

# CCH Parliament



## National Commission of Audit Report

Summary – 1 May 2014



**CCH Parliament**  
A brand of CCH Australia, a Wolters Kluwer business.  
Timely, Accurate, Relevant... CCH, The Professional's First Choice

**For all CCH Parliament queries, contact:**  
**Phone** 02 6273 2070 **Fax** 02 6273 1129  
PO Box 4746 KINGSTON ACT 2604

## **National Commission of Audit Report – 1 May 2014**

CCH Parliament – Summary Report

The Abbott Government has released the report of the National Commission of Audit. The National Commission of Audit was announced by the Treasurer, the Hon Joe Hockey MP, and the Minister for Finance, Senator the Hon Mathias Cormann, on 22 October 2013.

The Commission was established by the Australian Government as an independent body to review and report on the performance, functions and roles of the Commonwealth government.

### **Key recommendations**

#### **Recommendation 1: Fiscal framework and rules**

The imposition of clear fiscal rules and frameworks is one way of strengthening the nation's finances. The Commission recommends the Government adopt a high-level fiscal strategy which seeks to achieve underlying cash surpluses, on average, over the cycle; improve the government's balance sheet over time; and limit the size of government, as a proportion of GDP.

It should do this by adopting the following fiscal rules which set out how the fiscal strategy is to be achieved on a year-by-year basis.

- Achieve a surplus of 1 per cent of GDP by 2023-24.
- Substantially reduce net debt over the next decade.
- Ensure taxation receipts remain below 24 per cent of GDP.

#### **Recommendation 2: Reporting against fiscal rules**

To report the Government's adherence to the fiscal strategy, the Commission recommends the Parliamentary Budget Office report progress against the fiscal rules following the release of the Final Budget Outcome each year.

#### **Recommendation 3: Better balance sheet management – unfunded superannuation Liabilities**

Unfunded superannuation liabilities on the Commonwealth's balance sheet represent a significant risk to the long-term financial position of the Commonwealth and should be better managed. The Commission recommends that the Government:

- a. close the Military Superannuation and Benefits Scheme to new entrants, with a new scheme established based on an accumulation plan opened for new Australian Defence Force members;

- b. as part of prudent financial management, move over time to a 'funded model' for existing defined benefit superannuation schemes; and
- c. in recognition of the upfront costs of a 'funded model' approach, consider allowing earlier drawdowns from the Future Fund to offset the costs of the new military accumulation scheme and future funding of existing defined benefit schemes. This would require amendments to the *Future Fund Act 2006*.

#### **Recommendation 4: Better balance sheet management – loans and guarantees**

There are risks to the Commonwealth's financial position when the government provides guarantees and loans. The Commission recommends:

- a. the expected costs of existing and new Commonwealth guarantees be included in the Contingency Reserve across the forward estimates (and removed from the Contingency Reserve at the end of each year if the costs do not eventuate);
- b. the expected non-repayment amount of loans be recognised as a grant at the time of loan origination;
- c. the expected costs be included in the Budget where they can be reliably estimated and have an expected cost above \$5 million in any year; and
- d. the Commonwealth continue to regularly and independently re-assess the value of its guarantees and loans.

#### **Recommendation 5: Better balance sheet management – equity investments**

Without commercial discipline, government-owned entities may accept a lower rate of return and take on excessive risk. The Commission recommends:

- a. the Commonwealth not take equity positions where the activity can be undertaken by the private sector;
- b. where the Commonwealth does take an equity position it should disclose the rate of return it expects to receive and how this compares to the risk-adjusted rate of return that a private investor would require to make the same investment; and
- c. the Commonwealth continue to regularly and independently re-assess the value of its equity investments.

#### **Recommendation 6: Budget reporting and the Charter of Budget Honesty**

Budget transparency allows for a more informed debate about the state of the Budget and fosters accountability. The Commission recommends improvements to the transparency of fiscal processes and budget reporting by requiring that:

- a. fiscal updates set out projections for key budget aggregates for 10 years beyond the Budget year;
- b. the Intergenerational Report be prepared within a specified period after the release of the National Census and that it be extended to also include analysis of the long-term sustainability of State and Territory budgets;
- c. fiscal updates should compare key economic forecasts and relevant consensus forecasts;
- d. sensitivity analysis in budget documents be improved;
- e. the Budget Process Operational Rules be released to enhance public understanding of how budgets are framed; and
- f. the Budget documentation give particular prominence to:
  - the underlying cash balance;
  - the Commonwealth's net debt position; and
  - the net financial worth of the Commonwealth.

## Reforming the Federation

### **Recommendation 7: Reforming the Federation – clarifying roles and responsibilities**

There is significant overlap between the activities of the Commonwealth and the States. The Commission recommends that a comprehensive review of the roles and responsibilities between the Commonwealth and State governments be undertaken, informed by:

- a. the principle of 'subsidiarity' so that policy and service delivery is as far as is practicable delivered by the level of government closest to the people receiving those services;
- b. ensuring that each level of government is sovereign in its own sphere; and
- c. ensuring minimal duplication between the Commonwealth and the States and, where overlap cannot be avoided, ensuring appropriate cooperation occurs at all times.

### **Recommendation 8: Reforming the Federation – addressing vertical fiscal imbalance**

A closer matching of the revenue-raising capacity of States and Territories and their expenditure responsibilities would make them more responsible in their own sphere. The Commission recommends that:

- a. the degree of vertical fiscal imbalance in the Federation be substantially reduced. This should be achieved by providing the States with access to the Commonwealth's personal income tax base;

b. to facilitate this proposal, the Commonwealth should make room and reduce its personal income tax rate by an equivalent percentage point amount to a new State surcharge to ensure that taxes do not rise overall. Revenue raised would be hypothecated to the States; and

c. the States be provided with a capacity to periodically vary the surcharge they impose as a means of injecting further competition into the Federation.

