

CHAPTER 4: IMPACT OF PORTFOLIO SPENDING INCLUDING NEW BUDGET INITIATIVES ON IMPROVING PRODUCTIVITY IN VICTORIA

Key findings of the Committee:

- 4.1** In terms of long term trends, Australia's annual labour productivity growth has averaged 1.8 per cent over the past 40 years, but has varied considerably from decade to decade. It was above its long term average in the 1970s (2.0 per cent), slowed in the 1980s (1.2 per cent), but picked up again in the 1990s (2.1 per cent), accelerating noticeably from the middle of the decade. From 2000, however, annual labour productivity growth has slowed to around 1.5 per cent.
- 4.2** Australia's multifactor productivity that grew by 1.5 per cent between 1990 and 1995, showed higher growth of 1.7 per cent from 1995 to 2000, but grew at a lesser rate of 1.3 per cent between 2000 and 2004.
- 4.3** Relative to the United States, Australia's productivity performance in the context of multifactor productivity grew at a higher rate between 1990 and 1995 (1.5 per cent compared with 0.7 per cent) and between 1995 and 2000 (1.7 per cent compared with 1.3 per cent); but in the first four years of the 21st century, productivity growth fell behind that of the United States (1.3 per cent compared with 1.9 per cent).
- 4.4** A comparison of Australia's multifactor productivity growth to other Organisation for Economic Cooperation and Development (OECD) countries revealed that between 1995 and 2000, Australia's productivity growth exceeded 15 OECD countries and was below that of four OECD countries. Given that between 2000 and 2004 Australia's multifactor productivity growth exceeded 12 OECD countries but was below that of seven, Australia's performance declined from where it was positioned in the second half of the 1990s.
- 4.5** Productivity in Victoria, measured in terms in terms of Gross State Product (GSP) per hour worked, improved in the vast majority of years from 1989-90 to 2005-06, a trend that has been mirrored at the national level. Victoria has been more productive than the nation as a whole in all years from 1998-99 to 2005-06 except for 2000-01. Prior to that, Victoria has been less productive than Australia from 1989-90 to 1997-98 except for 1992-93. In terms of growth rates, Victoria experienced the greatest increases in productivity in the following years – 1992-93, 1995-96, 1997-98, 1998-99, 2001-02, 2003-04 and 2005-06 with the greatest increases occurring in 1992-93, 1998-99, 2001-02 and 2003-04.
- 4.6** The Committee's analysis of the various measures taken across government portfolios to improve productivity in Victoria revealed a range of actions across the public sector that showed some variability in approach. Some answers focused on 'macro' or wider productivity action and impact (for example, improved skills and improved health impacts). Conversely, other responses centred on 'micro' impacts, such as specific program savings within portfolios or individual programs.

- 4.7** The estimates hearing process with Ministers identified in various departments examples within particular portfolios that demonstrate improvements in productivity in the past or potential for doing so in the future (further commentary and statistical analyses will be included in the Committee's sequel to this report, the *Report on the 2006-07 Budget Outcomes*, which is planned to be tabled later this financial year).
- 4.8** The Committee noted from its inquiries through the estimates hearings, the vital role the following mechanisms will be required to play in enhancing Victoria's productivity in future:
- research and development (for example, through evidence taken from the Minister for Agriculture);
 - innovation and the use of new technology (for example, through evidence taken from the Minister for Health and the Minister for Finance, WorkCover and the Transport Accident Commission);
 - robust infrastructure (for example, through evidence taken from the Minister for Public Transport and the Minister for Roads and Ports); and
 - services provided by the non-government sector (for example, through evidence taken from the Minister for Housing and the Minister for Victorian Communities).
- 4.9** The Committee believes that Victoria needs to continue focusing on these areas in terms of policy development and budget formulation in future while implementing the National Reform Agenda and its thrust for productivity improvement.

4.1 Introduction

As indicated in Chapter 3 of this report covering the National Reform Agenda, the advent of slowing productivity growth poses a long term challenge for Victoria.⁷⁹ The National Reform Agenda (NRA) announced by the Council of Australian Governments will contribute to growth in productivity and labour force participation. It aims to build on the gains made by the National Competition Policy agenda. The NRA provides a framework for boosting competition in the areas of transport, energy and infrastructure; reducing the regulatory burden imposed by the three levels of government; and delivering improvements to human capital.⁸⁰

⁷⁹ According to the Productivity Commission www.pc.gov.au/commission/work/productivity/primer/index.html, accessed 4 September 2007:

- productivity measures the rate at which outputs of goods and services are produced per unit of input (labour, capital, raw materials, etc). It is calculated as the ratio of the quantity of outputs produced to some measure of the quantity of inputs used; and
- depending on the context and the selection of input and output measures, productivity calculations can have different interpretations. Productivity can have connotations of minimising the use of inputs - for example, reflecting efficient production processes that minimise waste. Equally, productivity can have connotations of maximising output - reflecting the use of resources in the production of goods and services that add the most value.

⁸⁰ Commonwealth of Australia, the Treasury, *Intergenerational Report 2007, Part 1*, p.7

In terms of examining the link between productivity and economic growth, the Committee acknowledges that state governments have a critical role in sustaining economic growth over the long term. A key way in which state governments can influence the future path of economic growth is through *fostering productivity growth* by providing access to high quality education and training, encouraging innovation and creating a vibrant business environment that promotes investment and job creation.⁸¹

The Committee also noted that according to the Victorian Government's submission to the Productivity Commission's Research Study on the *Economic implications of an Ageing Australia* in November 2004:

*Improving productivity growth is likely to be the primary way in which we can help address the fiscal pressures of an ageing population. Even small gains in annual productivity growth will produce significantly higher living standards in 30 to 40 years time, increasing future capacity to pay for the higher service needs of the aged. In 'Victoria: Leading the Way' the Victorian Government outlined its commitment to securing future economic prosperity by building a competitive, innovative economy.*⁸²

Australia's productivity performance has not been consistently good according to the Treasurer, particularly compared with the United States.⁸³

In the light of the Treasurer's comments, the Committee was interested in examining material connected with the Australia's productivity in the context of understanding trends and comparisons to other countries, especially the United States. The Committee was also interested in examining trends in Victoria's productivity, growth rates in productivity and comparisons to Australia. Information accessed and subject to analysis by the Committee is set out below.

