

**LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY**

**REPORT OF THE  
SELECT COMMITTEE ON ADDITIONAL ESTIMATES 1995-96**

**MAY 1996**

## RESOLUTION OF APPOINTMENT

On 16 April 1996 the Legislative Assembly resolved, inter alia, that:

- (1) A Select Committee on Additional Estimates 1995-96 be appointed to examine the expenditure proposals contained in the Appropriation Bill (No. 2) 1995-96 and any other related matters
- (2) The committee be composed of:
  - (a) two members to be appointed by the Government
  - (b) two members to be nominated by the Opposition
  - (c) two members to be nominated by either the Independent Members or the ACT Greens
- (3) The committee report by 6 May 1996
- (4) If the Assembly is not sitting when the committee has completed its inquiry, the committee may send its report to the Speaker or, in the absence of the Speaker, to the Deputy Speaker who is authorised to give directions for its printing and circulation.

On April the Assembly amended the resolution to provide that the committee report by 8 May 1996.

## **COMMITTEE MEMBERSHIP**

Mr Roberta McRae MLA (Chair)  
Mr Trevor Kaine MLA (Deputy Chair)  
Mr Wayne Berry MLA  
Mr Harold Hird MLA  
Mr Paul Osborne MLA  
Ms Kerrie Tucker MLA

### **Secretary**

Bill Symington

### **Assistant Secretary**

Kim Blackburn

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## SUMMARY OF COMMITTEE CONCLUSIONS

1. The committee remains to be convinced that Appropriation Bill (No.2) is necessary. Apart from the reasons given above, the committee is concerned that an appropriation over and above that authorised by the ACT Budget, rather than the transfer of funds by the normal and tested mechanisms available to Government, and which are themselves subject to proper scrutiny by the Assembly, carries the prospect that the Government could spend additional funds up to the limit of the additional appropriation. This was characterised during the hearings as providing a virtual open cheque. (paragraph 2.32)
2. This was given some emphasis in departmental correspondence to the committee that the actual decision on the specific method of funding the appropriation will be made as and when draw downs on the \$14.2 million are required. The point was exemplified by a comment to the effect that the Bill, if passed, would allow the expenditure of any amount between \$1 and \$14.2 million. (paragraph 2.33)
3. Appropriation Bill (No.2), if agreed to by the Assembly, will increase the ACT Budget by \$14.2 million and still leave open the option for the Government to transfer further money by underspending in agency budgets. (paragraph 2.34)
4. It was clear to the committee that while there are clear indications of overspending within DHCC, there is no certainty that the appropriation of \$14.2 million would in fact be directed to that Department or that the sum to be appropriated would necessarily be needed by the end of the financial year. This was suggested in departmental correspondence to the committee. It supports the contention that Appropriation Bill (No.2) is an inappropriate mechanism for funding the DHCC overspending having regard to the measures available to the Government and the avenues available to the Assembly for reviewing such overspending. (paragraph 2.35)
5. The committee is drawn to the conclusion that there have been serious miscalculations and structural weaknesses in the development of the 1995-96 DHCC budget. The committee's position is that projected savings in several areas were optimistic and the Government ought to have been more prudent in its assessment of the gains to be delivered in the current year. (paragraph 3.26)
6. Overall, the conclusion has to be that the DHCC budget was over ambitious having regard to existing and projected activity in WVH and the efforts to reduce waiting lists. The committee restates that it is not opposed to the principle of reducing waiting lists. Indeed this is a wholly desirable objective. But the committee is firmly of the view that such advances should be achieved through due open process and that the Assembly should be confident that when it is asked to approve the Territory budget, that budget will have the strength to stand and deliver the programs established by the Government for the year in question. (paragraph 3.27)

## **OUTLINE OF THE REPORT**

This report is presented in three parts, namely:

### **Part 1 Introduction**

The introduction explains the committee approach to the inquiry, noting the unusual circumstances associated with a second appropriation bill and the very limited time available for an examination of the issues which have given rise to the need for additional funding for the Department of Health and Community Services.

### **Part 2 The Process**

This section of the report deals with the methodology of the second appropriation and its implications. Issues covered are the need for an additional appropriation when other avenues for funding the Health Department overspending are available and are as equally transparent and accountable as an appropriation bill, the net increase in the 1995-96 Territory budget which the second appropriation will allow, and the stated means by which the Health Department overspending on its 1995-96 appropriation will be funded.

### **Part 3 Department of Health and Community Care**

This section explores the reasons behind the Department's overspending on its 1995-95 appropriation and tests the explanations offered by the Chief Minister and officials for the overspending.