### **Recommendation 9: Reforming the Federation – arrangements for addressing horizontal fiscal equalisation**

The practice of fiscal equalisation between the States is a central and longstanding feature of our Federation. The Commission recommends that, as part of a reformed approach to addressing vertical fiscal imbalance, new arrangements also be implemented to address issues with horizontal fiscal equalisation. This would involve:

a. sharing all GST revenue on an equal per capita basis;

b. the Commonwealth providing an additional grant to current recipient States to ensure that no State is worse off compared to the existing equalisation process; and

c. distribution of the additional equalisation grant from the Commonwealth being determined by the Commonwealth Grants Commission.

### **Recommendation 10: Reforming the Federation – reduced tied grants to the States**

Proposed changes to financial arrangements within the Federation should involve a transfer of responsibilities for areas of spending where the Commonwealth currently makes tied grants.

The Commission recommends that, should reforms be made to address vertical fiscal imbalance and horizontal fiscal equalisation as outlined above, existing tied grants from the Commonwealth to the States should be reduced by an amount equivalent to the additional untied revenue received by the States. Determining which grants would be reduced would be a matter for negotiation.

### **Recommendation 11: Reforming the Federation – Reducing the administrative burden**

Steps need to be taken to simplify the large number of existing Commonwealth-State agreements and associated reporting arrangements. The Commission recommends:

a. the administrative burden between the Commonwealth and State governments be substantially reduced by rationalising the number of National Partnership Agreements and streamlining and reducing reporting requirements; and

b. the COAG Reform Council could be abolished with its reporting role and staff moved to the Productivity Commission.

## Managing expenditure growth

### Recommendation 12: Age Pension – establishing a new benchmark

The Age Pension is an essential part of Australia's social safety net. The Commission recommends that changes be made to make it more sustainable by:

- a. changing current Age Pension indexation arrangements to a new benchmark of 28 per cent of Average Weekly Earnings and maintaining other price indexation arrangements; and
- b. transitioning to this arrangement, approximately over a 15 year period, by indexing the Age Pension maximum base rate at a rate equal to the higher of the growth in the Consumer Price Index or the Pensioner and Beneficiary Living Cost Index until it is equal to 28 per cent of Average Weekly Earnings.

### Recommendation 13: Age Pension – tighter targeting of eligibility

The Age Pension is an essential part of Australia's social safety net. The Commission recommends that changes be made in future to ensure it is more sustainable, affordable and better targeted by:

- a. formally linking the eligibility age of the Age Pension to 77 per cent of life expectancy at age 65 from 2033. This will result in the eligibility age for the Age Pension increasing to around 70 by 2053. The proposed change would not affect anyone born before 1965;
- b. replacing the current income and assets tests with a single comprehensive means test. Under this approach the existing assets test would be abolished with the income test extended by deeming income from a greater range of assets. The new comprehensive means test would apply prospectively to new recipients of the Age Pension from 2027-28 onwards;
- c. including in the new means test the value of the principal residence above a relatively high threshold. The threshold in 2027-28 would be equivalent to the indexed value of a residence valued today at \$750,000 for coupled pensioners and the indexed value of a residence valued today at \$500,000 for a single pensioner. This change would apply prospectively to new recipients of the Age Pension from 2027-28 onwards; and
- d. increasing the income test withdrawal (taper) rate from 50 per cent to 75 per cent. This change would apply prospectively to new recipients of the Age Pension from 2027-28 onwards.

### Recommendation 14: Superannuation preservation age

The Age Pension and superannuation are interrelated elements of the retirement income system. The Commission recommends some changes be made to the superannuation system to complement changes being recommended for the Age Pension by:

- a. increasing the superannuation preservation age to five years below the Age Pension age;
- b. extending the current phased increase in the preservation age by an extra four years so the preservation age reaches 62 by 2027; and
- c. increasing the preservation age in conjunction with the Commission's proposed increases in the Age Pension age thereafter.

### **Recommendation 15: The Commonwealth Seniors Health Card**

The Commonwealth Seniors Health Card gives senior Australians who do not receive a pension, access to cash payments and concessions and discounts on certain products. The Commission recommends that the Commonwealth Seniors Health Card be maintained as part of Australia's retirement income system, but that changes be made to improve targeting to those most in need by adding deemed income from tax-free superannuation to the definition of Adjusted Taxable Income used for determining eligibility for the Commonwealth Seniors Health Card.

### **Recommendation 16: The National Disability Insurance Scheme**

The National Disability Insurance Scheme is a worthy scheme with widespread community support. The Commission recommends the Commonwealth continue to support the introduction of the National Disability Insurance Scheme, but that the scheme be implemented in a way which is fiscally sustainable by:

- a. pursuing a slower phasing in of the scheme recognising that this will require the re-negotiation of bilateral agreements with the States;
- b. amending governance arrangements to make the National Disability Insurance Agency a prescribed agency under the *Financial Management and Accountability Act 1997*, with the Chief Executive Officer directly accountable to the Minister;
- c. exercising budget control to ensure long-term financial viability;
- d. implementing contracting arrangements with the informal (not-for-profit) sector or other disability services bodies, including those operating in existing State schemes, to ensure contestability in the delivery of services to people with disabilities; and
- e. simplifying reporting arrangements to ensure transparency in the cost and efficiency of the delivery of disability services between the States.

