

## ACRONYMS AND NOTES

AAO	Administrative Arrangements Order
AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
AEIFRS	Australian Equivalents to International Financial Reporting Standards
Agency/entity	Has the same meaning as <i>corporate Commonwealth entity</i> and <i>non-corporate Commonwealth entity</i> within the <i>Public Governance, Performance and Accountability Act 2013</i>
ASL	average staffing level
CRF	Consolidated Revenue Fund
Finance Minister	Minister for Finance
GFS	Government Finance Statistics
GGs	general government sector
IMF	International Monetary Fund
MoG	machinery of government
PGPA Act	<i>Public Governance, Performance and Accountability Act 2013</i>
SPPs	Specific Purpose Payments

The following notations are used in this Budget Paper:

-	nil estimates of expenditure
na	not applicable (unless otherwise specified)
\$m	millions of dollars
\$b	billions of dollars

## PREFACE

In 2017-18, Australian Government agencies will have responsibility for administering approximately \$464.3 billion in expenses.

Budget Paper No. 4 sets out the funding for agencies, their funding sources and the purposes of that funding under Outcome statements for each agency in the general government sector (GGS)<sup>1</sup>.

Additionally, information is provided on the staffing of agencies delivering services to the Australian community. Taken together, the information in Budget Paper No. 4 shows the full allocation of resources across government.

### **A SMALLER, SMARTER AND MORE SUSTAINABLE GOVERNMENT SECTOR**

The Australian Government is transforming the way services are delivered and how government operates to create a smaller, smarter and more productive, sustainable public sector, better positioned to respond to the challenges of a rapidly changing environment and the continued need for fiscal discipline.

Since 2013, initiatives such as the Smaller Government Agenda, Contestability, Operation Tetris, and the Efficiency Dividends have generated efficiencies of around \$7.6 billion in savings. The size of the GGS has also reduced. The average staffing level (ASL) estimate for 2017-18 has declined by more than eight per cent compared to the 2011-12 peak of 182,505.

Building on these initiatives, the Government will continue to invest in transforming the Commonwealth public sector and its traditional operating models to drive productivity and achieve greater value for public money. The Government is investing to enable a more adaptive and productive public service, able to respond quickly and expertly to emerging priorities, while remaining trusted, capable and high performing.

This Budget contains a number of initiatives that lay the foundation for improving public sector productivity. These initiatives will support the continued delivery of high quality, value for money policies, programs and services for the benefit of citizens and business, in a more sustainable way.

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<sup>1</sup> Government departments and agencies that provide non-market public services and are funded mainly through taxes (2017-18 Budget, Budget Paper No. 1, Statement 10, Appendix A).

## *Preface*

The Government provided \$500 million from the Efficiency Dividend, announced in the 2016-17 Budget, to establish the Modernisation Fund. The Government has announced specific initiatives in the 2017-18 Budget, to allocate the Modernisation Fund to reforms that deliver quality government services at lower cost and use leading technology and collaborative approaches to address complex problems facing society.

The Fund will support initiatives to enhance productivity and innovation in the Commonwealth public sector by:

- improving policy, programs and service delivery through the better use of government data to assist in delivering a more productive economy – \$161.5 million;
- streamlining and improving access to government services – \$64.6 million;
- investing in more efficient corporate services and strengthening the Australian Public Service (APS) workforce capability – \$123.9 million; and
- supporting agencies to make necessary adjustments to their operations so that they continue to deliver a high quality service in a sustainable way – \$150.0 million.

Further information on key individual elements of the Fund are described below.

### **Transforming the use of government data to deliver a more productive economy**

Through the Data Integration Partnership of Australia, the Government will transform the analysis of public data to improve policy and program implementation and expenditure. Integrating data from across government, and providing access via a single entry point will reduce duplication, encourage efficiency, and lead to long-term reform in data collection and use. Through enhanced data analytics, the Government will be able to design better-targeted and more effective services in education, social services, health and aged care.

Funding will also be provided to the Commonwealth Scientific and Industrial Research Organisation (CSIRO) to expand the role of Data61, Australia's leading digital research network. This funding will deliver a data integration platform that supports law enforcement and regulatory agencies to better detect, prevent and disrupt illicit activities within Australia and overseas. Geoscience Australia will deliver a platform that provides insights from satellite data into the changing Australian landscape and coastline. This will benefit industry, researchers and the Australian community.

### **Streamlined and improved access to government services**

The Digital Transformation Agency (DTA) will reduce duplication between agencies and improve the user experience when accessing Government services online.