# 1. INTRODUCTION

## *Background*

1.1. The committee held public hearings on 23 and 24 April 1996 when the Chief Minister, Treasurer and Minister for Health and Community Care accompanied by officials of the Chief Minister's Department, the Department of Health and Community Care and the Department of Urban Services gave evidence.

1.2. Details of witnesses are in Appendix A.

## *Characteristics of This Inquiry*

1.3. Appropriation Bill (No.2) 1995-96 seeks to provide \$14.2 million out of the Consolidated Revenue Fund for expenditure for services provided by the Department of Health and Community Care (DHCC) in respect of the year ending 30 June 1996.

1.4. The purpose of the Bill is to vary the Department's original appropriation by 4.8% from \$297.1 million to \$311.3 million. When introducing the Bill the Chief Minister informed the Assembly that the appropriation [of itself] will not require the Government to undertake additional borrowings to cover the expenditure of \$14.2 million.<sup>1</sup> The Chief Minister also advised the Assembly and the committee that underspending, predominantly in capital works, as well as the central redundancy pool, and the Treasurer's advance would be the main contributors to the additional Health budget requirement.<sup>2</sup>

1.5. The Chief Minister further advised the Assembly that the three key cost areas identified as requiring the second appropriation related to additional services and throughput totalling \$4.2 million, delay in implementation of the operational efficiency agenda at a cost to the budget of \$8.7 million and \$1.3 million in costs associated with the delays in the sale of Upper Jindalee Nursing Home.<sup>3</sup>

1.6. While it was open to the committee to pursue issues over the wider ACT budget, in the very limited time available for the inquiry it restricted itself to a consideration of the issues causing the blow-out in the DHCC budget, the process whereby an additional \$14.2 million was being sought from the Assembly, and the ramifications of, and the principles involved in, the process employed on this occasion to supplement the budget of an ACT Government agency.

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<sup>1</sup> Assembly Hansard, pp90,91

<sup>2</sup> Hansard, pp55-59, Committee transcript of public hearing, p13

<sup>3</sup> Hansard, p91

1.7. Again having regard to the limited time available for the committee to report on the additional appropriation bill, the committee concentrated more upon the factors leading to the DHCC overspending than on the detail of the overspending across the DHCC program.

1.8. An important consideration for the committee was why the Government has chosen the new and unusual process of seeking an additional appropriation for DHCC instead of funding the Department's overspending by means of the Treasurer's Advance, by transferring funds under the Audit Act or by a combination of these measures.

1.9. As indicated later in this report, the effect of the additional appropriation would be to increase the 1995-96 budget appropriation already approved by the Assembly and open the way for additional spending.

1.10. Accordingly, in addition to its consideration of the DHCC overspending, the committee sought information from the Office of Financial Management on the methodology and implications of the procedure being followed to appropriate the additional DHCC funding and also sought information from the Department of Urban Services about those elements of the approved capital works program which would not proceed in the current financial year.

## **2. THE PROCESS**

### ***Why an Additional Appropriation Bill?***

2.1. The Chief Minister informed the Assembly and the committee that a second appropriation is a more open and transparent mechanism of budget adjustment, the purpose of which is to make an open and accountable statement to the community about the costs of health care and the changes that are needed. The Chief Minister advised that [this approach] reinforces the Government's view that additional funding of the magnitude proposed cannot be and is not treated lightly.<sup>4</sup>

2.2. This point was further emphasised by advice that in some sense the second appropriation is symbolic and is to reinforce the gravity of the issue. The committee was advised that it was undesirable to follow past practices and leave it virtually to the end of the financial year relying on the mechanisms of the Audit Act which are very clumsy, inefficient and not directed to good management.<sup>5</sup>

2.3. The Chief Minister noted that in previous years additional funds had been transferred between agencies by means of the Treasurer's advance and said this practise made artificial cash management arrangements to conceal significant overruns in the Health budget.<sup>6</sup> The Chief Minister also stated that the second appropriation bill

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<sup>4</sup> Hansard, p91, p97 and transcript, p12

<sup>5</sup> transcript, p20

<sup>6</sup> Hansard, p91



gave the Assembly the capacity to look at the funding issue in depth and inferred that the opportunity to examine significant overspending had not been available before.<sup>7</sup>

2.4. The committee is rather puzzled about the superior claims of transparency put forward in relation to Appropriation Bill (No.2) and the claim that this process allows for a greater degree of intrusive examination by the Assembly than has been the case in the past.

2.5. Each year the Assembly establishes a select committee on estimates which subjects agency budgets for the forthcoming year to intense scrutiny. The estimates committee also critically reviews the performance of agencies during the previous budget year.