### **Recommendation 17: Short to medium-term health care reforms**

Australia's health system is not well equipped to face future challenges such as an ageing population and rising health services costs. The Commission recommends the Commonwealth Government pursue reforms to improve the health system as soon as practicable including:

- a. requiring higher-income earners to take out private health insurance for basic health services in place of Medicare; and precluding them from accessing the private health insurance rebate;
- b. the introduction of co-payments for all Medicare funded services, underpinned by a new safety net arrangement that would operate once a patient has exceeded 15 visits or services in a year. General patients would pay \$15.00 per service up to the safety net threshold and \$7.50 per service once the safety net threshold has been exceeded. Concession card holders would pay \$5.00 per service up to the safety net threshold and \$2.50 per service once the safety net threshold has been exceeded;
- c. implement arrangements to ensure that consumers are not able to insure against the co-payment and that medical practitioners who wish to bulk bill are not able to waive the co-payment;
- d. encouraging the States to introduce a co-payment structure for public hospital emergency departments for less urgent conditions that could be appropriately treated in a general practice setting;
- e. increasing the threshold for the General Extended Medicare Safety Net to \$4,000, while maintaining the Concessional Extended Medicare Safety Net threshold at existing levels. Safety net arrangements for Medicare and the Pharmaceutical Benefits Scheme should be retained to ensure support for people facing significant hardship, albeit with some adjustments;
- f. reviewing the Medicare Benefits Schedule to identify and remove ineffective items, replace expensive items with less expensive alternatives where available and investigate options for cost recovery for applications to list items on the Schedule;
- g. reforming the private health insurance market to provide greater incentives for efficient and cost effective health management through deregulating price setting arrangements, allowing health funds to expand their coverage to primary care settings, relaxing community-rating to allow health funds to vary premiums to account for a limited number of lifestyle factors, including smoking; and reforming the arrangements by which insurers equalise risks through the sector;
- h. limiting the Commonwealth's contribution to efficient growth in the cost of public hospital services to 45 per cent applying from 2014-15 and — with the exception of activity based funding — reducing the health reporting requirements significantly that the Commonwealth places on the States; and
- i. extending the current scope of health professional practices (for example, pharmacists and nurse practitioners) to address the future needs of Australia's health care system.

## **Recommendation 18: A pathway to reforming health care**

Detailed work is required to examine opportunities to improve the efficiency and effectiveness of Australia's health care system over the medium to longer term. The Commission recommends the Minister for Health be tasked with developing options to reform Australia's system of health care.

The Minister should report to the Prime Minister in 12 months' time on progress and a preferred way forward.

## **Recommendation 19: The Pharmaceutical Benefits Scheme**

The Commission recommends changes be made to the Pharmaceutical Benefits Scheme and to the pharmacy sector to improve this integral part of our health system through:

- a. the introduction of new arrangements for funding the Pharmaceutical Benefits Scheme within a set funding envelope that extends for a seven year cycle;
- b. establishing an independent authority ('PBS Entity') to be headed by a suitably qualified Chief Executive Officer who would oversee management of subsidised pharmaceuticals within the Australian health system and be required to report to the Minister for Health;
- c. permitting the Minister in exceptional circumstances to have new items listed by introducing a disallowable instrument into Parliament and on receipt of advice from the PBS Entity regarding items to be de-listed in order to offset additional costs;
- d. increasing co-payments for all medicines under the Pharmaceutical Benefits Scheme, including for concessional medicines that are currently free. This includes:
  - i. for general patients with costs below the safety net, a co-payment increase of \$5.00 (increase from \$36.90 to \$41.90), while above the safety net a rise of \$5.00 (from \$6.00 to \$11.00);
  - ii. in line with the increased co-payment arrangements, the general patient safety net should increase from \$1,421.20 to \$1,613.77; and
  - iii. for concession card holders, no increase to the current co-payment of \$6.00 while below the safety net threshold of \$360.00. However, once the safety net limit has been reached, concession card holders will be required to co-contribute \$2.00 to the cost of their medicines;
- e. opening up the pharmacy sector to competition, including through the deregulation of ownership and location rules; and
- f. streamlining approvals for new drugs through the Therapeutic Goods Administration process by recognising approvals made by certain overseas agencies.

## **Recommendation 20: Family Tax Benefits**

In providing benefits to families there are trade-offs between the adequacy of assistance, targeting it to those in need and maintaining the incentive to work. The Commission recommends Family Tax Benefit arrangements be better targeted to those in need and simplified to boost workforce participation including by:

- a. changing arrangements for Family Tax Benefit Part A by introducing a new single means test, with the maximum rate of the benefit paid up to a family adjusted taxable income of \$48,837 and then phasing out at 20 cents in the dollar until the payment reaches nil;
- b. abolishing Family Tax Benefit Part B;
- c. introducing a new Family Tax Benefit Part A supplement to be paid to sole parent families who have a child under the age of eight. The supplement should be the same as the current maximum rates of Family Tax Benefit Part B (\$4,241 for a family with a child under five, or \$3,070 for those whose youngest child is aged five to eight years);
- d. changing the per child rates to be based on the current Family Tax Benefit Part A rates for a first child and paid at 90 per cent of this for second and subsequent children; and
- e. removing the Large Family Supplement and Multiple Birth Allowance recognising that the costs of children are sufficiently covered by the basic rates.

## **Recommendation 21: Paid Parental Leave**

Paid Parental Leave has the potential to support maternal and child health and increase women's workforce participation. The Commission recommends:

- a. targeting expenditure to those most in need by lowering the Paid Parental Leave wage replacement cap to Average Weekly Earnings (currently \$57,460), indexed annually to movements in this wage; and
- b. savings from the lower wage replacement cap be redirected to offset the cost of expanded child care assistance, with the intent of making the changes broadly budget neutral, including retaining the 1.5 per cent levy on company taxable income above \$5 million per year.