Improved services will include: 'Tell Us Once' systems, to reduce the need to report similar information to multiple agencies; allowing users to choose how they receive notifications from government; and standardising agency access to the Reserve Bank of Australia payment systems.

The DTA will also develop a Federated Data Exchange platform that removes the need to build and maintain bespoke point-to-point data exchanges between agencies, while still complying with privacy and security requirements.

### **Investing in corporate service delivery and workforce capability**

The Modernisation Fund will accelerate the transition of agencies to shared corporate services arrangements, and the consolidation of the administration of business and community grants. This will support an additional 60 agencies to consolidate their core transactional corporate services (financial and human resources) and associated back office information technology (IT) systems into one of six corporate service hubs. This will mean that, by 30 June 2021, around 97 per cent of the ASL in scope for the Shared and Common Services Program will be receiving services from one of the hubs.

In addition, by 30 June 2019, around 74 per cent of existing grant programs will be delivered via the Community and Business Grants Hubs. Ongoing benefits and efficiencies will be realised through this consolidation, including the standardisation of business processes and reduced red tape for businesses and the community.

Funding will also be provided to drive further uptake of Behavioural Economics, to improve the development of evidence-based policy, and to support digital skill training for public sector staff.

### **Supporting agencies to make necessary adjustments to their operations to continue to deliver a high quality service in a more sustainable way**

The Modernisation Fund will provide funding to agencies to adopt more sustainable business models and renew ageing assets. This includes upgrades to infrastructure for a number of cultural institutions including Old Parliament House and the Australian National Maritime Museum, as well as support for the replacement of facilities for the Torres Strait Regional Authority land and sea management facility on Thursday Island. This adds to initiatives announced in the 2016-17 Mid-Year Economic and Fiscal Outlook, including \$16.4 million of funding from the Modernisation Fund for the National Library of Australia to expand its digitisation work, and \$4 million to the Australian War Memorial.

### **Collaboration through IT platforms**

The Government will invest in Whole-of-Government IT systems to: automate records management; redevelop the CabNet system; improve Budget processes and deliver real-time briefing products to Ministers.

## **Government's Decentralisation Program**

The Government's Decentralisation Program is prioritising the decentralisation of non-policy Commonwealth entities to regional areas. The intent is to promote job creation, economic diversification and broaden the diversity of public sector personnel to better reflect the distribution and make-up of Australia's population. Decentralisation of appropriate non-policy entities will enhance existing linkages between entities and key stakeholders in the regions. Business cases for entities being considered for relocation are expected to be completed by December 2017.

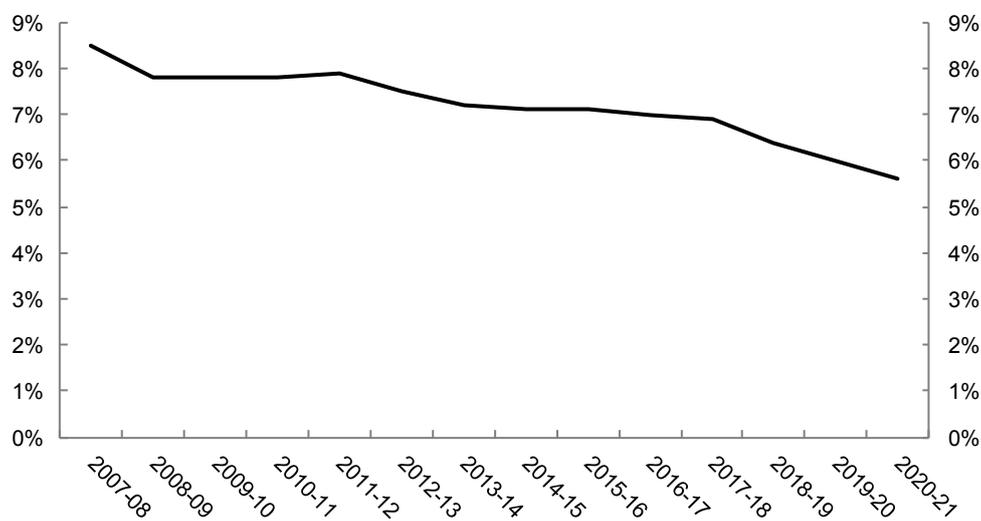
Decentralisation decisions will be based on a set of standard criteria that will include:

- the supply of skills or policy connection between the potential host regions and the operations of specific entities;
- telecommunications capability, services and infrastructure available to support the relocation of entities and accommodate their staff; and
- specialist staff retention and associated impacts on the specific entity performance.

