

HD Commission of Audit report released: experts respond

BY Veronica Sheen, Research Associate, School of Social Sciences at Monash University; Andrew Dodd, Program Director - Journalism at Swinburne University of Technology; Ben Phillips, Principal Research Fellow, National Centre for Social and Economic Modelling (NATSEM) at University of Canberra; Ben Spies-Butcher, Lecturer in Economy and Society, Department of Sociology at Macquarie University; Geoff Sharrock, Program Director, LH Martin Institute at University of Melbourne; Glenn C. Savage, Researcher and Lecturer in Education Policy, Melbourne Graduate School of Education at University of Melbourne; Gwilym Croucher, Higher Education Policy Adviser at University of Melbourne; Helen Dickinson, Associate Professor Public Governance at University of Melbourne; Janine O'Flynn, Professor of Public Management at University of Melbourne; Roy Green, Dean of UTS Business School at University of Technology, Sydney; Sinclair Davidson, Professor of Institutional Economics at RMIT University

WC 4,050 words

PD 1 May 2014

SN The Conversation

SC CONVAU

LA English

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The National Commission of Audit has made [86 recommendations](#) with a focus on the federal government's 15 biggest and fastest-growing areas of spending. The result is proposals for sweeping spending cuts for the government to consider for its May 13 budget, ranging from the politically possible to the crazy brave.

Rolling expert responses follow.

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The role of government

Janine O'Flynn, Professor of Public Management at University of Melbourne

The Principles of Good Government that have framed the Commission of Audit's work and the report reflect the values that have shaped the wide-ranging, radical, set of recommendations that will ideologically sit well with the government, even if many of them will be politically unpalatable.

The big picture story is about government being smaller, getting out of the way of the market, reducing complexity, targeting welfare, and fixing a broken federation. None of these in and of themselves are a surprise, but together they set out a (potential) agenda for change that would see a leaner, meaner government model embedded in Australia.

Much faith is placed in the ability of the market to allocate resources and citizens to do things for themselves. Less faith is placed in government's ability, in particular the public service. A "hit list" of privatisations is set out, alongside a call for increased competitive tendering and outsourcing – most radically perhaps the suggestion that the Government Payment System should be or could be outsourced. A slower roll-out of the NDIS, health co-payments, the **sale** of Australia Post and cuts to the public service were all expected.

The devil is in the detail, all 5kg of it, and what the government has chosen to adopt, to reject, or to hold. A blueprint for a radical rethinking of the role of government was requested and we have it.

Helen Dickinson, Associate Professor Public Governance at University of Melbourne

The Commission of Audit report starts from the assumption that "business as usual" is not an option for Australia. This conclusion is likely to be one shared by those on both sides of the political spectrum, although there will be less agreement on how to achieve this.

The report is firmly underpinned by a belief in small-government and neo-liberal market-based economic ideology. The proposals purport to reduce wasteful spending, improve productivity and generate value through every dollar spent.

Some of the proposed mechanisms to achieve this include the introduction of co-payments (e.g. doctors, emergency room visits, taxpayer funded medicines) or restricting access to benefits (e.g. forcing those aged 22-30 and unemployed for over 12 months to relocate to areas of high employment or risk losing support).

One of the principles of “Good Government” that guided the recommendations is that the “truly disadvantaged” should be protected. Yet where we have seen these sorts of proposals implemented in countries such as the US and UK the result has been an exacerbation of disadvantage and increased inequality. Sure, short term monetary gains may be made, but this is often at the expense longer-term societal relations.

In the discussion of the report that ensues I hope we see alternatives to this ideological-driven narrative emerge so that we might have a proper debate over the future of government spending and the sort of society that we want to live in.

Sinclair Davidson, Professor of Institutional Economics at RMIT University

The Commission of Audit report is very disappointing in its approach to the structure of government. My view is that the federal government should do less, better. When we look at the the recommendations we see that only ten government agencies or bodies are identified for privatisation. Then only 42 are recommended for abolition. Consolidation and merging government functions will **lead** to very few, if any, savings.

To my mind, this rather weak effort to cut government activity is a reflection of the modest terms of reference the government set for the Commission of Audit in the first instance.

It is important to note, however, that privatisation as a source of revenue for government is a false economy. Using the proceeds of privatisation to reduce debt does nothing to prevent future governments from running up irresponsible debts. Privatisation should be seen as a mechanism for government to exit those areas of activity best suited for the private sector.