## **Recommendation 22: Child care**

The cost of child care significantly impacts on the ability of parents, particularly women, to participate in the workforce. The Commission recommends the Child Care Rebate and Child Care Benefit be replaced with a single, means-tested payment reimbursing parents for a proportion of their child care costs. The new payment should include a 'work, training, study' test and:

- a. should be broadly budget neutral and roughly maintain the current levels of assistance of around 80 per cent for low income families, with a base of assistance of 50 per cent available to all families;

- b. should include in-home care and other types of care that are not currently subsidised; and
- c. with savings from the Commission's proposed changes to the Paid Parental Leave scheme redirected to offset the cost of this expanded child care assistance, with the intent of making the

changes broadly budget neutral, including retaining the 1.5 per cent levy on company taxable income above \$5 million per year.

### **Recommendation 23: Schools funding**

While the Commonwealth does not have specific constitutional responsibility for school education, it provides significant funding to the States. The Commission recommends changing funding arrangements to simplify Commonwealth-State responsibilities and make school funding more affordable by:

- a. transferring all policy and funding responsibility for government and non-government schools to the States, with annual funding provided in three separate, non-transferrable pools - one each for government schools; Catholic systemic schools and independent schools;
- b. applying requirements on the States to:
  - i. publish how they allocate funds to schools;
  - ii. participate in national and international testing; and
  - iii. publish student outcomes on a consistent basis;
- c. basing Commonwealth funding from 2018 onwards on 2017 levels, with:
  - i. a 2017 per student funding amount calculated for the government and non-government school sectors in each State and Territory;
  - ii. annual funding for each sector in each jurisdiction calculated as the per-student amount, adjusted for the number of students enrolled in that year and indexed by a weighted average of the CPI and the relevant Wage Price Index; and
- d. significantly reducing the size of the Commonwealth Department of Education.

### **Recommendation 24: Defence**

Ensuring the nation's defence and security is a core function of the Commonwealth Government. The Commission recommends a number of steps be taken to improve the efficiency, effectiveness, accountability and transparency of Defence spending through:

- a. ensuring preparation of the new Defence White Paper identifies capability options and associated costs for different sets of strategic risks. As part of this process, the Government should also assess the balance of strategic and fiscal priorities and how this compares with the commitment to increase Defence expenditure of 2 per cent of GDP within a decade;

- b. as a pre-condition for setting any new funding profile for Defence under the White Paper, the Government should ensure that Defence improves the effectiveness and transparency of expenditure by improving Defence budget arrangements and governance, capability development and delivery;
- c. transparency and control for government should be significantly improved by stronger budget processes including through the Expenditure Review Committee. For new capital, in particular new equipment projects, this would include holding funds in separate budget allocations and releasing them as projects are approved. Such expenditure should be treated as administered funding rather than departmental funding, so that there is greater financial control and scrutiny of this expenditure through established budget processes;
- d. a new ministerial directive to the Secretary of the Department of Defence and the Chief of the Defence Force specifying their separate and shared responsibilities and holding them individually accountable for Defence performance;
- e. reintegrating the Defence Materiel Organisation into the Department of Defence, with the size of the Defence Materiel Organisation being significantly reduced and with a renewed focus on contract management as opposed to project management;
- f. establishing a more professional Capability Development Group within Defence with an increased use of project development professionals skilled in cost and risk assessment;
- g. reducing the staffing size of Defence headquarters in Canberra, including senior staff, to 1998 levels; and
- h. Defence publishing performance indicators that reveal progress with reform, including the 'teeth to tail' ratio and the additional cost of unique and Australian built procurement decisions.

### **Recommendation 25: Aged care**

With the ageing of the population, more Australians will be receiving some form of aged care support. The Commission supports the range of reforms currently being introduced in the aged care sector, but recommends additional measures be undertaken to improve the effectiveness and sustainability of the sector by:

- a. including the full value of the principal residence in the current aged care means test;
- b. implementing arrangements to allow older Australians to access equity in their principal residence, to pay for part of the cost of their aged care services;
- c. introducing a fee for aged care providers to access the accommodation bond guarantee or, alternatively, requiring providers to take out appropriate private insurance to cover the risk of default;
- d. terminating the Payroll Tax Supplement; and

e. reducing duplication in all aspects of financial reporting for the aged care sector as well as reducing other regulatory requirements for aged care providers.

### **Recommendation 26: Carer payments**

Many Australians care for a family member or friend who is unable to care for themselves. The Commission recommends payments to carers be maintained, but recommends changes to improve targeting including:

- a. limiting the annual Carer Supplement to only one payment per carer;
- b. introducing an income test for the Carer Allowance, set at \$150,000 per year;
- c. reviewing eligibility criteria applying to the type of care provided and to the needs of the adult receiving care. This should ensure that Carer Payment is targeted to those whose caring responsibilities limit their capacity to work; and
- d. aligning Carer Payment arrangements with the Commission's recommended changes to the Age Pension benchmark by transitioning to a new benchmark of 28 per cent of Average Weekly Earnings at the same time as implementation of the Age Pension benchmark changes.

### **Recommendation 27: Unemployment benefits**

Unemployment benefits play an important role in assisting people back into work. Building on recent reforms, the Commission recommends a number of changes be made to improve incentives to work including by:

- a. requiring young single people aged 22 to 30 without dependants or special exemptions to relocate to higher employment areas or lose access to benefits after a period of 12 months on benefit; and
- b. increasing the income test withdrawal (taper) rate to 75 per cent for Newstart recipients and other related allowances.