## **AN EFFICIENT AND RESPONSIVE GOVERNMENT**

In recent years, the Government has implemented initiatives such as the Smaller Government Agenda, including the commitment to maintain more affordable staffing levels, Contestability reforms, Operation Tetris, the Shared and Common Services Program and the Digital Transformation Agenda, which together with the Efficiency Dividend, have delivered a more streamlined and responsive government sector. Graph 1 shows that departmental expenses (excluding Defence operations and the National Disability Insurance Agency) as a proportion of total GGS expenses decreased from 8.5 per cent in 2007-08 to 7.1 per cent in 2015-16, and is expected to further decrease over the current budget and forward estimates period to 5.6 per cent by 2020-21.

**Graph 1: Departmental Expenses as a percentage of total Government Expenses<sup>(a)</sup>**



(a) Expense data from 2007-08 through to 2015-16 is derived from Consolidated Financial Statements (CFS). From 2016-17 onwards, expense data reflects revised budget and forward estimates as at 2017-18 Budget.

## Structure of Government

The rationalisation phase of the Smaller Government agenda is now largely complete, following delivery of a comprehensive package of Smaller Government reforms. This phase, which has included consolidating, merging and abolishing bodies, is estimated to achieve \$1.5 billion in savings. To actively manage the size and shape of government going forward, the Commonwealth Governance Policy requires sunset or review dates to be set for the creation of new Commonwealth bodies.

The Government is reviewing options to ensure that the necessary rigour and discipline is in place to effectively manage the structure and size of government and the creation of new bodies into the future.

## Functional and Efficiency Reviews

Through the Functional and Efficiency Reviews, the Government has systematically reviewed functions provided by government and assessed whether the purpose of these functions align with key policies and priorities. Functional and Efficiency Reviews have delivered independent advice on opportunities to remove inefficiency, promote contestability where alternative options for program delivery exist, or reduce lower priority expenditure, so that finite public resources focus on the activities that matter most.

Since the 2016-17 Budget, the Government has undertaken a further eight Functional and Efficiency Reviews to assess whether their functions align with contemporary priorities and are delivered by the most efficient mechanisms.

## Preface

Most Commonwealth portfolios and departments, and several major agencies (excluding the Department of Defence), have now been reviewed through the 21 Functional and Efficiency Reviews commissioned since 2014-15. This represents a significant proportion of all Commonwealth departmental funding considered through the Functional and Efficiency Review Program.

The Department of Defence has separately been subject to a First Principles Review.

Announced outcomes of Functional and Efficiency Review outcomes have achieved savings of around \$5 billion from 2014-15 to 2020-21 – with around a further \$14 billion over the period 2021-22 to 2026-27, through streamlining programs, improving span of control, systems and compliance processes, and terminating legacy programs.

**Table: Completed Functional and Efficiency Reviews**

Department/Agency	Department/Agency
Agriculture and Water Resources	Health
Attorney-General's	Human Services
Australian Bureau of Statistics	Immigration and Border Protection
Australian Federal Police	Industry, Innovation and Science
Australian Taxation Office	Infrastructure and Regional Development
Bureau of Meteorology	Murray Darling Basin Authority and water related functions within other Australian Government agencies.
Education and Training	Prime Minister and Cabinet
Employment	Social Services
Environment	Treasury
Finance	Veterans' Affairs, including the Australian War Memorial
Foreign Affairs and Trade	

