezuela 1994-present	Runs, insolvencies, suspensions.	State owns 8 per cent of banking assets.

Source: Garcia, G., (1996) for the World Bank.

Regulation

Queensland has taken a lead role in State based financial regulation. Following an inquiry into non-bank financial institutions and related financial processes in Queensland in 1990, the Queensland Government led the national reform of the non-bank sector in 1992. Outdated legislation has been replaced in a number of State specific areas (including legislation for building societies, credit unions, friendly societies and the secondary mortgage market) and others are in the process of being reformed (for example the Cooperative Housing Society legislation). Queensland's leadership in regulatory reform stands in contrast with its continued ownership of financial institutions.

Deposit Taking and Insurance Institutions

Against the background of its progressive approach to regulation, and the pace of privatisation both elsewhere in Australia and internationally, the Queensland Government's heavy involvement in the ownership of financial institutions remains anachronistic. The performance of these institutions is below standard and history has shown that financial institutions handicapped by the inefficiencies that attend government ownership have little hope of meeting market standards over time. There can be little question that an adequate private market exists for all forms of deposit taking and insurance within Australia. Add to these considerations that ownership of financial institutions has proved to be an acute embarrassment to several Australian State Governments and it is difficult to mount any defence for continuation of the current situation.

Recent developments in the bidding for Metway Bank have shown a commitment on the part of the Government to divest itself of ownership of these institutions. At the time of writing, the outcome of the proposed merger with Metway is still uncertain. Nevertheless, the Commission applauds the move as consistent with earlier reports that were prepared on this subject for the previous Government and with the principles enunciated in Volume I of this Report.

A subsidiary, but not unimportant issue raised by the proposed sale of Suncorp is the Government's involvement in compulsory third party insurance. As noted in Chapter Three, government domination of underwriting in this area is difficult to justify in a situation where there is an adequate private market for insurance. Further, the inevitable downward bias in premium levels that attaches to political involvement in price setting has created significant liabilities for Suncorp over time—a situation that will not be sustainable after the Government divests itself of its ownership of Suncorp. While the historical antecedents of this particular regulation are well understood, it is time for Queensland to fully deregulate this market.

Other State Owned Financial Enterprises

The case for privatisation of QIC is almost as compelling as that for government owned deposit-taking institutions. There is a well established and competitive market for funds management. QIC's strong performance in recent years means that the case for privatisation is not pressing on efficiency grounds. Nonetheless, there is no clear rationale for direct government participation in such a market.

Recent months have seen the Commonwealth Government announce its intention to sell Commonwealth Funds Management. A similar proposal has been floated in New South Wales. At a minimum, the Queensland Government should evaluate the benefits and costs of privatisation and weigh these against the political risks of remaining in an industry without justification. In the interim, steps should be taken to increase the contestability of QIC's market.

QIC currently has a monopoly on a large part of superannuation funds from the Queensland public sector. Contestability requires that private sector alternatives be considered. Given that QIC has now had five years to establish itself as an independent funds manager and that it has a good track record, there is no reason why contestability should not be introduced as a matter of priority.

Contestability requires that QIC's monopoly over Queensland public sector superannuation be removed. Contestability also requires that QIC have the capacity to compete and, in this respect, QIC should be able to compete for business outside the public sector.

The case for divestment of QTC is less compelling. While QTC performs functions that have private market alternatives, it is not clear that a private alternative could capture the scale and liquidity benefits of a single central borrowing authority.

The key to continued high performance from QTC is to ensure that its market is contestable. In the case of QTC, local authorities and government owned enterprises can seek funding from alternative sources but government departments cannot. In the interests of full contestability, this latter restriction should be removed.

Recommendations

16.7 ***In the event that the current proposal for a merger of Queensland based financial institutions does not proceed, the Government should pursue other means to divest itself of the assets concerned.***

16.8 ***The Government should fully deregulate compulsory third party insurance, allowing private insurers to set their own premium levels.***

16.9 ***The Government should:***

- ***evaluate the benefits, costs, risk and other implications of privatising the Queensland Investment Corporation (QIC); and***
- ***at a minimum, permit those public sector trustees who are currently constrained to invest public superannuation only with QIC to invest outside QIC, and permit QIC to compete for funds management outside the public sector.***

16.10 ***The Government should increase contestability for the Queensland Treasury Corporation (QTC) by permitting all Government entities to use alternative funding sources to QTC.***