### **Recommendation 28: The minimum wage**

Australia's minimum wage is high by international standards. The Commission recommends that future growth in the minimum wage be contained to improve job opportunities. A degree of variation in the minimum wage should also be introduced across the States to better reflect local labour market conditions and the cost of living. This should be achieved by:

- a. establishing a 'Minimum Wage Benchmark', set at 44 per cent of Average Weekly Earnings;

b. transitioning to this new benchmark by indexing the current national minimum wage to grow in line with the Consumer Price Index less 1 percentage point for a period of 10 years; and

c. transitioning the minimum wage in each State and Territory to the lower of the 'Minimum Wage Benchmark' or 44 per cent of Average Weekly Earnings in that jurisdiction by 2023, noting that should this imply a reduction in the nominal minimum wage, the wage would instead be kept constant until aligned with 44 per cent of Average Weekly Earnings in that jurisdiction.

### **Recommendation 29: The Disability Support Pension**

The Disability Support Pension provides support to those who are unable to work, or have limited capacity to work. The Commission recommends the Disability Support Pension be maintained as an essential part of Australia's social safety net but that changes be made to ensure it remains targeted to those in genuine need by:

a. moving to gradually apply the new disability assessment and participation criteria, introduced in January 2012, to targeted groups of grandfathered Disability Support Pension recipients such as those under the age of 35 and those with some work capacity; and

b. changing Disability Support Pension arrangements to align with the Commission's recommended changes to the Age Pension by:

i. transitioning to a new benchmark of 28 per cent of Average Weekly Earnings at the same time as implementation of the Age Pension benchmark changes; and

ii. the Government considering when further changes should be made to the eligibility requirements for the Disability Support Pension, including replacing the current income and assets tests with a single comprehensive means test; including the value of the principal residence above thresholds of \$750,000 for coupled pensioners and \$500,000 for single pensioners in the new means test; and increasing the income test withdrawal (taper) rate from 50 per cent to 75 per cent.

### **Recommendation 30: Higher education arrangements**

Commonwealth funding of higher education promotes quality and equity of access, while contributing to a more skilled and productive workforce. The Commission recommends a number of changes be made to existing arrangements to better account for the private benefits of higher education and improve performance of the sector including:

a. decreasing the average proportion of higher education costs paid by the Commonwealth through the Commonwealth Grants Scheme from 59 per cent to 45 per cent and increasing the average proportion of costs paid by students from 41 per cent to 55 per cent;

- b. tasking the Minister for Education with developing options to increase competition in Australia's education system through a partial or full deregulation of fees for bachelor degrees, taking into account any relevant recommendations of the Review of the Demand Driven Funding System. The Minister should report to the Prime Minister in 12 months' time on progress and a preferred way forward;
- c. reducing the cost to the Commonwealth of the Higher Education Loan Programme by:
- i. increasing the interest rate applying to HELP loans from the current rate (equal to movements in the CPI) to a rate which reflects the full cost to the Commonwealth of making the loan (incorporating the government borrowing rate, as well as the cost of bad debts and administration costs);
  - ii. increasing the repayment of HELP debt through reducing the threshold for HELP repayment from \$51,309 per year to the minimum wage of \$32,354 (with a low starting repayment rate of only 2.5 per cent);
  - iii. changing the indexation arrangements for the HELP repayment income threshold from movement in Average Weekly Earnings to movements in the CPI; and
  - iv. streamlining the five current HELP schemes, including removing SA-HELP and aligning administrative fee arrangements and incentive payments for early repayment.

### **Recommendation 31: Reforming foreign aid**

Australia's overseas aid programme serves Australia's national interests, including by contributing to global efforts to reduce poverty and promoting stability and prosperity in our region. The Commission recommends Australia's Official Development Assistance programme be better managed including by:

- a. not tying aid spending to the level of Gross National Income, rather managing it in the same way as other agency funding, with any increase in resources justified in terms of the overall fiscal context rather than to a set of funding targets;
- b. increasing future aid spending at a rate no greater than the rate of inflation, noting that even with this funding, aid spending would be at historically high levels;
- c. reducing the significant fragmentation, with bilateral aid delivery tightly focussed on countries of strategic interest to Australia and with assistance to other countries addressed through the better performing multilateral funds; and
- d. focusing aid programme reporting on outcomes achieved rather than the quantity of resources applied.

### **Other programmes and spending**

#### **Recommendation 32: Industry assistance**

Rather than relying on industry assistance, commercial discipline drives firms to reduce costs and improve quality to better meet customer demands. The Commission recommends significant changes be made to the approach to industry assistance in Australia including:

- a. limiting assistance to areas of genuine market failure and occasional transitional assistance to deal with genuine structural change. In all instances the benefit of government intervention must outweigh the costs;
- b. rationalising, phasing out, abolishing or reducing funding for 22 existing industry assistance programmes;
- c. amending Australia's anti-dumping system to include an improved public interest test so that dumping protection is only implemented if the benefits to the affected industry clearly exceed the costs to other industries and Australian consumers; and
- d. the Government continuing its drive to reduce the cost of doing business in Australia in such areas as labour market reform, deregulation, energy policy and provision of economic infrastructure.

### **Recommendation 33: Assistance to exporters**

As the benefits of exporting accrue primarily to the business undertaking the activity, the Commission considers that there is scope to reduce current Commonwealth assistance for exporters by:

- a. abolishing the Export Finance and Insurance Corporation, ceasing funding for Export Market Development Grants, tourism industry grants and the Asian Business Engagement Plan, halving funding for Tourism Australia and significantly reducing the activities of the Australian Trade Commission (Austrade); and
- b. moving any residual functions of Tourism Australia and Austrade into a commercial arm of the Department of Foreign Affairs and Trade, with the existing loan book of the Export Finance and Insurance Corporation also transferred to the Department of Foreign Affairs and Trade to investigate options to on-sell or wind up the loans.