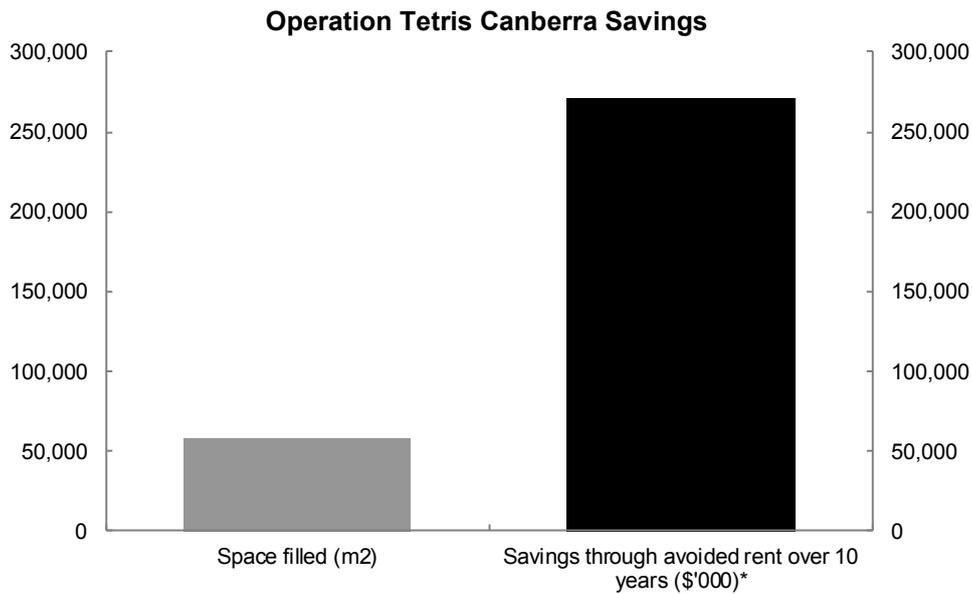
## Other Productivity Initiatives

- **Digital Transformation Agenda.** The Government will increase the uptake of cloud systems and shared IT platforms to deliver secure services in a streamlined way. The DTA will continue to lead the Whole of Government Information and Communications Technology (ICT) and digital transformation of services to deliver a better user experience for all Australians. The DTA is delivering a range of projects including the:
  - a new Digital Investment Management Office to oversee all significant government ICT and digital investment projects;
  - the Digital Marketplace, which is simplifying digital procurement;
  - Govpass, which aims to make the process of proving to government services who you are online simple, safe and secure; and
  - partnering with the Australian Public Service Commission (APSC) to build digital capability in the APS.

- **Opening government business activities to fair competition.** A range of Government services have been opened to delivery by the private sector, including disability support services and management of government properties. Market expertise is key to delivering some of Australia's major national infrastructure, for example:
  - In December 2016, the Government announced the second phase of the market testing for the delivery of the Inland Rail project, building on the first phase of market testing which explored options for greater private sector involvement in the delivery of Inland Rail. The project will now proceed to be delivered through the Australian Rail Track Corporation, with a public private partnership to deliver up to 126 km of the Gowrie to Kagaru section in the Queensland Toowoomba ranges, including tunnelling.
  - The Government has also partnered with the private sector to finance and build Moorebank Logistics Park in Sydney to help shift freight from road to rail, decongest roads and reduce freight costs. The Moorebank terminals will operate under an open access regime to spread the benefits of the project throughout the Australian economy.
- **A more rational property portfolio.** The ongoing divestment of surplus properties will allow the Government to align its property holdings with current and anticipated needs. Since May 2014, 160 surplus properties with an asset value of approximately \$68 million have been placed on the divestment program. As at February 2017 over 90 properties were sold or under offer, with returns to the Budget in excess of \$35 million (excluding Goods and Services Tax). Continued rationalisation of the property portfolio in 2017-18 will continue the sale of surplus properties, reducing ongoing property management and maintenance costs.
- **Improving Global Services.** The Department of Foreign Affairs and Trade is driving a comprehensive review of Australia's overseas operations. The intent is to provide services using new cost effective delivery models that are appropriate for each overseas presence. Implementing these delivery models will provide the Government with more options to support and extend Australia's diplomatic footprint. In some posts, corporate services are largely delivered by a connected 'hub' service, freeing up staff to focus on their core business of delivering high quality, professional and contemporary services to Australian travellers.

Preface

- **Operation Tetrus – reducing vacant lease holdings.** The Government is delivering savings of nearly \$300 million over the next 10 years by requiring agencies to fill vacant leased office space. The Government’s new coordinated approach to surplus legacy leases has ensured that over 60,000 square metres of previously vacant leased office space in and around Canberra, and a further 7,000 square metres in other capital cities, has been successfully filled. There has also been a substantial reduction in the median work point vacancy between 2015 and 2016 from 20.9 per cent to 13.8 per cent.



\* Based on an average rent of \$460 per m2 across the tenancies

## MAINTAINING AFFORDABLE STAFFING LEVELS

In the 2015-16 Budget, the Government made a commitment to maintain the size of the GGS (excluding military and reserves) around, or below 2006-07 levels (167,596). Based on the estimated ASL for both 2016-17 and 2017-18 the Government is delivering on this commitment. The continued restraint on the size of the public sector has been achieved over a period while the private sector has expanded, the Australian population has grown and demand for Government services has broadened (particularly in disability services).