2.6. In other words, to the extent that in the past additional funds have been transferred to agencies under Treasurer's Advance or under the Audit Act to supplement their budget overspending, the transfer of funds between appropriations has been subject to rigorous examination by the estimates and budget review committees. Thus the transfer of additional funds to agencies has not only been covered by properly executed warrant, but has also been exposed to a transparent public process of justification.

2.7. It should be noted that the estimates and budget review committees have generally involved virtually all non-executive Members of the Assembly and they have not been constrained in testing agency claims or in searching out information relative to the estimates or agency performances. There has been no scope for artificial concealment of financial transactions either in committee or in the Assembly debates on the estimates and budget review.

2.8. Further it is always open to the Assembly to refer any Audit Act transfers to the Standing Committee on Public Accounts or another Assembly committee for examination and report.

2.9. The Chief Minister made it clear to the Assembly and the committee that the second appropriation bill was as much a tool for achieving more efficient agency management as anything directly concerned with transparency.<sup>8</sup> Desirable as it undoubtedly is to keep agency management on its toes, the committee has reservations as to whether the budget process is an appropriate way to pursue and achieve administrative efficiencies.

### ***A Net Increase in the 1995-96 Territory Budget***

2.10. The effect of an additional appropriation as proposed by the bill under review by the committee is to authorise the expenditure of funds over and above the Territory Budget approved by the Assembly under the original appropriation Act. This was acknowledged by the Chief Minister and by officials.<sup>9</sup>

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<sup>7</sup> Transcript, p14

<sup>8</sup> Hansard, pp93,94 and transcript, pp9,10

<sup>9</sup> Transcript for example pp15-17, 21 and 23

2.11. The committee noted the Chief Minister's statement to the Assembly and in Appropriation Bill (No.2) that the additional appropriation would be funded from within the total Territory Budget<sup>10</sup> The Chief Minister advised that there were more than sufficient funds available within the total ACT Budget to accommodate the \$14.2 million sought by Appropriation Bill (No.2), but did qualify this by saying that there is not expected at this stage to be any change in the level of borrowings compared with that projected at the time of the budget.<sup>11</sup>

2.12. However, the Chief Minister and officials were more guarded when probed about the sources of the additional funding. The committee was advised that at this stage it is not prudent to be definitive about the exact source of the \$14.2 million.<sup>12</sup> The committee was further advised that there was no specific formal documentation at this stage on funding the additional appropriation and the possibility that borrowings may be an option in the future was not ruled out. However, this would be undesirable and unexpected but had to be kept in mind if there was to be a great decline in the (ACT) economy.<sup>13</sup> The Chief Minister acknowledged that revenue projections were tight<sup>14</sup> and the committee was advised that revenues were the key to budget outcomes. In this context, the committee was advised that as long as funds were appropriated the Government could borrow to the limits of those appropriations.<sup>15</sup>

2.13. Officials also indicated that other agency budgets may exceed their estimates, albeit marginally, and that it was hoped to report to the Assembly by May on transactions up to the period of April.<sup>16</sup>

### ***Funds Transfers by Treasurer's Advance and the Audit Act***

2.14. Section 47(2) of the Audit Act enables expenditure in excess of a particular appropriation to be charged to the Minister's (ie Treasurer's) advance subject to the limit of the amount appropriated to the advance. Section 47 (3) of the Act enables the Executive, in certain circumstances, to increase the Treasurer's advance by not more than 5% of the total appropriation provided by Appropriation Acts. This section relates to situations where revenue is expected to exceed estimates and is not intended to enable the use of reserves or additional borrowings to justify an increase in the advance.

2.15. It has been the practice in the ACT to fund agency overspending through the Treasurer's advance. Contrary to assertions made to the Assembly and the committee,<sup>17</sup> the committee maintains that the transfer of funds by these means within

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<sup>10</sup> Hansard p90 and Overview Appropriation Bill (No.2) 1995-96,

<sup>11</sup> Transcript, pp12,13

<sup>12</sup> *ibid*,p13

<sup>13</sup> Executive Director, Office of Financial Management, letter dated 23 April 1996, and transcript, pp27,28

<sup>14</sup> transcript, pp28,29 and 43 for example

<sup>15</sup> *ibid*, p44

<sup>16</sup> *ibid*, pp25.26

<sup>17</sup> viz Hansard p91, p97 and transcript, p12

the global budget has been subject to scrutiny by the Assembly and the estimates and review committees, although the committee recognises that such reviews have been made ex post facto.