### **Recommendation 34: Research and development**

The Commonwealth provides around \$9 billion per year to support Australian research and innovation. The Commission recommends the Government take a more strategic, whole-of-government approach to the funding of research and development, including by:

- a. abolishing sector-specific research and development programmes;
- b. reducing government support for Rural Research and Development Corporations to better reflect the mix of private and public benefits;
- c. consolidating existing research programmes aimed at fostering collaboration;
- d. aligning the Australian Research Council and the National Health and Medical Research Council grant processes;

- e. streamlining the current system of research block grants and postgraduate scholarships and looking at options for better aligning funding for the direct and indirect costs of research;
- f. committing to ongoing funding for critical research infrastructure in Australia, informed by a reassessment of existing research infrastructure provision and requirements; and
- g. allowing for more government oversight of the work of the Commonwealth Scientific and Industrial Research Organisation to ensure that resources are being directed to areas of greatest priority.

### **Recommendation 35: Indigenous programmes**

Addressing the severe disadvantage faced by Indigenous Australians has rightly been a national priority of successive Commonwealth Governments. There is, however, significant scope to improve the effectiveness of Indigenous expenditure. The Commission recommends:

- a. significantly consolidating and rationalising Commonwealth Indigenous-specific programmes, bodies, committees, councils and boards, and ensuring programmes and reporting are focussed on outcomes. The existing 150 or so Commonwealth Indigenous programmes and activities should be consolidated into no more than six or seven programmes;
- b. redirecting funds from administrative savings or the termination of less effective programmes to a new means-tested and needs-based voucher programme to assist Indigenous children with the costs of attending accredited education and training from early childhood through to primary school and tertiary education, including fees, travel and boarding costs;
- c. establishing over the next two to three years a new, separate agency for Indigenous Affairs reporting to the Prime Minister, with responsibility for Commonwealth Indigenous-specific programme delivery, development of a robust evaluation strategy and coordination with mainstream and specific providers at the Commonwealth and State levels;
- d. working directly with the States to establish new bilateral agreements which clarify and delineate responsibilities between jurisdictions, are outcomes based with clearly measurable performance indicators and involve pooled funding where appropriate; and
- e. reconfiguring mainstream services to ensure they are designed and delivered in collaboration with Indigenous people, with clear reporting requirements on access by Indigenous people and associated outcomes.

### **Recommendation 36: Resourcing diplomacy and consular activities**

International diplomacy is a core responsibility of national governments. The Commission recommends steps be taken to improve the cost efficiency and effectiveness of the

operations of the Department of Foreign Affairs and Trade and portfolio agencies including by:

- a. ensuring the planned review of diplomatic resourcing be undertaken by an independent reviewer rather than the Department, with the review re-assessing the need for embassies in high-cost locations and making greater use of arrangements to share resources overseas with like-minded countries;
- b. ending future involvement in international expositions, introducing fees for consular services, reviewing overseas conditions and allowances, rationalising Australia's memberships of international organisations and considering further outsourcing of passport production; and
- c. ceasing funding for the Australia Network and scaling back the International Relations Grants Program.

### **Recommendation 37: Drought assistance**

The Commonwealth provides significant assistance to farmers through various drought assistance and farm finance initiatives. The new Farm Household Allowance scheme scheduled to begin in mid 2014 will exist alongside a concessional loan scheme for farmers. The Commission recommends that the Farm Finance Concessional Loans Scheme be abolished.

### **Recommendation 38: Housing assistance**

Housing affordability and homelessness prevention are primarily the responsibility of State and Territory governments. The Commission recommends the Commonwealth:

- a. limit its involvement in housing to providing Rent Assistance payments;
- b. extend Rent Assistance to public housing tenants, provided State governments commence charging market rates of rent; and
- c. fund the increase in aggregate Rent Assistance payments by re-directing Commonwealth funding from existing agreements with the States for Affordable Housing and Homelessness and the National Rental Affordability Scheme.

### **Recommendation 39: Vocational education and training**

Currently the States provide the vast majority of funding to the vocational education and training sector, with the Commonwealth contributing through tied grants to the States and some specific Commonwealth programmes. The Commission recommends that the Government wind back its involvement in the vocational education and training sector by:

- a. transferring policy and funding responsibility for vocational education and training to the States, with Commonwealth funding to be provided either as:

- i. a single annual lump sum with minimum requirements for national reporting and quality assurance; or
  - ii. as part of a broader reform of federal financial relations;
- b. abolishing all Commonwealth vocational education and training programmes including the National Workforce Development Fund and Commonwealth support for apprentices; and
- c. requiring the States to continue reforms to achieve demand-driven vocational education and training outcomes and improve occupational licensing arrangements.

#### **Recommendation 40: Mental health**

Mental health services are characterised by overlapping funding and service delivery responsibilities and a lack of coordination across jurisdictions. The Commission supports the proposed review by the National Mental Health Commission and recommends that the review pay particular attention to removing the significant duplication between the Commonwealth and the States that currently exists in mental health services.

#### **Recommendation 41: Natural disaster relief**

Recognising the primacy of State governments in dealing with natural disasters, Commonwealth involvement should be significantly reformed including by:

- a. replacing the Natural Disaster Relief and Recovery Arrangements with a grant in the case of each major natural disaster, with the Commonwealth contribution based on a designated proportion (between 25 per cent and 33 per cent) of the estimated reconstruction costs; and
- b. maintaining the Australian Government Disaster Recovery Payment but abolishing the Disaster Recovery Allowance with the Commonwealth's direct contributions being paid to only those individuals severely affected by natural disasters.

#### **Recommendation 42: Community Investment Programme**

There is scope for the Commonwealth to transfer responsibility for community development programmes to the States, the level of government closest to the people receiving the services. The Commission recommends that the Commonwealth transfer funding and responsibility for the Community Investment Programme to the States.