Australia's productivity – Multifactor productivity

According to the Organisation for Economic Cooperation and Development (OECD), multifactor productivity is defined as *Quantity index of combined inputs = Quantity index of (different types of) labour, capital, energy, services, each weighted with its current price share in total gross output.*⁸⁴ Multifactor productivity measurement helps disentangle the direct growth contributions of labour, capital, intermediate inputs and technology.⁸⁵ This is an important tool for reviewing past growth patterns and for assessing the potential for economic growth.⁸⁶

The Productivity Commission indicates that, in principle, multifactor productivity is a better indicator of efficiency than labour productivity. It measures how efficiently and effectively the main factors of production – labour and capital – combine to generate output.⁸⁷

⁸¹ Department of Treasury and Finance, *Shaping a Prosperous Future*, discussion paper, April 2003, p.i

⁸² Victorian Government, *Preparing for Victoria's Future Challenges and Opportunities in an Ageing Population*, November 2004, p.8

⁸³ Hon. J Brumby MP, Treasurer, 2007-08 Budget Estimates hearing, transcript of evidence, 4 May 2007, p.5

⁸⁴ OECD, *Measuring Productivity*, OECD Manual, Measurement of Aggregate and Industry-Level Productivity Growth, p.18

⁸⁵ *ibid.*, p.20

⁸⁶ *ibid.*

⁸⁷ www.pc.gov.au/commission/work/productivity/primer/measures.html, accessed 4 September 2007

In analysing information compiled by the OECD, Australia's multifactor productivity that grew by 1.5 per cent between 1990 and 1995, showed higher growth of 1.7 per cent from 1995 to 2000, but grew at a lesser rate of 1.3 per cent between 2000 and 2004.⁸⁸ Relative to the United States, the Committee observed that Australia's productivity performance in the context of multifactor productivity grew at a higher rate between 1990 and 1995 (1.5 per cent compared with 0.7 per cent) between 1995 and 2000 (1.7 per cent compared with 1.3 per cent); but in the first four years of 21st century, productivity growth fell behind that of the United States (1.3 per cent compared with 1.9 per cent).⁸⁹

A comparison of Australia's multifactor productivity growth to other OECD countries is set out below:⁹⁰

- 1990-1995 – Australia's productivity growth exceeded or was equal to 12 OECD countries and was below that of four OECD countries;
- 1995-2000 – Australia's productivity growth exceeded 15 OECD countries and was below that of four OECD countries; and
- 2000-2004 – Australia's productivity growth exceeded 12 OECD countries but was below that of seven OECD countries.

The Committee noted that between 1990 and 2004, Australia's multifactor productivity growth was well below that of Ireland and Greece and from 1995 to 2004 was well below that of Finland.⁹¹

Australia's productivity – Labour productivity growth

Labour productivity is a measure of the quantity of goods and services produced per hour of work. As labour productivity grows, higher levels of output are produced with given labour inputs. Growth in labour productivity will be the key determinant of real GDP growth in the decades ahead. Faster labour productivity growth would enable higher growth for real GDP, real GDP per person and real wages over the projection period.

In terms of examining labour productivity growth, Australia experienced strong productivity growth in the 1990s, following decades of lagging behind other major developed countries, although productivity growth has slowed somewhat this decade.⁹²

Australia's annual labour productivity growth has averaged 1.8 per cent over the past 40 years but has varied considerably from decade to decade (figure 4.1). It was above its long term average in the 1970s (2.0 per cent), slowed in the 1980s (1.2 per cent), but picked up again in the 1990s (2.1 per cent), accelerating noticeably from the middle of the decade. From 2000, however, annual labour productivity growth has slowed to around 1.5 per cent.

⁸⁸ <http://stats.oecd.org/WBOS/default.aspx?DatasetCode=MFP>, accessed 4 September 2007

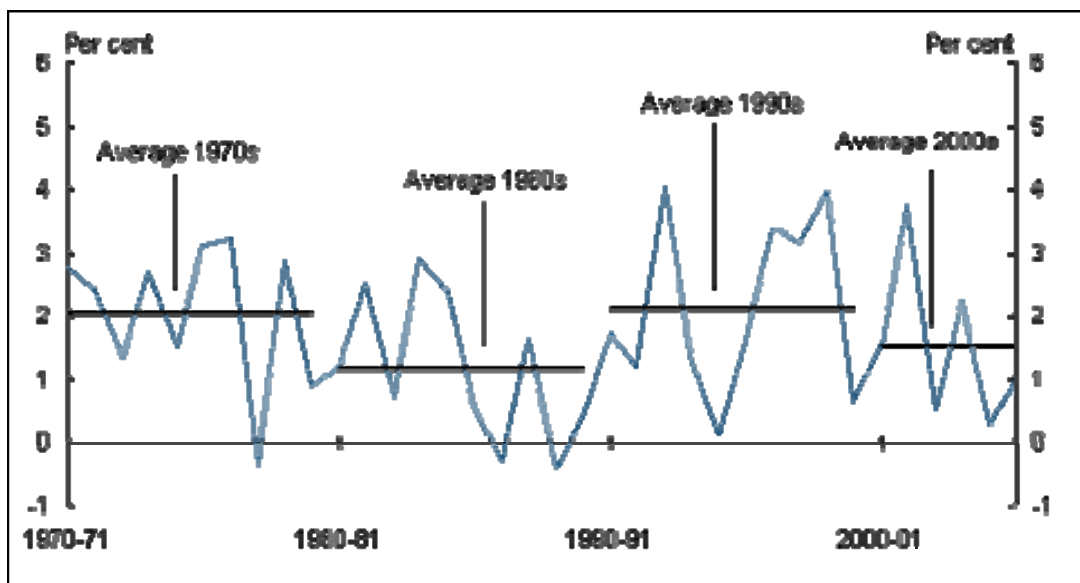
⁸⁹ *ibid.*

⁹⁰ *ibid.*

⁹¹ *ibid.*

⁹² Commonwealth of Australia, The Treasury, *Intergenerational Report 2007*, Part 1, p.28

Figure 4.1: Australia's labour productivity growth (real GDP per hour worked)

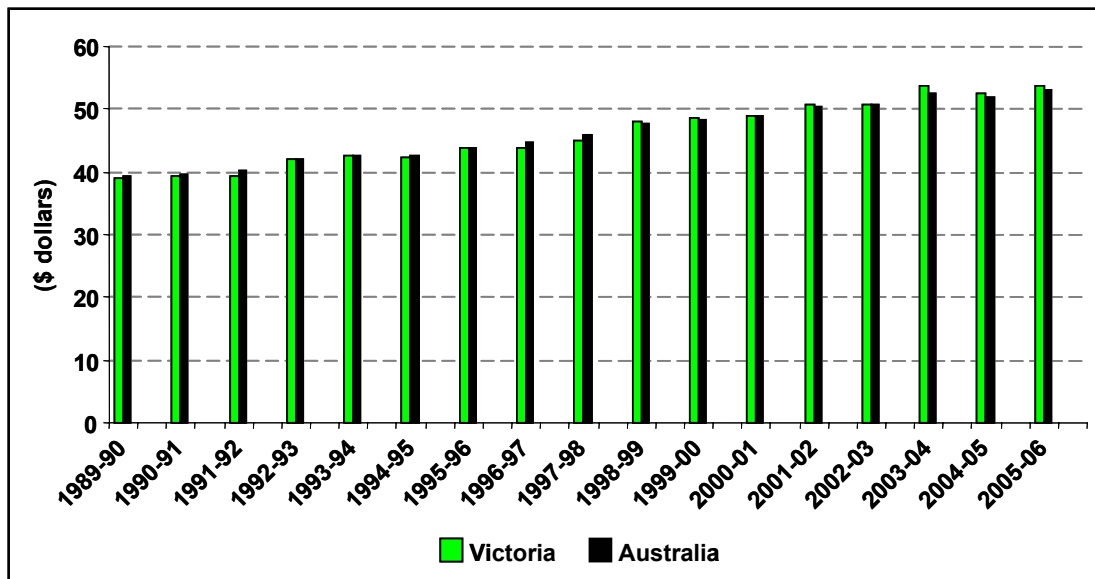


Source: Commonwealth of Australia, *The Treasury, Intergenerational Report 2007, Part 2, p.5*