The GGS (excluding military and reserves) is estimated to be 167,248 in 2016-17, and 167,064 in 2017-18. The 2016-17 result is over eight per cent lower than the peak of 182,505 in 2011-12.

The Government’s ongoing commitment to ensure GGS staffing remains at a sustainable level is part of the broader effort to create and support a smaller, smarter, and more productive government sector.

**Table: Estimates of total average staff levels in the General Government Sector**

	ASL excluding military and reserves	Military and reserves	Total ASL
2006-07	167,596	71,026	238,622
2007-08	175,531	72,686	248,217
2008-09	175,422	75,144	250,566
2009-10	178,970	79,351	258,321
2010-11	181,018	80,873	261,891
2011-12	182,505	79,132	261,637
2012-13	179,953	76,678	256,631
2013-14	177,258	76,595	253,853
2014-15	166,261	76,874	243,135
2015-16	165,648	77,399	243,047
2016-17	167,248	78,122	245,370
2017-18	167,064	78,894	245,958

A key contributor to controlling growth in GGS staffing levels is the identification of reductions in lower priority areas and using more efficient models, including through non-government providers, to achieve the same outcomes.

The Australian Government Public Sector Workplace Bargaining Policy has also provided a strong framework to ensure responsible and appropriate wage control in Enterprise Agreements, following a sustained period when Commonwealth public sector wages grew strongly. The Government has shown prudent financial management by implementing a bargaining policy that reflects the current economic climate. Staff are being offered a fair and reasonable wage increase in exchange for sensible productivity improvements.

Australian Bureau of Statistics data shows that over the last two years total wages and salaries in the Commonwealth public sector grew by 2.4 per cent compared to State Government which grew 6.1 per cent and Local Government which grew 5.9 per cent.

## **BUILDING THE CAPABILITY OF AGENCIES**

The Government is investing in new technologies to automate low risk transactional processes and reduce manual input required from staff. These investments will make better use of existing resources, advance workforce capability, and allow staff to be better focused on more analytic and higher priority and value-add work. Building workforce capability will also position the Commonwealth public sector to better respond to growing public demands, allowing for more open and collaborative solutions to emerging complex challenges and opportunities.

The Government is also increasing the agility of the public sector by improving its span of control, management ratios and mobilising staff to move more quickly between agencies in response to government priorities.

## *Preface*

Seven Commonwealth public sector agencies are participating in a mobility trial to identify how to maximise the impact of public sector resources through the effective and efficient use of employees. The trial will occur within existing resources and aims to improve the ability of the APS to mobilise people to deliver key priorities for Government.

The APSC data (on a headcount basis) shows that the public sector workforce is becoming more flexible, less top-heavy and deployed more widely outside Canberra:

- the composition of the workforce continues to diversify and change – in particular, the proportion of ongoing staff decreased from 91.8 per cent in 2013 to 89.2 per cent in 2016;
- Senior Executive Staff and Executive Level staff as a proportion of the workforce has decreased from 27.7 per cent in 2013 to 25.8 per cent in 2016;
- through the reduction in the number of Executive Level positions and increase in APS reporting to Executive Level 1 positions, there is improved span of control; and
- the proportion of APS staff working outside Canberra increased from 61.5 per cent in 2013 to 62.5 per cent in 2016.

Improving the Commonwealth public sector workforce has enabled the Government to apply the right skills to the highest priorities, allowing overall staffing reductions and making it possible to fund temporary increases in targeted areas to implement policy changes and build the infrastructure needed to achieve automation and other longer term efficiencies.

### **New ways of working**

A number of Commonwealth agencies are taking advantage of technology and other innovations to provide more productive and efficient ways of working such as establishing flexible working environments, including converting offices to open plan and activity based working facilities, to enable co-location and improving remote access technology to allow staff to work from anywhere. These changes have resulted in financial savings through reducing the amount of office space required and the need for staff travel. For example, these reforms will save the Australian Bureau of Statistics more than \$5.5 million per annum from 2018-19.

The Government will continue to seek new opportunities to create a smaller, smarter and more productive, sustainable public sector, one that has the appropriate skills and technology suited to the challenges ahead. In doing so, it will keep the cost of administration affordable, including managing the size of government.

A handwritten signature in black ink, consisting of a large, stylized 'M' followed by a smaller 'C' and a horizontal flourish.

Senator the Hon Mathias Cormann  
Minister for Finance