2.16. The Chief Minister advised that the Treasurer's advance has not previously been used to accommodate, nor should it be used to accommodate, funding at the level of \$14.2 million, and further advised that this sum exceeded the \$12 million allocated to the Treasurer's advance in the 1995-96 budget.<sup>18</sup> However, the Chief Minister acknowledged that budget variations of this size have been made through Executive action without reference to the Assembly.<sup>19</sup>

2.17. The committee observes that there is precedent for using the Treasurer's advance for purposes similar to that proposed with the additional appropriation bill and for sums of similar magnitude. The committee also notes that proposed funding of the \$14.2 million overspending by DHCC will in fact be partly done via the Treasurer's advance,<sup>20</sup> and that the Treasurer's advance is an appropriate mechanism to fund budget blow-outs.<sup>21</sup>

2.18. The issue, so far as the Treasurer's advance is concerned, is whether there are sufficient funds in the advance to cover sums of the magnitude proposed to be appropriated by the second appropriation bill. The committee was advised that of the \$12 million allocated to the Treasurer's advance, around \$600,000 has been spent to date,<sup>22</sup> and observes that the funds remaining come close to meeting the anticipated overspending by DHCC. The committee notes that the Treasurer's advance is for unforeseen expenditures and that there could be a potential problem in allocating the total reserve to meeting the DHCC overspending.<sup>23</sup>

2.19. However, elsewhere in this report the committee has noted the degree of uncertainty as to the extent of DHCC overspending and the range of areas from which the estimated overspend of \$14.2 million can be drawn. In particular there will clearly be a significant under-expenditure in the capital works program.

2.20. These considerations lead the committee to the view that the availability of funds in the capital works program and the Treasurer's advance alone are sufficient to justify the transfer of necessary funds to the DHCC budget from those sources by means of the Audit Act, and thus avoid the necessity of increasing the overall Territory budget through the additional appropriation bill, with all the implications that action holds for additional borrowings and expenditures.

2.21. Section 49 of the Audit Act enables transfers between appropriations to accommodate changes to budget priorities. It is subject to the transfers being budget neutral and to a limit of 3% of any appropriation affected by the transfer. The Chief Minister acknowledged that the Government could have transferred \$7.3 million

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<sup>18</sup> transcript, p11

<sup>19</sup> *ibid*, p12

<sup>20</sup> Hansard, pp55-59, and transcript, p13

<sup>21</sup> transcript, p35

<sup>22</sup> *ibid*, p36

<sup>23</sup> *ibid*, p37

[representing 3%] of the Department of Urban Services appropriation towards meeting the DHCC overspending, but advised that having been personally critical of such action in the past it would have been an inappropriate action in this case.<sup>24</sup>

2.22. There was spirited debate between the committee, the Chief Minister and officials about the use of the Audit Act to transfer appropriated funds between agencies. However, the bottom line as it emerged was that the use of the Audit Act for this purpose is lawful.<sup>25</sup>

### ***Precedents in other Parliaments***

2.23. The Commonwealth Government has a long tradition of second appropriations or revised estimates. The committee was advised that the Tasmanian Government - which was offered as the only other jurisdiction which appropriated budget adjustments - does so after the end of the financial year to which it relates and it is therefore of little value as a precedent for Appropriation Bill (No.2).<sup>26</sup>

2.24. The Commonwealth reviews its budget during the course of the financial year. This usually occurs in the December/January period (mid-year review) and again, on a lesser scale, in May. In the mid-year review, all departments review budget estimates based on performance to date and have an opportunity to seek additional estimates or a re-allocation of estimates. The May review is normally limited to obtaining an accurate estimate of the end of year outcome and does not involve an additional/revised estimates process. Requests for additional estimates in the mid-year review are normally subject to the condition that offsetting savings are found and offered up.

2.25. The Commonwealth adopts, as a normal practice, the introduction of additional Appropriation Bills (usually Appropriation Bills Nos. 3 and 4 ) as a consequence of the mid-year review of the budget. Variations to budget are identified by these bills which appropriate additional money out of the Commonwealth Revenue Fund. They do not reduce any original appropriations.

2.26. The additional appropriations do not necessarily add to outlays. In some cases, depending on budget circumstances, the additional appropriation can be fully offset by savings against the original Appropriation Acts.

2.27. The committee was advised that normally only about 10% of the Commonwealth budget is equivalent in terms of the ACT appropriations.<sup>27</sup>

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<sup>24</sup> *ibid*, p13

<sup>25</sup> *ibid*, p30, but see also pp19-39, and especially p31

<sup>26</sup> *ibid*, p21

<sup>27</sup> *ibid*

## **Capital Works Program**

2.28. Expenditure on the 1995-96 budget funded Capital Works Program is estimated at \$96.9 million compared to the budget estimate of \$111 million and the committee was provided with a summary of variations to the program, including reasons.<sup>28</sup>