Trends in Victoria's productivity and productivity growth rates and comparisons to Australia – GSP per hour worked

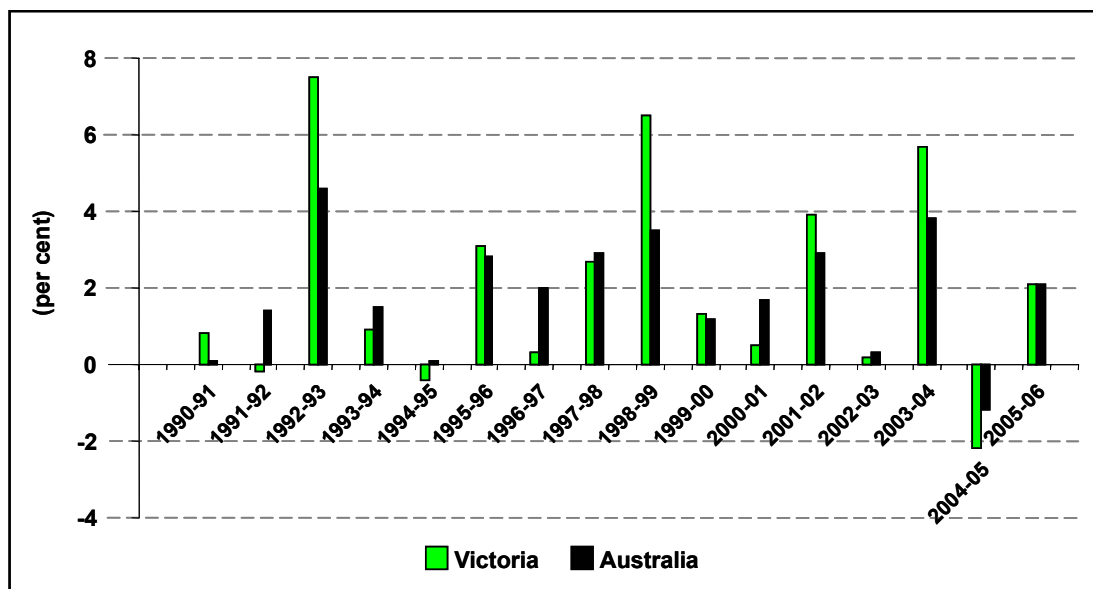
Figures 4.2 and 4.3 show that productivity in Victoria, measured in terms in terms of Gross State Product (GSP) per hour worked, improved in the vast majority of years from 1989-90 to 2005-06, a trend that has been mirrored at the national level. The Committee also noted that Victoria has been more productive than the nation as a whole in all years from 1998-99 to 2005-06 except for 2000-01. Prior to that, Victoria has been less productive than Australia from 1989-90 to 1997-98 except for 1992-93. In terms of growth rates, Victoria experienced the greatest increases in productivity in the following years – 1992-93, 1995-96, 1997-98, 1998-99, 2001-02, 2003-04 and 2005-06 with the greatest increases occurring in 1992-93, 1998-99, 2001-02 and 2003-04.

**Figure 4.2: Trends in Victorian productivity
GSP per hour worked 1989-90 to 2005-06**



Sources: Australian Bureau of Statistics (Cat.No.5220.0 and 6202.0) and Budget Paper No.3, 2007-08 Service Delivery, p.357

**Figure 4.3: Trends in growth rates in Victorian productivity
1989-90 to 2005-06**



Sources: Australian Bureau of Statistics (Cat.No.5220.0 and 6202.0) and Budget Paper No.3, 2007-08 Service Delivery, p.357

Trends in Victoria's productivity and productivity growth rates and comparisons to Australia – GSP per hour worked are shown numerically in table 4.4 below.

Table 4.4: Trends in Victoria's productivity, growth rates in productivity and comparisons to Australia GSP per hour worked – 1989-90 to 2005-06

Year	GSP per hour worked (\$)		Growth rates (%)	
	Victoria	Australia	Victoria	Australia
1989-90	39.0	39.4		
1990-91	39.3	39.5	0.8	0.1
1991-92	39.2	40.1	-0.2	1.4
1992-93	42.1	41.9	7.5	4.6
1993-94	42.5	42.6	0.9	1.5
1994-95	42.4	42.6	-0.4	0.1
1995-96	43.7	43.8	3.1	2.8
1996-97	43.8	44.7	0.3	2.0
1997-98	44.9	46.0	2.7	2.9
1998-99	47.9	47.6	6.5	3.5
1999-00	48.5	48.2	1.3	1.2
2000-01	48.8	49.0	0.5	1.7
2001-02	50.7	50.5	3.9	2.9
2002-03	50.8	50.6	0.2	0.3
2003-04	53.7	52.5	5.7	3.8
2004-05	52.5	51.9	-2.2	-1.2
2005-06	53.6	53.0	2.1	2.1

Note: Chain volume measure, 2004-05 prices

Sources: Australian Bureau of Statistics (Cat.No.5220.0 and 6202.0) and Budget Paper No.3, 2007-08 Service Delivery, p.357

The relevance and contribution of the Victorian budget to statewide or sector productivity and departmental or program productivity and savings are discussed below.

4.2 Impact of the Victorian budget outlays on productivity

As part of the budget estimates hearing process, the Committee requested Ministers to explain the impact that the portfolio spend, particularly new initiatives, will have on productivity. Inquiring into initiatives that support productivity in Victoria formed a major theme of the 2007-08 Budget Estimates inquiry process. An extract from one of the budget estimates hearings demonstrates this focus where the Committee's Chair posed the following question to the Minister:⁹³

⁹³ Hon. T Holding MP, Minister for Finance, WorkCover and Transport Accident Commission, 2007-08 Budget Estimates hearing, transcript of evidence, 31 May 2007, p.4

... my focus is actually on productivity, both specifically and in general, in terms of the state. I think it is very important that we actually improve productivity. Over the last decade Australia has not had a good record in terms of productivity, so can you tell us, in terms of your portfolio (or maybe your portfolios if you like) for the next financial year, what impact do you predict the portfolio spend and policies will have on productivity, particularly new policy initiatives?

This line of questioning, which was commonplace among the various hearings held, was particularly relevant, given the significance of measures introduced at a national level that are designed to improve productivity at the state and territory level and thereby the nation's overall productivity, living standards and economic prosperity.

The Committee's analysis of the various measures taken across government portfolios to improve productivity in Victoria revealed a range of actions across the public sector. Section 4.4 sets out examples of some of the key portfolio responses per department that were provided to the Committee in this regard. While general comments about efficiency savings have been included in Chapter 2 of this report, Section 4.4 also includes examples of efficiency initiatives that relate to some of the six areas earmarked by the government as part of its *Efficient Government* policy.