What I would have liked to see is the federal government exit those areas of activity that the states should perform and those areas that the private sector do better. The recommendations contained in the Commission of Audit report are far too modest.

Industry and innovation

Roy Green, Dean of UTS Business School at University of Technology, Sydney

In a mishmash of free market ideology and wishful thinking, the Commission of Audit recommends the abolition, scaling back or “consolidation” of almost all government industry and innovation programs. While the rest of the world is focused on new sources of growth in knowledge based products and services, these recommendations would make Australia increasingly dependent on the export of unprocessed raw materials in volatile global markets.

Against all the evidence of the factors that drive growth and competitiveness in high cost economies like Australia, the government is advised to scrap proven cost effective programs, such as Commercialisation Australia, Enterprise Connect, Cooperative Research Centres and the Clean **Energy** Finance Corporation.

Meanwhile, other governments, even conservative ones, in Europe and the US are expanding such programs with beneficial results in the wake of a global economic crisis which Australia largely managed to escape, thanks ironically to a swift and well-calibrated public policy response.

Examples include the Technology Strategy Board and Catapult Centres in the UK which have contributed to the repositioning of that country’s manufacturing sector towards “smart specialisation” in global value chains. Isn’t this exactly what is required in Australia as a response to the closure of car assembly and other large scale production facilities?

Instead the Automotive New Markets Program, which is designed to assist components suppliers to diversify and globalise their production, will be strangled at birth. The Innovation Precincts Program, which might have accelerated the development of world competitive clusters of Australian expertise, will not even get started.

Education

Geoff Sharrock, Program Director, LH Martin Institute at University of Melbourne

For Australian undergraduates, the Commission of Audit proposes a step further down the user-pays path.

It notes that students carry about 41% of tuition costs on average now, and proposes to lift this to 55% and reduce Commonwealth subsidies to 45%. In 2013 the Commonwealth spent \$6.1 billion in direct subsidies while students contributed \$4.2 billion, mostly via HELP loans.

If students had to meet a further 14% of the total \$10.3 billion spent on tuition in 2013, the government would save around \$1.4 billion. Most of this would become HELP debt, to be repaid over time by students. Apart from budget savings the rationale here is that the private benefits of study are large enough to justify the move.

The Commission of Audit also recommends seeking a report from the education minister in 12 months' time with options to partly or fully deregulate fees for bachelor degrees, "taking into account any relevant recommendations" of the [Kemp-Norton Review](#).

Here, the Commission of Audit considers that allowing universities to set their own prices would lead to more competition, better quality and more innovation. A full report on this is certainly needed. Whether an open market built around HELP loans would push course costs down on average, rather than up, remains to be seen.

The Commission recommends "streamlining" the various HELP schemes to make their administrative fees and interest charges consistent. This makes sense, given the anomalies. For example, there is a 25% loan fee on bachelor level FEE-HELP loans for students outside the public university system. This doesn't apply to HECS-HELP loans or to FEE-HELP loans for postgraduates.

The Commission of Audit also recommends applying an interest rate to HELP loans to reflect the full carrying cost of accumulated HELP loans, including bad debts. Again, this makes sense. As shown in the Grattan Institute's [Doubtful Debt](#) report, these costs are substantial.

The Commission of Audit recommends reducing the income threshold that triggers repayments on HELP loans from its current level of \$51,300 a year, to speed up loan repayments. The new threshold it proposes is the minimum wage, currently \$33,250. Even at a lower initial repayment rate, this is a big step. It would not be consistent in cases where other government programs provide other forms of financial assistance at higher thresholds. For example, currently the Family Tax Benefit Part A applies to family incomes of over \$48,800.

In sum, if budget savings are the main aim, all of the recommendations are worth considering. But some could have large and controversial impacts on student/graduate finances: deregulating fees, lowering subsidies, and setting lower thresholds for loan repayments.

Gwilym Croucher, Higher Education Policy Adviser at University of Melbourne

The Commission of Audit report contains far-reaching recommendations for the Australian higher education sector: to make students pay more and to tighten the loan scheme.

Seeking to recognise the potential private financial benefits of undertaking a degree, the report recommends public funding be cut so the average government contribution decreases 14% per student (from 59% to 45%). The average proportion of costs paid by students would rise from 41% to 55%.

But other than noting the "substantial private benefits that arise from higher education", the report is coy as to why these specific levels of reduction are justified.