2.29. Major delayed or abandoned projects include the Acton Peninsula demolition (\$2,885m), Holder High School refurbishment (\$1m), North Watson Infrastructure Stage 1 (\$1.13m), North Watson Estate servicing (\$1.2m), Woden Valley Hospital projects (\$1.729m), Moreshead Drive Stage 2 (\$1.1m), Supreme Court refurbishment (\$1.115m), Campbell Section 5 Estate servicing (\$0.9m), York Park infrastructure (\$0.833m), Playhouse Theatre (\$0.6m), Condor Distributor (\$0.7m), and Aboriginal Cultural Centre (\$0.2m).<sup>29</sup>

2.30. The committee accepts that reductions in scope, reviews, re-definitions, re-design and changes to land use can delay the commencement of projects. In some cases projects - such as those relating to the Acton/Kingston land swap - have been delayed by inquiries such as that being undertaken by the Assembly Standing Committee on Planning and Environment.

2.31. However, the committee has concerns about the ramifications for future budgets in swapping around funds between the capital works program of the magnitude proposed by Appropriation Bill (No.2). Most of the capital works mentioned in the variations to the program will need to be rescheduled next year, and especially those which have started but have yet to have incurred significant expenditures. If these projects are not to fall off the agenda, funds will need to be re-appropriated in the 1996-97 budget.

## **Committee Conclusions**

2.32. The committee remains to be convinced that Appropriation Bill (No.2) is necessary. Apart from the reasons given above, the committee is concerned that an appropriation over and above that authorised by the ACT Budget, rather than the transfer of funds by the normal and tested mechanisms available to Government, and which are themselves subject to proper scrutiny by the Assembly, carries the prospect that the Government could spend additional funds up to the limit of the additional appropriation. This was characterised during the hearings as providing a virtual open cheque.<sup>30</sup>

2.33. This was given some emphasis in departmental correspondence to the committee that the actual decision on the specific method of funding the appropriation

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<sup>28</sup> 1995-96 Capital Works Program, Performance Summary, Dept Urban Services/Office of Financial Management

<sup>29</sup> *ibid*

<sup>30</sup> Transcript, p43

will be made as and when draw downs on the \$14.2 million are required.<sup>31</sup> The point was exemplified by a comment to the effect that the Bill, if passed, would allow the expenditure of any amount between \$1 and \$14.2 million.<sup>32</sup>

2.34. Appropriation Bill (No.2), if agreed to by the Assembly, will increase the ACT Budget by \$14.2 million and still leave open the option for the Government to transfer further money by underspending in agency budgets.

2.35. It was clear to the committee that while there are clear indications of overspending within DHCC, there is no certainty that the appropriation of \$14.2 million would in fact be directed to that Department or that the sum to be appropriated would necessarily be needed by the end of the financial year. This was suggested in departmental correspondence to the committee.<sup>33</sup> It supports the contention that Appropriation Bill (No.2) is an inappropriate mechanism for funding the DHCC overspending having regard to the measures available to the Government and the avenues available to the Assembly for reviewing such overspending.

### 3. DEPARTMENT OF HEALTH AND COMMUNITY CARE

3.1. As indicated above, Appropriation Bill (No.2) is wholly concerned with additional funding for cost overruns totalling \$14.2 million in the DHCC budget for 1995-96.

3.2. Appropriation Bill (No.2) gives details of revised 1995-96 estimates for all programs and sub-programs within the DHCC portfolio, although the programs requiring additional funding are those relating to Woden Valley Hospital (WVH) (program 5.1) and Residential Services (program 5.3.9).

3.3. The committee examined the basis for the \$14.2 million additional appropriation, and was advised it comprises:<sup>34</sup>

- increased demand on WVH in-patient services	\$3.2m
- back-payment of Visiting medical Officer (VMO) Superannuation guarantee costs following a ruling by the Tax Office	\$0.6m
- medical costs incurred in 1995-96 for services provided in 1994-95 in relation to higher service levels	\$0.4m

<sup>31</sup> Executive Director, Office of Financial Management, op cit

<sup>32</sup> Transcript, p167

<sup>33</sup> Executive Director, Office of Financial Management, op cit

<sup>34</sup> 1995-96 Budget Build-Up. Paper presented to the committee by the Chief Minister, 23 April 1996

- delays in achieving savings from operational efficiency review (Booz Allen Hamilton review) due to industrial issues	\$4.1m
- delay in achievement of VMO savings	\$2.8m
- non-achievement of the full amount of productivity savings in relation to the second enterprise bargaining agreement	\$1.2m
- delay in achieving efficiencies in the provision of services to people with disabilities as a result of industrial issues	\$0.6m
- delays in the sale of Upper Jindalee Nursing Home and additional staff costs	<u>\$1.3m</u>
Total	\$14.2m