Some of the examples provided by Ministers through evidence taken at the estimates hearings that demonstrate improvements in productivity in the past or potential for doing so in the future with quantifiable data are described below (further commentary and statistical analyses will be included in the Committee's sequel to this report, the *Report on the 2006-07 Budget Outcomes*, which is planned to be tabled later this financial year).

Health

Victoria has experienced growth in the number of admissions, while the total number of people on waiting lists for elective surgery is declining – the widening gap between those indicators is the productivity shown in hospitals. They are getting more resources but they are increasingly more productive. According to nationally accepted indicators, Victoria's hospitals are now the most efficient. Over the past five years, Victoria has had a lower cost per casemix adjusted separation than the Australian average. Victoria has a lower average length of stay, and emergency department performance exceeds the other states and territories as is the case with elective performance.

With regard to clinical practice improvement, in some of the most basic surgical areas, practices that used to keep people in hospital for between seven and ten days are now same day procedures in many of Victoria's hospitals. This is because of the growth in expertise, new treatment technologies and processes that have increased the effectiveness of hospitals such as the use of imaging technology.

Housing

Increasing the provision of housing options by leveraging non-government assets in partnership with housing associations has the potential to deliver between 25 and 30 per cent more housing units than could be achieved under government investment alone.

Roads and Ports

The 39 kilometre EastLink project is anticipated to generate in the vicinity of \$15 billion worth of economic activity to the state when it opens, while in relation to the Monash West Gate corridor, around \$1 billion spending will be directed at one of the state's busiest corridors and address congestion.

Police and Emergency Services

During the term of the government an additional 46 forensic staff have been engaged, and the government is committed to further increasing that by 25. Those additional staff will deal with the predicted growth in demand for DNA samples, which is expected to grow to 45,000 by 2010. With additional equipment to be acquired that can work quicker, police expect that the processing capability will be at 50,000 samples per annum by that time.

Agriculture

Broadacre farm productivity growth averaged 3.26 per cent per year between 1989 and 2004. At that rate of productivity growth, it takes only 22 years for farmers to double the output comparative to their inputs. In the grain sector, for example, where productivity has grown at 4.89 per cent per year, it takes only 15 years to double that output. Continued strong growth in farm productivity also reduces agriculture's call on the nation's resources. (In comparison, productivity growth per head for the Australian economy was 2.1 per cent a year in the decade ending 2000-01, and has averaged 1.1 per cent in the first three quarters of 2006-07).

Energy and Resources

In terms of the impact of the Victorian Initiative for Minerals and Petroleum, each dollar spent on geological data generates between \$5 and \$9 in expenditure by industry. This will support economic growth, particularly in regional Victoria.

Mining also generates significant flow-on employment with 32,000 people employed in the petroleum, coal, chemical and associated product manufacturing sector; 41,900 in metal product manufacturing; and 8,900 in non-metallic product manufacturing.

Women's Affairs

Initiatives directed at family violence and the *Safer Families* training program will assist in contributing to productivity, given that the cost of family violence to the Victorian economy is \$2 billion every year. More investment that can be directed at initiatives aimed at reducing family violence will lead to more productive people and reduce that cost to the Victorian economy.

Planning

Electronic conveyancing is a world leading initiative that brings the property conveyancing process into the e-commerce world. Additional funding of \$6 million was provided in the budget to complete the electronic conveyancing (EC) system. The EC is estimated to result in \$70 million worth of annual savings to Victorian industry and the community by 2012, which equates to a saving of \$395 per four-party settlement.

Water, Environment and Climate Change

The irrigation industry is a key economic industry for the state. The Shepparton irrigation project illustrates how productivity is improving through the budget, whereby that irrigation system will be more efficient by some 50 billion litres of water a year. That is, water that is now otherwise not used as efficiently as it might be. Assisting irrigation to be as efficient as possible is a key productivity target for the government.

Finance, WorkCover and the Transport Accident Commission

According to international and national research, the most significant productivity benefits flowing to the Australian economy over the past five to ten years have been in the technology area. Around 85 per cent of the productivity improvements in the manufacturing sector and about 78 per cent of the productivity improvements in the services sector are as a consequence of embracing new technology. According to the Minister, over the next 25 years, the greatest yield that the Australian economy will generate from improved productivity will be from the management of integration and the uptake of new technology.

Victorian Communities

A program is being funded to try and look at the productivity arrangements and the strengthening of the non-government organization (NGO) sector of the community. Funding has been provided for SCOP (Stronger Community Organisations Project), an initiative being undertaken in conjunction with individual NGOs, like VCOSS, umbrella organisations and individuals. This initiative is going to examine the complex pressures that NGOs are experiencing, for example, how their financial and organisational position and the strength of their leadership may be improved in the years ahead.

4.3 Productivity reporting improvements

The Committee noted that there was some variability in the responses by Ministers and departments to questioning on actions to improve productivity. Some answers focused on ‘macro’ or wider productivity action and impact (for example, improved skills and improved health impacts). Other responses focused on ‘micro’ impacts, such as specific program savings within portfolios or individual programs.

The Committee recognises that action at all levels is needed to improve productivity, including for example through micro-economic and structural reform in the non-government sector, without compromising the close relationship voluntary organisations have with the community.

It also recognises that major activity in regard to productivity improvement will take place at the macro level and that the improved provision of health and education services, which are the two largest sections of state government outlays, will in the long term make the biggest contribution to productivity improvement in Victoria. The Committee noted the range of proposals in these areas that are being pursued as part of the National Reform Agenda.

The Committee looks to more consistent reporting on productivity next year and will develop a more sophisticated framework in its questionnaire to elicit both efficiency measures at a departmental level that contribute to workplace productivity as well as program actions (for example, in skills development, infrastructure development for schools, roads and ports development and health management) that contribute to national and statewide productivity gains.

The Committee believes that departments should strive to develop and report more efficiency related indicators that measure productivity in order to analyse, improve and be accountable for performance on an ongoing basis. Savings generated that are directed back into programs should also be reported in annual reports. The nexus between these indicators and the various components of the National Reform Agenda (that is, the human capital, regulatory reform and competition streams) and the visions and goals of the *Growing Victoria Together* initiative as well as other key government policies should be made transparent. Such action, which would need to be consistent with COAG policy in terms of NRA measures to be developed, would promote the concept of continuous improvement across agencies and enhance accountability surrounding the implementation of micro-economic reform in this state.

The Committee recommends that:

- Recommendation 5:** A more consistent framework for addressing productivity improvements be articulated by the Department of Treasury and Finance that includes local workplace efficiency gains as well as macro-economic impacts through program initiatives.
- Recommendation 6:** The Department of Treasury and Finance explain in the budget papers how the budget strategies and associated output and asset initiatives (which extend across government agencies, the *Growing Victoria Together* vision and goals as well as other key government policies) are designed to improve Victoria's productivity and associated outcomes for the community.
- Recommendation 7:** The Department of Treasury and Finance disclose in the budget papers specific productivity targets to be achieved as a result of the introduction of budget initiatives where considered appropriate.
- Recommendation 8:** Departments disclose in the budget papers key performance measures relating to productivity by the linking of outputs to inputs.
- Recommendation 9:** The Victorian Government commission a project designed to explore potential areas in the context of micro-economic reform where opportunities exist across government agencies and the non-government sector to improve productivity. Consultation could then occur for such areas to be considered for detailed examination either internally by government departments or by the State Services Authority or the Auditor-General.
- Recommendation 10:** As the non-government sector performs a pivotal role in the delivery of services to the Victorian public, departments and non-government organisations need to continuously critically examine ways of improving productivity.
- Recommendation 11:** In order to clearly establish the link between budget outlays and productivity, departments develop an appropriate range of robust efficiency indicators for reporting in their annual reports the effectiveness of their government funded programs in terms of enhancing productivity according to the three streams of the National Reform Agenda.