If accepted, this will mean a large cut in public funding for institutions and a shift toward either partially or fully deregulated fees for bachelor degrees. The report says that the education minister should report within a year on the preferred policy choice. There is a real risk to universities (and hence students) that in the end there may be less overall resourcing to deliver education.

The report recommends tightening the Higher Education Loan Programme (HELP) by increasing the interest rate applied on loans to a higher rate covering a greater proportion of the cost to government of offering the loan (cost of borrowing, bad debts and administration).

It also recommends reducing the threshold for loan repayments from \$51,309 per year to the minimum wage of \$32,354, but a starting repayment rate of only 2.5%. This is a regressive policy that is less in the spirit of the original HECS and which will affect those least able to pay.

On the research side for universities, the report suggests a number of programs that foster industry and university linkage have been recommended to be abolished, including the Industry Innovation Precincts Program and Collaborative Research Networks.

The report recommends aligning the NHMRC and ARC competitive grant processes and looking at grants running for a longer period, as well as changing postgraduate scholarships arrangements and the research "block grants" which support the indirect cost of research.

Glenn C. Savage, Researcher and Lecturer in Education Policy, Melbourne Graduate School of Education at University of Melbourne

Ultimately, the Commission of Audit's school funding recommendations are designed to drastically cut the size of the Commonwealth Department of Education. This reduction is to be achieved mainly by transferring all policy and funding responsibilities for schools to Australia's state and territories.

Calls to abolish or reduce the size of the federal department have been popular among the economic Right for many decades, mirroring arguments in the US. Indeed, if implemented, the Commission of Audit's recommendations would see Australia edge closer to the American system, where states and local districts govern funding and the federal government plays a minimal role. This has resulted in a highly inequitable system, with the funding of American schools varying dramatically based on location.

If implemented in Australia, the Commission of Audit's recommendations would allow for the unequal funding of public schools between states and territories. Rather than moving towards a more equitable funding system, therefore, the Commission of Audit provides a platform for further entrenching existing inequalities. On what basis could this be seen as a fair or reasonable outcome for young Australians?

The Commission of Audit also suggests that the Coalition should abandon the needs-based funding model proposed by the Better Schools Plan (known as the Gonski reforms) from 2018 onwards. The Commission of Audit argues that "increasing funding does not necessarily equate to better student outcomes", arguing instead that "what matters most is how schools and classrooms are run".

This argument is another staple of the economic right. It is a highly reductive and simplistic argument that seeks to abrogate responsibility for properly funding schools by putting the onus for student achievement onto schools and teachers.

In summary, the Commission of Audit puts forward a dangerous set of reforms for schools: a perfect formula for deepening inequalities in Australian education.

Social policy

Ben Spies-Butcher, Lecturer in Economy and Society, Department of Sociology at Macquarie University

As expected, the Commission of Audit has set its eyes on substantially reducing access to the aged pension and gradually reducing its relative value. The Commission of Audit goes further than previous speculation, creating a new test for the age restriction on the pension, benchmarking it to life expectancy. This would potentially see the eligibility age increase indefinitely.

It is unclear how quickly increases in the future would take effect, but this would create new uncertainties for all older workers, with little evidence of significant budget savings. It also proposes tightening means-testing and inclusion of the family home in the means test.

More surprising are proposals to reduce the aged pension as a proportion of average weekly earnings. The previous Labor government only recently raised the pension rate amidst concerns of growing aged poverty. There is no mention in the report of the impact of the proposals on poverty rates. Compared to other rich countries, Australia has traditionally had very low public spending on the pension, but relatively high rates of aged poverty. These proposals would likely see poverty rise, especially amongst those in private rental.

The proposals are largely the result of the Commission of Audit's terms of reference, which demanded savings while excluding tax expenditures (to be dealt with in the Tax Reform White Paper). This division of responsibilities creates significant incoherence in an area like retirement incomes. The changes proposed on the spending side are likely to have much smaller budgetary impacts, but much larger and more negative social impacts, than would any more holistic approach.

Tax expenditures are the real budgetary problem. Concessions for superannuation are set to over take the entire cost of the pension and grow at a substantially faster rate. Even in the area of housing, it is tax concessions more than the exclusion of the family home that generate fiscal pressure. As the Australia Institute has shown, when we take pension payments and tax expenditures together, the problems of inconsistency created by the current means-test and fiscal pressures are more easily addressed by eliminating the means-test, creating a universal payment, and correcting the tax distortions.