#### **Recommendation 43: Visa processing**

The Department of Immigration and Border Protection grants around 4.7 million visas every year. Many visa processing tasks are high volume and low complexity and would be well suited to outsourcing. The Commission recommends that a business case and scoping study for outsourcing the Department of Immigration and Border Protection's visa processing functions be prepared.

#### **Recommendation 44: Employment services**

The bulk of employment services are provided through Job Services Australia. The existing round of employment services contracts are due to expire in 2015. The Commission recommends the Government develop options to:

- a. improve the structure of employment services provided to the most disadvantaged jobseekers; and
- b. lower average costs per jobseeker under the post-2015 employment services arrangements, including by making greater use of technology in delivery of services. The Commonwealth subsidy under Wage Connect is higher than similar wage subsidy programmes. The Commission recommends reducing the subsidy paid under Wage Connect to the levels available under similar programmes.

#### **Recommendation 45: Efficiency of the public broadcasters**

There is no right level of funding for the Australian Broadcasting Corporation and the Special Broadcasting Service as public broadcasters, or a right level of services that should be provided. However, there may be opportunities for greater efficiencies. The Commission recommends that:

- a. the ABC and SBS be independently benchmarked, both against each other and the commercial broadcasters, to determine whether it would be possible to achieve efficiencies and savings without compromising their capacity to deliver services including to remote and regional Australia; and
- b. future funding decisions in relation to the ABC and SBS should be informed by the outcome of the benchmarking exercise.

#### **Recommendation 46: Containing costs associated with Illegal Maritime Arrivals**

The detention and processing of Illegal Maritime Arrivals has been the fastest growing government programme over recent years. The Commission recommends that:

- a. by renegotiating contracts and better targeting of services, the per person cost of operating the onshore immigration network be reduced to 2011-12 levels and similar efficiencies be sought for the offshore network; and
- b. this process also be supported by an audit of the scope and cost of services currently being provided and how these have changed over time.

#### **Recommendation 47: Fair Entitlements Guarantee Scheme**

Where a firm enters into liquidation and is unable to pay employee entitlements, the Fair Entitlements Guarantee Scheme makes certain payments to eligible workers. It is important that employers meet their obligations to fund worker entitlements. The Commission recommends changes be made to the Fair Entitlements Guarantee Scheme to:

- a. introduce a cap of a maximum redundancy payment equivalent to 16 weeks' pay; and
- b. limit the wage base for the scheme to Average Weekly Earnings.

#### **Recommendation 48: Medical indemnity**

Following the collapse of HIH Insurance and United Medical Insurance in the early 2000s, the Commonwealth has subsidised indemnity insurance premiums and provided assistance with high-cost claims. There is now evidence that the market is normalising. The Commission recommends the Commonwealth scale back its subsidies for medical indemnity insurance by:

- a. ceasing the Premium Support Scheme;
- b. ceasing the High Cost Claims scheme;
- c. considering grandfathering provisions to support the medical indemnity insurance industry in the transition to reduced Commonwealth subsidisation; and
- d. monitoring the impact on the medical profession, particularly in rural areas.

#### **Recommendation 49: Grants programmes**

The Commonwealth spent about \$22 billion on around 500 grants programmes in 2012-13. The Commission recommends significant changes be made to the administration of the Commonwealth's grant programmes including by:

- a. establishing a central register within the Department of Finance of all grants programmes with complete transparency on all grants awarded;
- b. reducing red tape for grant recipients by applying contemporary risk-based approaches to grant management;
- c. decreasing the number of existing grant programmes by abolishing, merging or consolidating existing grants programmes;
- d. addressing the proliferation of new grant programmes by introducing a rigorous grant assessment process at the approval stage; and
- e. ensuring all grants have measurable outcomes which are regularly assessed.

### **Rationalising and streamlining government bodies**

#### **Recommendation 50: Reduce the number of government bodies**

There are too many government bodies. This can lead to duplication, unnecessary complexity and a lack of accountability. The Commission recommends that a significant

rationalisation be undertaken of 99 Commonwealth bodies operating under the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997* including by:

a. reducing the number of existing bodies by 73, including those in Recommendations 51 to 54, by:

- i. abolishing seven bodies;
- ii. merging 35 bodies;
- iii. consolidating 22 bodies into departments and agencies; and
- iv. potentially privatising nine bodies; and

b. reassessing the operations and continuing need for 26 other bodies.

### **Recommendation 51: Consolidation of border protection services**

Border protection and security is integral to national security. The Commission recommends that a single, integrated border agency, to be known as Border Control Australia, be established through the merger of the border control functions of the Department of Immigration and Border Protection and the Australian Customs and Border Protection Service.

### **Recommendation 52: Consolidated crime intelligence capability**

Criminal law enforcement is increasingly dependent on strong intelligence collection and analysis. The Commission recommends that CrimTrac be merged with the Australian Crime Commission to better harness their collective resources.

### **Recommendation 53: Consolidation of Health bodies**

There are 22 bodies and agencies within the Health Portfolio, along with numerous associated boards, councils and committees. The Commission recommends that a significant consolidation of Commonwealth health related bodies be undertaken by:

- a. establishing a National Health and Medical Research Institute to better align and embed health and medical research in the health system;
- b. establishing a Health Productivity and Performance Commission by consolidating seven existing bodies to better coordinate, report and drive performance across Australia's health care system with a focus on measurable outcomes; and
- c. consolidating five other agencies into the Department of Health.

### **Recommendation 54: Single civilian merits review tribunal**

The Commonwealth currently maintains four main bodies to review the merits of Commonwealth decisions. The Commission recommends that the Commonwealth civilian merits review tribunals (the Social Security Appeals Tribunal, the Migration Review Tribunal

and the Refugee Review Tribunal) and the Classification Review Board be amalgamated with the Administrative Appeals Tribunal.