3.4. The Chief Minister advised that in developing the 1995-96 DHCC budget [and in the context of the 3 year budget] the Government took account of known cost pressures and identified savings targets.<sup>35</sup> With the 1994-95 actual DHCC budget at \$288.148 million, the 1995-96 budget was constructed by identifying the cost pressures as follows:<sup>36</sup>

- indexation	\$3.0m
- FYE of funded portion of 2nd enterprise bargaining agreement	\$5.0m
- previous Government commitments (including pay increases through 2nd enterprise bargaining agreement)	\$5.865m
- non-discretionary pressures (including Comcare premium)	\$5.9m
- major election commitments (including waiting list throughput)	\$2.8m
- joint Commonwealth/ACT initiatives	\$3.3m
- other (cost of Booz Allen Hamilton)	<u>\$1.3m</u>
Total	\$27.165m

3.5. The Chief Minister advised that the Government did not believe that this total of cost pressures was acceptable to tax payers given the high cost of ACT health services when benchmarked against other States and Territories. Accordingly, the

<sup>35</sup> transcript, p3

<sup>36</sup> 1995-96 Budget Build Up, op cit

Government looked for savings to offset the \$27.165m<sup>37</sup> and these were enumerated for the committee as follows:<sup>38</sup>

- VMO contracts	\$3.0m
- operational efficiency review (Booz Allen Hamilton)	\$5.5m
- productivity measures towards 2nd enterprise bargaining	\$2.465m
- targeted reductions at Calvary Hospital	\$0.3m
- disability savings	\$0.5m
- CMPs	\$0.3m
- sale of Kippax Health Centre	\$0.08m
- sale of Jindalee (operating expenses gap)	\$0.3m
- central office reduction	\$0.7m
- Totalcare cost reductions	\$0.1m
- inventory savings in supply at WVH	\$0.1m
- absorb CPI cost increase	\$3.0m
- absorb fleet increase, reduce repairs and maintenance costs, reduce temporary staff	<u>\$0.92m</u>
Total	\$17.265m

3.6. Taking the above expected savings into account, the 1995-96 DHCC budget was set at \$297.038million, a figure which the Chief Minister advised was achievable, although tight,<sup>39</sup> and this amount was appropriated by the Assembly.

3.7. However, the Chief Minister advised that the expected savings have not been delivered in *toto*. Savings not produced totalled \$8.98million and were due to delay in achieving VMO savings, delay in achieving savings from the Booz Allen Hamilton review due to industrial issues, non-achievement of the full amount of productivity savings in relation to the 2nd enterprise bargaining agreement, delay in achieving efficiencies in disability services as a result of industrial issues, delays in the sale of Upper Jindalee Nursing Home plus additional staff costs and deferral of the sale of Kippax.<sup>40</sup> With the exception of the Kippax costs, these non achieved savings are included in the table in paragraph 3.3 above.

3.8. In its approach to the additional appropriation, the committee gave particular attention to the increased activity levels, including demand for in-patient services and waiting lists at WVH and delays in achieving expected savings.

3.9. During the course of the day devoted to the hearings on these matters there was extensive and substantial argument as to the merits or otherwise of maintaining and expanding activity levels at WVH and the costs of doing so in the context of the three year DHCC budget strategy which provides for substantial cutbacks in both actual and real terms in each of the years 1996-97, 1997-98 and 1998-99.<sup>41</sup> The committee notes that the first, and current, budget in the three year series has blown

<sup>37</sup> transcript, pp7,8

<sup>38</sup> 1995-96 Budget Build Up, op cit

<sup>39</sup> transcript, p9

<sup>40</sup> *ibid*, p74

<sup>41</sup> 1995-95 Budget Paper No4, p90



out by 4.8% and the question was asked whether the increase will be part of the budget for 1996-97.

3.10. The committee was advised that the \$14.2million will have to be taken into account in looking at the forward estimates and that some elements of the increase will be included in the next budget. The committee was advised that the cost pressures of the \$14.2million have to be taken into account in building up the next budget.<sup>42</sup>

3.11. The committee notes that ACT diagnosis related group (DRG) costs are of the order of 30% higher than the national average. The committee was advised that if the ACT is to bring its costs down to national averages it will be capable of treating a greater number of patients a year and be able to reduce hospital waiting lists.<sup>43</sup>

3.12. It has been the DHCC strategy to increase hospital admissions and by the end of this financial year WVH is expected to have handled an increase in admissions of 7%. Progress in this direction has impacted upon sessional payments to VMOs, pharmaceuticals and medical supplies at an estimated cost of \$3.2million.<sup>44</sup> The committee was advised that the marginal cost of treating additional patients at WVH is \$2,000. Most of these additional patients are day patients,<sup>45</sup> and the committee was advised that this year 52.5% of total patients at WVH will be day patients.<sup>46</sup> The committee was further advised that the average [marginal] cost of a day patient is \$1,000.<sup>47</sup>