- Recommendation 12:** Departments disclose in their annual reports examples of where savings generated through productivity improvement are channelled into service delivery.
- Recommendation 13:** Using the demonstrated benefits experienced in the agriculture portfolio as a benchmark, departments follow the lead in the budget, which calls for an emphasis to be placed on research and development to improve the national and international competitiveness of Victorian businesses and help foster economic growth.
- Recommendation 14:** Based on analyses of costs and benefits, governments consider investing more, both statewide and particularly federally, in infrastructure because of the contribution good infrastructure (such as public transport and roads and ports) makes to improving the growth in productivity.

4.4 Supplementary information

Table 4.5: Impact of portfolio spends on productivity

Department/portfolio	Impact of portfolio spend including budget initiatives on productivity
Department of Education	
Education	<p>With regard to the \$555 million capital investment in Victoria's schooling system, 131 government schools will receive this funding in 2007-08 for rebuilding, modernisations or the building of totally new schools. Teaching in better facilities such as modern classrooms promotes better teaching and productivity.</p> <p>The \$249 million invested in recurrent outputs is designed to improve the art of teaching and learning. Initiatives aimed at introducing best practice in schooling, professional development and or leadership contributes to better productivity.</p> <p>There is a strong correlation between the time spent in schooling and the time people remain in the workforce and productivity.</p>
Department of Human Services	
Children	<p>Early investment in children contributes to better outcomes for those children and opportunities for them to be productive adults and contribute to the Victorian economy and community. The budget has an emphasis on early years investment, access to child care, early childhood health services, access to kindergarten programs and the important transition year into school.</p> <p>A significant deterrent for women entering the workforce is access to child care. The Victorian budget provides a number of initiatives designed to improve access to child care, such as through the provision of children's centres. Victoria has earmarked 20 new centres to be built over the next four years.</p> <p>Funding provided in the budget will establish a number of scholarships to upgrade the skills of kindergarten teachers and early childhood workers. The scholarships will assist kindergartens and childcare centres to access more highly qualified staff to continue to improve the quality and productivity of early childhood education and care services.</p> <p>Efficiency measures</p> <p>The Community Sector Investment Fund (CSIF) has commenced a number of projects that assist Community Service Organisations (CSOs) to reduce their costs: for example, it has arranged for them to access government fuel purchasing contracts.</p> <p>The CSIF has created 39 CSO Networks, providing grants of up to \$90,000 and a further \$5,000 to evaluate each one. One example is Central Hume Support Services located in Wangaratta. This network brings together Cooroonya Domestic Violence Services and Upper Hume Community Health Service, to provide increased productivity through provision of joint IT support and management, group purchasing, fleet management and administrative processes.</p>
Community Services	<p>In terms of disability services, a new Disability Services Commissioner is charged with the obligation of ensuring that services are provided in an efficient and effective fashion. An Office of the Senior Practitioner drills down into what the effective and appropriate treatment regime would be to ensure best practice is being applied in that sector.</p>

Table 4.5: Impact of portfolio spends on productivity (continued)

Department/portfolio	Impact of portfolio spend including budget initiatives on productivity
Health	<p>There have been over 40 service innovations implemented in the system to ensure people are receiving the right care in the most appropriate setting and that health system funding is used efficiently. These innovations range from:</p> <ul style="list-style-type: none"> • keeping people well – early detection and referral through programs like Nurse-on-Call; • targeted programs for people with chronic disease such as the Hospital Admission Risk Program (HARP) program; • being more effective and efficient in the way services are delivered in emergency departments through things like ‘see and treat’ and short-stay units; and • greater use of IT and other enablers within the system. <p>In terms of results, Victoria has experienced growth in the number of admissions while the total number of people on waiting lists for elective surgery is declining – the widening gap between those indicators is the productivity that is shown in hospitals. They are getting more resources but they are increasingly more productive.</p> <p>According to nationally accepted indicators, Victoria’s hospitals are now the most efficient. Victoria has a lower cost per casemix adjusted separation than the Australian average, and that has been the case for the last five years. Victoria has a lower average length of stay, and emergency department performance is the best of any state and territory as is elective performance.</p> <p>Various cost reduction strategies have been introduced such as the creation of:</p> <ul style="list-style-type: none"> • Health Purchasing Victoria; • nurse banks have seen services drive down costs; and • new models of care, such as medi-hotels where people can have oversight before they have an operation, but they are not in a very high expense acute bed because that is not necessary for them at that stage in their care. <p>With regard to clinical practice improvement, in some of the most basic surgical areas, practices that used to keep people in hospital for between seven and ten days are now same day procedures in many of Victoria’s hospitals. This is because of the growth in expertise, new treatment technologies and processes that have increased the effectiveness of hospitals such as the use of imaging technology.</p>
Housing	<p>Specific measures have been introduced to improve the productivity of social housing. These include:</p> <ul style="list-style-type: none"> • increasing the provision of housing options by leveraging non-government assets in partnership with housing associations. This has the potential to deliver between 25 and 30 per cent more housing units than could be achieved under government investment alone; • the utilisation of Commonwealth rent assistance. Housing associations will be able to achieve more financial sustainability as they will be able to access subsidies such as Commonwealth rent assistance, albeit that this is not available to tenants who are in public housing; and • the reduction of asset maintenance liability. The disposal of older maintenance intensive properties and the replacement with new stock will have a significant impact in terms of the budget and the capacity to generate funds back into the public housing system.

Table 4.5: Impact of portfolio spends on productivity (*continued*)