### **Recommendation 55: A central register and new guidelines for establishing bodies**

There is currently no central register of Commonwealth bodies. Given the significant operating and governance costs of new bodies, the Commission recommends that:

- a. a central register of Commonwealth Government bodies be established and maintained by the Department of Finance; and
- b. new guidelines be established on the creation of new bodies recognising the primacy of ministerial responsibility and the role of departments, including requiring Cabinet agreement.

### **Recommendation 56: Reduce the number of boards, committees and councils**

As well as the 194 principal bodies, there are around 700 other bodies including boards, committees and councils that the Commonwealth supports. The Commission recommends:

- a. each department reassess all bodies within its portfolio with a view to reducing their number and associated overheads, consistent with the criteria set out in Section 9.3; and
- b. all bodies, including boards, committees and councils be included on the central register of Commonwealth bodies.

## **Improving government through markets and technology**

### **Recommendation 57: Privatisations**

Twenty years ago, the Hilmer report highlighted the gains to the community from opening up government enterprises to competition. The Commission considers that Commonwealth bodies that operate in contestable markets should be privatised. The Commission recommends that the following 10 bodies be privatised over the short, medium and long term, in accordance with established practice.

#### *Short term*

- a. Australian Hearing Services.
- b. Snowy Hydro Limited.
- c. Defence Housing Australia.
- d. ASC Pty Ltd.

#### *Medium term*

- a. Australian Postal Corporation.
- b. Moorebank Intermodal Company Limited.
- c. Australian Rail Track Corporation Limited.
- d. Royal Australian Mint.
- e. COMCAR.

*Long term*

a. NBN Co Limited.

### **Recommendation 58: Management of the Commonwealth Estate**

The Commonwealth's property portfolio (the Commonwealth Estate) is diverse and of significant value. The Commission recommends that the management of the Commonwealth's property portfolio be strengthened, including by:

- a. establishing a central register of Commonwealth Estate properties within the Department of Finance;
- b. drawing on greater private sector experience in property management;
- c. undertaking a further divestment process to be overseen by an independent property expert; and
- d. continuing to use commercially available office and other accommodation as far as possible, ensuring there is competitive tension and value for money.

### **Recommendation 59: Outsourcing, competitive tendering and procurement**

Governments should continue to harness the benefits of outsourcing where the benefits outweigh the risks. The Commission recommends that the Government:

- a. re-establish competitive tendering and outsourcing guidelines that reflect contemporary and best practice contract management processes;
- b. base procurement decisions on value for money at all times by abolishing Procurement Connected Policies;
- c. taking a more strategic and professional approach to procurement and contract management;
- d. make greater use of standardised contracts for procurement; and
- e. develop a whole-of-government user charging framework that improves efficiency, accountability and transparency.

### **Recommendation 60: Outsourcing of the Department of Human Services payments system**

The Department of Human Services delivers over 200 different services for more than 20 Commonwealth and State agencies and is responsible for the Government Payments System. The system's supporting IT infrastructure is obsolete and arrangements are being made for its replacement. The Commission recommends that the Government:

- a. appoint a highly credentialed business technology expert to oversee the development of the new government payments IT system in collaboration with the Department of Human Services;
- b. establish a policy process to review and simplify the structure of welfare payments in parallel with the design of the new business information technology system; and
- c. develop a scoping study on options for outsourcing part or all of the Department of Human Services payments system.

### **Recommendation 61: Data**

There is untapped potential to use anonymised data and new data analytic techniques to improve the efficiency and effectiveness of government. The Commission recommends that the Government, recognising the need to safeguard privacy concerns, rapidly improve the use of data in policy development, service delivery and fraud reduction by:

- a. requiring major departments and agencies to develop plans to maximise use of their own-source data;
- b. extending and accelerating the publication of anonymised administrative data;
- c. prioritising several 'big data' projects in major service delivery agencies; and
- d. establishing a data strategy to be prepared by the Australian Statistician on the quality, timeliness and availability of data that would be suitable for public release.

### **Recommendation 62: e-Government**

e-Government services are often preferred by citizens, businesses and other government customers because they are more convenient and generally cheaper and more accurate. The Commission recommends that the Government accelerate the transition to online service delivery by:

- a. setting an ambitious digital strategy that:
  - i. makes myGov the default means of engaging with government, supported by 'opt-out' provisions;
  - ii. sets concrete savings targets;
  - iii. removes legislative barriers; and
  - iv. strengthens the myGov online credential;
- b. consolidating the e-Government effort through a single team under the leadership of a Chief Digital Officer; and
- c. appointing a senior minister to champion the digital by default agenda.

### **Recommendation 63: Cloud computing**

Cloud computing is a way of leasing computing services over a network. It can reduce costs by sharing them across users. The Commission recommends that the Government increase its adoption of cloud computing by:

- a. introducing a mandatory 'cloud first' policy for all low risk, generic information and communication technology services; and
- b. establishing a whole-of-government cloud computing provider panel.

### **Recommendation 64: Corporate services and systems**

All Commonwealth agencies perform common corporate functions, such as paying their employees and preparing financial statements. The Commission recommends the Government improve the efficiency of corporate services by:

- a. standardising corporate business processes;
- b. publishing a register of other business systems;
- c. improving procurement of corporate information and communication technology systems; and
- d. adopting a staged implementation of shared corporate services for Commonwealth Government departments and agencies.

**ENDS.**

For subscription inquiries and service support please phone our Parliament House office on 02 6273 2070 or email [politicalalert@cch.com.au](mailto:politicalalert@cch.com.au)