3.13. However, the committee notes that an extra \$2million put into the budget this year to reduce the waiting list has allowed around 600 patients to be seen. Of that sum, \$230,000 went to extra equipment to improve operating theatre efficiency at WVH, and \$750,000 was directed towards people who had been on the waiting list for seriously long periods of time.<sup>48</sup>

3.14. The increase in patient levels and reductions in the waiting lists have essentially been decisions taken without due regard to the Health budgetary situation determined by the three year forward estimates. The effect has been to blow out the current budget and it leads the committee to the view that either there was insufficient consideration given to these factors at the time of the budget formulation or that the budget forecasts have been overly optimistic.

3.15. It is not the view of the committee that beds should be closed. That is an issue for judgement having regard to available funding and competing claims for scarce resources. The committee's position is that proper consideration ought to be given to matters such as patient levels and beds at the time of budget preparation and in the

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<sup>42</sup> transcript, p155

<sup>43</sup> *ibid*, p145

<sup>44</sup> Overview, Appropriation Bill (No.2) 1995-96,

<sup>45</sup> transcript, p57

<sup>46</sup> *ibid*, p58

<sup>47</sup> *ibid*,

<sup>48</sup> *ibid*, p60

light of the capacity of WVH to handle patient numbers with the resources which are available.

3.16. The Chief Minister advised the committee that while closing beds and/or allowing waiting lists to blow out were options which were not chosen; rather the choice was to take the operational efficiency approach by bringing down the cost of treating a patient.<sup>49</sup>

3.17. While the committee has no argument with this, it does proffer the view that the containment of costs *per se* has been the basic motivation for the budget and industrial relations, which are a key element in the cost of treating patients, appear to have been given relatively scant consideration. The committee sees this lack of sensitivity in staff management as a major obstacle in achieving needed economies in the DHCC budget, and notes that the evidence for this comment is readily apparent in the second appropriation bill.

3.18. With regard to industrial relations reforms resulting from the Booz Allen Hamilton review it is clear to the committee that projected savings of \$5.5million were again overly optimistic. The Chief Minister confirmed this, and indicated that reaching enterprise agreements is a substantially more complex and time consuming matter than would appear on the surface.<sup>50</sup>

3.19. The non-achievement of VMO savings under the new contracts has already been debated at length in the Assembly and the committee has not revisited that debate in this examination of the additional estimates other than to note that the projected savings were very optimistic and that their non delivery at \$2.8million is a significant contributor to the second appropriation.

3.20. With regard to the back payment of the VMO superannuation guarantee costs, the committee accepts that these have been unexpected imposts on the DHCC budget.

3.21. The committee explored aspects of the sale of Upper Jindalee Nursing Home. It was noted that in normal circumstances the Commonwealth contribution under the Standard Aggregate Model (SAM) towards the care of nursing home residents would be an important factor in determining the market value of an operational nursing home. Factors bearing upon the sale price of Jindalee were whether the prospective purchaser would be prepared to undertake necessary investment to upgrade the facility and operate it with direct Commonwealth contributions per resident or whether a purchaser would offer a higher amount and require the ACT Government to upgrade the facility and provide ongoing supplementation to cover the difference in SAM income.<sup>51</sup>

3.22. In this case the successful tender, while lower than other offers, included an investment of \$700,000 to upgrade the facility and did not seek top up of the SAM.<sup>52</sup>

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<sup>49</sup> *ibid*,p139

<sup>50</sup> *ibid*, p83

<sup>51</sup> *ibid*, pp76,77

<sup>52</sup> *ibid*, p77

3.23. While the committee accepts that the sale of Jindalee has been achieved on mutually favourable terms to both the Territory and the buyer, some concern was expressed within the committee during the hearings that the quality of service could be affected adversely without supplementation of SAM funding.<sup>53</sup>

3.24. In response, the Chief Minister advised that should the operator of Jindalee not reach Commonwealth quality outcomes they would not be funded by the Commonwealth.<sup>54</sup>

3.25. The committee is satisfied that the costs involved in the delay of the sale of Jindalee, namely \$1.3million, are justified in the circumstances.

### **Committee Conclusions**

3.26. The committee is drawn to the conclusion that there have been serious miscalculations and structural weaknesses in the development of the 1995-96 DHCC budget. The committee's position is that projected savings in several areas were optimistic and the Government ought to have been more prudent in its assessment of the gains to be delivered in the current year.