Department/portfolio	Impact of portfolio spend including budget initiatives on productivity
Mental Health	<p>The budget has an emphasis on prevention and diversion, thereby avoiding higher downstream costs in mental health and drug treatment services. Programs that contribute to that include:</p> <ul style="list-style-type: none"> • the Youth Early Psychosis program, which is aimed at reducing disability in the longer term; • reducing the use of tertiary mental health services and other services like police; and • prevention and recovery care services, ensuring more appropriate targeting of treatment which reduces readmission rates into hospitals and downstream costs.
Department of Infrastructure	
Public Transport	<p>In terms of the workforce, if people can move more quickly from home to work and work to home, this increases productivity. Also the rail freight network and the buyback of Pacific National will impact, both in terms of the viability and sustainability of the country rail freight network, but also the links with the port are critical for the state's productivity.</p> <p>Reducing congestion on the roads and investing in public transport contributes to productivity in terms of family life and the time that people can spend with their families.</p> <p>Considering productivity in the context of improvements that can be made in the environment contributes to reductions in emissions, and that assists with broader capacity in terms of productivity across the state.</p>
Roads and Ports	<p>Investing in roads not only saves lives, it reduces travel times and delivers economic benefits through improvements to the freight access system.</p> <p>About 88 per cent of all public transport journeys are made on our road system. The road system makes a substantial contribution to productivity in terms of access to work and the movement of freight.</p> <p>Direct investments made by the state include the following:</p> <ul style="list-style-type: none"> • \$30 million through the congestion improvement plan to tackle some of Melbourne's biggest congestion hotspots; • \$110 million into outer metropolitan roads. These arterial roads are essentially the building blocks of the state's transport system, particularly in outer metropolitan areas, where there is a higher dependency on road based public transport than there is access to the rail based system; • the commitment of \$62.5 million to begin the first stage of stage four of the Geelong Ring Road is aimed at reducing travel times and improve the reliability of freight and people movement; • \$7.3 million for improving walking and cycling options is aimed at, not only improving productivity by reducing congestion in respect of certain parts of the network, but also providing for healthier lifestyles in terms of the community more generally; and • in terms of the more substantial ongoing investments, the 39 kilometre EastLink project, which is anticipated to generate in the vicinity of \$15 billion worth of economic activity to the state when it opens and the Monash West Gate corridor – around \$1 billion spending that will deal with one of the state's busiest corridors and address congestion.

Table 4.5: Impact of portfolio spends on productivity (continued)

Department/portfolio	Impact of portfolio spend including budget initiatives on productivity
Department of Innovation, Industry and Regional Development	
Industrial Relations	The government is looking at a \$1.2 million project for the development of an online workplace tool kit, which advises employees and employers on opportunities for parents returning to work. A more family friendly workplace is a more productive workplace. Also the government is going to amend the Equal Opportunity Act, which means that mothers, in particular, will be able to request family friendly work hours and more flexible work arrangements. These measures should also lead to productivity improvements.
Skills	The budget builds on the prior investment in delivering more places for apprenticeships and traineeships and the investment in TAFE capital works and new TAFE facilities. More than \$38 million has been provided to expand and equip Victorian TAFE institutes for the future.
Department of Justice	
Attorney-General	<p>The budget initiatives will create more efficient courts in the form of quicker access to justice. Less costly resolution of commercial disputes is one way the courts contribute to the economy of this state. It is not always possible to place a dollar amount on better outcomes when it comes, for example, to improved ways the justice system deals with victims of crime or victims of family violence. The budget invests \$45.3 million over four years to provide additional resources to the County and Supreme courts. That will involve reducing court delays and therefore the expenses and risks associated with lengthy delays. Lengthy delays in commercial matters, for instance, are costly for litigants. Lengthy criminal trials or lengthy delays in criminal trials can actually diminish of chances of successful prosecutions.</p> <p>Some of the IT systems have been upgraded within the courts. A single technology platform is being rolled out for Victoria's courts and tribunals, which will provide productivity benefits to consumers of court services and to court staff. For the first time, court users will be able to lodge matters at any court in the state, irrespective of the particular court or court location that the matter is to be heard in, which will involve time savings.</p>
Consumer Affairs	<p>In terms of an expansion of our face to face services, there has been an expansion of the regional office network involving five principal offices and two sub-offices, as well as the outreach work, which have been an important part of delivering better and improved outcomes to Victorian consumers.</p> <p>Online services have expanded in recent years.</p> <p>The number of visitor sessions to the Consumer Affairs Victoria website and other associated linked websites has grown by 25 per cent each year since 2003. This represents an easy and convenient way for Victorian consumers to access information, but it is also of relevance in terms of making best use of staffing time and the staffing budget. It saves time and delivers high quality outcomes.</p> <p>Other areas where budget spends have impacted on productivity include the following:</p> <ul style="list-style-type: none"> • the case management system for a range of complaints; and • efficiency gains have enabled staff to service various Acts of Parliament.

Table 4.5: Impact of portfolio spends on productivity (continued)

Department/portfolio	Impact of portfolio spend including budget initiatives on productivity
Gaming	<p>In October last year, the \$132.3 million <i>Taking Action on Problem Gambling</i> statement was launched by the Victorian Government. This is a fully funded five year plan to 2010–11. As part of this initiative, \$4.3 million has been provided over five years to allow a centralised booking system and the associated IT case management functionality. The practical impact of that is that when a caller contacts the gamblers helpline, they will be able to make a direct appointment at that point of time. That is obviously about efficiency – getting a quicker response – so that those who are in crisis or need urgent care and need that sort of support quickly can obtain it.</p> <p>The centre for excellence in problem gambling research and treatment will commence in July this year as part of <i>Taking Action on Problem Gambling</i> initiative. More than \$4 million has been committed to that joint venture between Monash University and the University of Melbourne in terms of driving better research and other efficiencies in terms of treatment services.</p>
Police and Emergency Services	<p>During the term of the government an additional 46 forensic staff have been engaged, and the government is committed to further increasing that by 25. Those additional staff will deal with the predicted growth in demand for DNA samples, which is expected to grow to 45,000 by 2010. With additional equipment to be acquired that can work quicker, police expect that the processing capability will be at 50,000 samples per annum by that time.</p> <p>Through the use of I-face and the laptops initiatives, instead of using mug books, the use of facial recognition will enable identification to occur a lot quicker.</p> <p>Additional police cars and the building of police stations will make a difference in enabling police to respond and more effectively meet the community’s needs.</p> <p>A major project is underway within the organisation to examine the face of a computer system and the simplification of data. Some systems are being trialled at the moment to enable the input of the data to be performed more efficiently. While there is a need for greater data collection, this has to be balanced with the members who want to be in the field. A traffic information system has been initiated, which despite experiencing some problems, is being streamlined with a view to reducing the paperwork to ensure people are allowed to be out doing the job that is expected of them.</p>
Racing	<p>The government has committed \$20.6 million to the racing industry development program, which will provide major capital works at racing venues. This will mean that those racing venues will be able to operate on a year round basis. The ThoroughTrack program, which is a synthetic racing surface, is being put in at Geelong, which means Geelong will be able to race all year round, which will improve productivity. Funding has also been provided to certain country tracks and upgrading facilities will improve the amenity for people who elect to go to the races.</p>

Table 4.5: Impact of portfolio spends on productivity (continued)

Department/portfolio	Impact of portfolio spend including budget initiatives on productivity
Department of Premier and Cabinet	
Premier's	<p>Productivity efficiency within the Department of Premier and Cabinet will be in the areas of buying smarter, group purchasing, whole of government efforts to purchase and obtaining a better rate because of that. Treasury and Premiers have pursued common corporate services for some time. This could be taken further to look at effective purchasing, reducing the on-costs and making a saving which could be put back into programs.</p> <p>The Government Services Group will be working with the department to identify and implement efficiencies and innovations relating to procurement and shared services. There are a lot of savings to be made by e-procurement.</p> <p>In other areas, efficiencies will include less expenditure in consultancies.</p> <p>Future growth and staff has also been limited. In this budget, head office staff growth across departments has been limited to a 1 per cent growth target. It is growing at about 2 per cent.</p>
Department of Primary Industries	
Agriculture	<p>Agricultural productivity has exhibited strong growth over the last few decades, and this has been at a rate more than double that achieved by other market sectors. Productivity growth is essential to the agricultural sector and has accounted for the entire increase in agricultural output by the sector over this period.</p> <p>The broadacre farm productivity growth averaged 3.26 per cent per year between 1989 and 2004. At this rate of productivity growth, it takes only 22 years for farmers to double the output comparative to their inputs. In the grain sector, for example, where productivity has grown at 4.89 per cent per year, it takes only 15 years to double that output. Continued strong growth in farm productivity also reduces agriculture's call on the nation's resources. (In comparison, productivity growth per head for the Australian economy was 2.1 per cent a year in the decade ending 2000-01, and has averaged 1.1 per cent in the first three quarters of 2006-07).</p> <p>Much of the government's innovation efforts from an agricultural perspective have been focused on research and development and extension. The Department of Primary Industries will continue its targeted investment in research and development and related investment. The \$180 million biosciences research centre at La Trobe University is a significant driver for the department's involvement in producing productivity for the sector and injecting that research and development into the sector.</p> <p>The agriculture sector is prepared to take up innovation, and research and development, and the department, through its science initiative and research and development initiatives, contributes to that sector having available to it the innovation that it needs to drive forward.</p> <p>For the agricultural sector to still be in the strong position that it is in terms of trade, for example, and in terms of exports, it can only achieve that through significant productivity growth.</p>
Energy and Resources	<p>In terms of the impact of the Victorian Initiative for Minerals and Petroleum, each dollar spent on geological data generates between \$5 and \$9 in expenditure by industry. This will support economic growth, particularly in regional Victoria.</p> <p>Mining also generates significant flow-on employment with 32,000 people employed in the petroleum, coal, chemical and associated product manufacturing sector; 41,900 in metal product manufacturing; and 8,900 in non-metallic product manufacturing.</p>

Table 4.5: Impact of portfolio spends on productivity (continued)

Department/portfolio	Impact of portfolio spend including budget initiatives on productivity
Department of Sustainability and Environment	
Planning	<p>With regard to the work being done in planning as part of Melbourne 2030 and the impact on productivity across the state, building (domestic, commercial or industrial) is a key driver for employment and the state of the economy. By speeding up the process, efficiencies can be delivered, for example, by cutting red tape. If we can cut red tape, we can deliver efficiencies in the planning permit application process. If projects can get off the ground sooner, it means there is an opportunity for increased growth in the economy and more jobs to go with it.</p> <p>Electronic conveyancing is a world leading initiative that brings the property conveyancing process into the e-commerce world. Additional funding of \$6 million was provided in the budget to complete the electronic conveyancing (EC) system. The EC is estimated to result in \$70 million worth of annual savings to Victorian industry and the community by 2012, which equates to a saving of \$395 per four-party settlement.</p>
Water, Environment and Climate Change	<p>Being more efficient with the way resources are used is a key objective that is better for the environment and it is also better for the community and boosts productivity.</p> <p>In terms of the environment portfolio, the key productivity issue is resource efficiency – that is, using resources in the most efficient manner so that their value is maximised, the negative impact on the environment is reduced and people’s lifestyles are improved.</p> <p>The irrigation industry is a key economic industry for the state. The Shepparton irrigation project represents a good example of how productivity is improving through the budget, whereby that irrigation system will be more efficient by some 50 billion litres of water a year. That is, water that is now otherwise not used as efficiently as it might be. Assisting irrigation to be as efficient as possible is a key productivity target for the government.</p> <p>Another important example in agriculture is salinity and the work undertaken on salinity programs. By reducing the impact of salinity as well as looking after the land, land is able to be used more productively, which is another productivity benefit.</p> <p>In terms of water use generally, productivity is going to be assisted by more efficient water use, which means not wasting water and reusing water. The budget continues the government’s policy of water conservation and recycling. Examples of recycling include the recent major recycling project with BlueScope Steel at Hastings, and also projects with Qenos, Australian Vinyls and other companies which are able to become more efficient by utilising their water in a more efficient manner. That is another productivity benefit. Another important example is the requirement, which receives budget backing for all industry that uses more than 10 gigalitres a year, to have a water conservation plan. In many cases, industry has not to date given sufficient emphasis to having a water saving plan (big industry has – the top 200 have all done it – but the next 1300 fall into this category). By working with industry to have water saving plans is another way that productivity can be improved.</p> <p>Energy efficiency is one of the major resource efficiency measures that should be targeted. An example of this is CarbonDown, which is a program working with business to reduce their energy use and become more energy efficient.</p>

Table 4.5: Impact of portfolio spends on productivity (continued)

Department/portfolio	Impact of portfolio spend including budget initiatives on productivity
Department of Treasury and Finance	
Finance, WorkCover and the Transport Accident Commission	<p>There is well over \$600 million in savings accruing to government over the next four years from efficient government measures, and many of those things relate to productivity related enhancements in the way the Victorian government does business – so, for example, the way car fleet is managed and the way in which our purchasing arrangements are managed. The state purchasing contracts are a significant part of that.</p> <p>The ICT area is an area where particular productivity dividends can be achieved. International and national research shows that the most significant productivity benefits that have been generated to the Australian economy over the past five to ten years have been in the technology area. In fact, around 85 per cent of the productivity improvements in the manufacturing sector are as a consequence of the uptake of new technology. About 78 per cent of the productivity improvements in the services sector are a consequence of the embracing of new technology. Going forward over the next 25 years, the greatest yield that the Australian economy will generate from improved productivity is not from changing the workplace relationships and changing the industrial relations laws in Australia, but is actually from the way in which the integration and the uptake of new technology is managed.</p> <p>Looking across the Victorian public sector, from an ICT perspective there are a significant number of projects under way, some of which have been funded in the latest budget, which will have a significant impact on productivity. For example, the VicSmart and ultranet projects within the Department of Education – a \$61 million commitment to the ultranet in the current budget⁹⁴ – are tools not only for parents and for students but also tools for principals and teachers and the school environment, which will improve productivity in the education sector. As mentioned earlier, the electronic conveyancing work is a significant investment – a \$6 million investment by the state government in this budget. This project which will deliver significant dividends to those who purchase or sell property. It is a more efficient and streamlined system – a paperless system in a way – which will deliver productivity improvements.</p>

⁹⁴ The Ultranet is an intuitive student-centred electronic learning environment that supports high quality learning and teaching, connects students, teachers and parents and enables efficient knowledge transfer. The Ultranet will help to improve student learning, support the work of teachers, enable DoE to better support Victorian Government schools and enhance active partnerships with parents. The Ultranet will provide a complete online learning environment in which parents, students and teachers can create, access and share curriculum content, collaborate in learning activities and record progress against individual learning plans/goals.