3.27. Overall, the conclusion has to be that the DHCC budget was over ambitious having regard to existing and projected activity in WVH and the efforts to reduce waiting lists. The committee restates that it is not opposed to the principle of reducing waiting lists. Indeed this is a wholly desirable objective. But the committee is firmly of the view that such advances should be achieved through due open process and that the Assembly should be confident that when it is asked to approve the Territory budget, that budget will have the strength to stand and deliver the programs established by the Government for the year in question.



Roberta McRae  
Chair

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<sup>53</sup> *ibid*, p79

<sup>54</sup> *ibid*

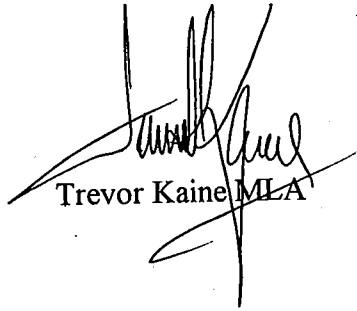
**DISSENTING OPINION ON THE REPORT OF THE SELECT COMMITTEE  
ON ADDITIONAL ESTIMATES 1995-96**

**BY**

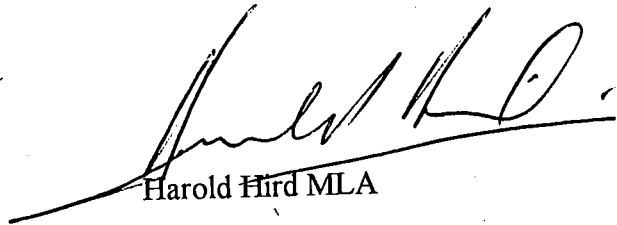
**MR TREVOR KAINE MLA AND MR HAROLD HIRD MLA**

1. The committee report deals at length with the question of whether it is appropriate for the Chief Minister to use a second Appropriation Bill to obtain Assembly approval of an additional \$14.2M for the Department of Health and Community Care budget, rather than using alternative means available under the Audit Act. The committee's report of the proceedings include such statements as:
  - (a) "...the committee has reservations as to whether the budget process is an appropriate [emphasis added] way to pursue and achieve administrative efficiencies..." (para 2.9)
  - (b) "...the bottom line as it emerged was that the use of the Audit Act for this purpose is lawful [emphasis added]" (para 2.22)
  - (c) "the committee remains to be convinced that Appropriation Bill (No.2) is necessary [emphasis added]" (para 2.32)
2. The use of such words as "appropriate", "lawful" and "necessary" is interesting. It raises such questions as:
  - (a) Is the use of a second Appropriation Bill inappropriate or in some way unlawful?
  - (b) Does the use of a mechanism deemed by the committee to be inappropriate or unnecessary (provided that it is lawful) mean that it is in some way reprehensible?
3. The committee's conclusions at paragraphs 3.26 and 3.27 are silent on these issues, despite that a considerable part of the report discusses them. We conclude, therefore, that we have here merely a difference of opinion as to "appropriateness" or "necessity", but no contention that the mechanism used is "unlawful". In these circumstances we distance ourselves from the implication in the report that the Chief Minister is somehow in error.
4. The Chief Minister explained fully to the committee her reasons for using an Appropriation Bill. In essence, this was to achieve open, comprehensive discussion of the budgetary actions she proposed to take before the event rather than afterwards. We believe that the contention is clearly demonstrable as being more transparent, and therefore in the public interest, than the alternative mechanism which appears to be favoured by the majority of the committee.

5. In our opinion, the Chief minister should be commended for her willingness to be subjected to the intensive questioning which is a feature of estimates committees before the budgetary actions are taken. Through this process, there can be no doubts about what is to be done or why it is to be done. It is, therefore, an effective mechanism which is appropriate, lawful and, in the interests of public scrutiny, necessary.



Trevor Kaine MLA



Harold Hird MLA

## **Appendix A**

### ***Witnesses at Public Hearings***

#### **Tuesday 23 April 1996**

Mrs K Carnell MLA	Chief Minister, Treasurer and Minister for Health and Community Care
Mr J Walker	Chief Executive, Chief Minister's Department
Mr M Lilley	Executive Director, Office of Financial Management
Mr N Morgan	Director, Budget Management, OFM

#### **Wednesday 24 April 1996**

Mrs K Carnell MLA	Chief Minister, Treasurer and Minister for Health and Community Care
Mr D Butt	Chief Executive, Department of Health and Community Care
Mr A Hughes	Chief Executive, Woden Valley Hospital
Ms V Busted	General Manager, Community Care
Mr M Lilley	Executive Director, Office of Financial Management
Mr N Morgan	Director, Budget Management, OFM
Mr J Turner	Chief Executive, Department of Urban Services