Table 4.5: Impact of portfolio spends on productivity (continued)

Department/portfolio	Impact of portfolio spend including budget initiatives on productivity
Treasury	<p>In terms of this budget, the investment in skills; the investment in preventative health programs, diabetes; the investment in capital works – all of these things will drive a stronger economy and productivity growth.</p> <p>According to most economists, there are two major roadblocks in the Australian economy. One of those is lack of investment in productive capital; the second is the skill shortage. In both of these areas, Victoria is taking the national leadership position in tackling these problems. Victoria was the first state to significantly increase the state's spend on capital works – this is being done again in this budget – and in the 2006 calendar year, more apprentices and trainees were trained in Victoria than in any other state in Australia, including New South Wales, which has nearly 2 million more people than Victoria.</p> <p>The other element of this budget is regulation reform, where Victoria is making strong progress.</p> <p>In addition, the tax cuts introduced in Victoria will drive a more efficient economy, which means increases in productivity growth.</p>
Department for Victorian Communities	
Aged Care	<p>One of the biggest issues confronting the Australian and the Victorian economy in the future is the ageing of our population. The Victorian government is examining ways to encourage the participation of older people, not only back into the workforce, but also more broadly into our community.</p> <p>The portfolio is contributing to the productivity of the Victorian economy through initiatives to encourage seniors' participation in the Victorian workforce and in the community.</p> <p>In the past decade there has been a significant increase in mature aged workforce participation in Victoria. In fact, participation rates increased from 59 per cent to 68 per cent for those aged 55 to 64. The government is pleased with this progress and increased productivity.</p> <p>In the 2006 Victorian election policy a new program, 'Experience Counts' was announced which will focus on retaining and skills development for at least 700 recently retired people who wish to re-enter the workforce. \$4 million has been committed to implement this program between 2007-08 and 2010-11. Department for Victorian Communities, Employment Programs Division will be leading this initiative.</p> <p>Current efforts on mature aged workers participation follow the recently completed Office of Senior Victorians' funded Victorian Employers' Chamber of Commerce and Industry (VECCI) initiative, <i>Grey Matters</i>. <i>Grey Matters</i> was an awareness raising campaign providing small and medium size business with key messages about skills shortages. As part of the project, an information package was distributed, which provides advice to employers about retaining, retraining and employing mature workers.</p> <p>In March 2006 the Premier, Hon. S Bracks launched Maintaining the Advantage; Skilled Victorians Package, which included targeting an additional 1,800 vocational education and training places for Victorians aged 35 to 64 years without year 12 or its equivalent.</p> <p>The Victorians Senior Card supports businesses who sponsor the Card through directories and publications. The card provides discounts on many goods and services. Amongst its many benefits, Seniors Card provides free public transport on Sundays and two free travel vouchers per year – encouraging seniors to get out and about.</p>

Table 4.5: Impact of portfolio spends on productivity (continued)

Department/portfolio	Impact of portfolio spend including budget initiatives on productivity
Employment	A number of initiatives target key groups in the community who need some assistance in getting back into the workforce. Increasing workforce participation for people, such as those with a disability or mature age workers, leads to a more skilled labour industry and business that will continue to drive economic prosperity and productivity. Also, the continuation of the skilled and business migration program contributes to Victoria's economy and productivity in terms of the numbers attracted into the workforce and the skill areas developed.
Victorian Communities	The bulk of our expenditure is through grants, so we do not directly deliver the service but we provide and facilitate the expenditure around programs by other agencies. But we do not take their productivity for granted. For example, a program is being funded to try and look at the productivity arrangements and the strengthening of the non-government organization (NGO) sector of the community. Funding has been provided for SCOP (Stronger Community Organisations Project), an initiative being undertaken in conjunction with individual NGOs, like VCOSS, umbrella organisations and individuals. This initiative is going to examine the complex pressures that NGOs are experiencing, for example, how their financial and organisational position and the strength of their leadership may be improved in the years ahead. The group is expected to report later this year. It is hoped that recommendations may be made about a strategic vision for the sector, including initiatives for the government, businesses and the community sector and how they might work better together.
Women's Affairs	Initiatives directed at family violence and the <i>Safer Families</i> training program will assist in contributing to productivity, given that the cost of family violence to the Victorian economy is \$2 billion every year. More investment that can be directed at initiatives aimed at reducing family violence will lead to more productive people and reduce that cost to the Victorian economy.

Sources: Ms L Neville MP, Minister for Aged Care, response to the Committee's questions on notice, p.2; Mr J Lenders MLC, Minister for Education, 2007-08 Budget Estimates hearing, transcript of evidence, 9 May 2007, p.5; Ms J Allan MP, Minister for Skills, Education Services, Employment and Women's Affairs, 2007-08 Budget Estimates hearing, transcript of evidence, 7 May 2007, pp.3-4; Mr G Jennings MLC, Minister for Community Services, 2007-08 Budget Estimates hearing, transcript of evidence, 10 May 2007, pp.4-5; Hon. B Pike MP, Minister for Health, 2007-08 Budget Estimates hearing, transcript of evidence, 8 May 2007, pp.3-5; Ms L Neville MP, Minister for Mental Health, 2007-08 Budget Estimates hearing, transcript of evidence, 14 May 2007, p.4; Ms L Neville MP, Minister for Children, response to the Committee's questions on notice, received 29 June 2007; Mr R Wynne MP, Minister for Housing, 2007-08 Budget Estimates hearing, transcript of evidence, 17 May 2007, p.4; Hon. L Kosky MP, Minister for Public Transport, 2007-08 Budget Estimates hearings, transcript of evidence, 9 May 2007, pp.4-5; Mr T Pallas MP, Minister for Roads and Ports, 2007-08 Budget Estimates hearing, transcript of evidence, 10 May 2007, pp.4-6; Hon. R Hulls MP, Attorney-General, 2007-08 Budget Estimates hearing, transcript of evidence, 30 May 2007, pp.3-4; Mr D Andrews MP, Minister for Consumer Affairs, 2007-08 Budget Estimates hearing, transcript of evidence, 30 May 2007, pp.3-5; Hon. B Cameron MP, Minister for Police and Emergency Services, 2007-08 Budget Estimates hearing, transcript of evidence, 11 May 2007, pp.4-5; Hon. S Bracks MP, Premier, 2007-08 Budget Estimates hearing, transcript of evidence, 3 May 2007, pp.15-16; Mr J Helper MP, Minister for Agriculture, 2007-08 Budget Estimates hearings, transcript of evidence, 17 May 2007, pp.4-5; Hon. P Batchelor MP, Minister for Energy and Resources, response to the Committee's questions on notice, pp.2-3; Hon. J Madden MLC, Minister for Planning, 2007-08 Budget Estimates hearing, transcript of evidence, 29 May 2007, p.4; Hon. J Thwaites MP, Minister for Water, Environment and Climate Change, 2007-08 Budget Estimates hearing, transcript of evidence, 15 May 2007, p.4; Hon. J Brumby MP, Treasurer, 2007-08 Budget Estimates hearing, transcript of evidence, 4 May 2007, p.5; Hon. T Holding MP, Minister for Finance, WorkCover and Transport Accident Commission, 2007-08 Budget Estimates hearing, transcript of evidence, 31 May 2007, pp.4-5; Hon. P Batchelor MP, Minister for Victorian Communities, 2007-08 Budget Estimates hearing, transcript of evidence, 16 May 2007, p.4