This may sound idealistic, but would do more for budget sustainability and be less distortionary than all of these proposals combined.

Veronica Sheen, Research Associate, School of Social Sciences at Monash University

As the Commission of Audit says itself, it has not dealt extensively with taxation issues, which are the subject of a forthcoming White Paper. So we have a set of proposals focused on government expenditure and ancillary recommendations related to state-Commonwealth responsibilities and more efficiency in government agencies and services. This means that the big numbers on social spending are very compelling outside a broader context in relation to revenue.

There have been long-term problems with some aspects of pension eligibility. My long-standing view from work in this policy area has been that it is reasonable with the burgeoning prices of capital city housing, which has particularly benefited older home owners, that this be included in the means test through home **equity** conversion for high value homes.

The recommendation on lifting the pension age to 70 over a long period to 2053 is better than some reports that it would be lifted to 70 as early as 2030. This gives time for a better adjustment across the working-age population.

However, the recommendation to change indexing arrangements is of concern. For those solely reliant on an age pension and with a low asset base, it is still a low payment.

The recommendation on reducing growth of the minimum wage for low-skilled workers sets a benchmark of a minimum wage at 44% of Average Weekly Earnings. The minimum wage is currently 43.3% of the average full time wage so the report's recommendations would pull the minimum wage lower than this using a [AWE benchmark](#). Ten years ago the minimum wage was 48.2% of [average full time wages](#), so the report's recommendations would consolidate further erosion of living standards for those on the lowest wages.

The recommendation is also set against increasing the withdrawal rate of the income test for unemployment payments to make Newstart even more unattractive as a payment. They include measures to force young unemployed people to move to areas with better job prospects. There are no recommendations to improve the very low Newstart payment.

The Carer Payment and Disability Support Pension are sensitive areas of public expenditure. I have never seen any evidence that there is large-scale or inappropriate reliance on these payments, so I am sceptical about the relevant recommendations.

Welfare savings

Ben Phillips, Principal Research Fellow, National Centre for Social and Economic Modelling (NATSEM) at University of Canberra

The suggestions by the Commission of Audit deliver some very large savings to Australia's welfare system.

The largest savings would likely relate to the aged pension. Tighter means testing, older eligibility ages and ultimately lower payments will offer very large savings in the long term. The means-testing arrangements are currently pretty light on, so some savings here do make some sense from a budget perspective. Some of the political pain would be eased by the fact the pain won't be felt for some time and will be largely grandfathered to future pensioners.

Other large savings will be made on family payments. **Millions** of families will be left worse off by these policies if they are ever implemented. A couple family with a single income will be worse off by around \$8,000 a year. Given that the median income of couples with children is around \$120,000 a year, these cuts will hit not just middle-income families but also lower-middle-income families.

FTB part **B** is poorly designed with too many high-income families receiving this payment. Combining the part A and part **B** payments for single parents with young children does make policy sense. Removing the payment entirely for couples with very young children may be a bridge too far for the government. Lower-middle-income families will be hit hard by the reduced part A payment.

The commission sensibly suggests the removal of various supplements that make no policy sense - such as the multiple child allowance and large family supplement - and reducing payments for children subsequent to the first on the ground of economies of scale. Under their current design and trajectory, family payments were a shrinking share of the budget and generally considered by experts to be mostly well targeted, albeit with some areas of fat. These cuts are certainly more dramatic than was expected.

The commission sensibly recommends a simplification of Australia's very complicated childcare benefit and rebate system. I would suggest their suggested design will be more expensive than the existing scheme and there will be some significant winners and losers as a result of a move to a simpler scheme. Including

nannies in the subsidy scheme may prove to be wildly expensive if people turn away from long daycare centres, which are naturally much cheaper on a per-child basis.

The paid parental leave recommendation sensibly suggests a lower maximum payment as a proportion of the average weekly earnings. The Productivity Commission recommendation on this was that the minimum wage was a superior policy and would have resulted in much more significant savings.

The unemployment benefits (allowances) recommendations suggest young unemployed should move to high-employment centres and that their payments be reduced more quickly than is currently the case. These recommendations are mostly based on ideology and are unlikely to have a significant impact on the unemployment rate. The impact will hit single parents who have been shifted onto the Newstart Allowance payment as they will have less incentive to work and a smaller allowance for the hours they already work.

Public broadcasting

Andrew Dodd, Senior Lecturer in Journalism at Swinburne University of Technology

The ABC's first reaction to the release of the Commission of Audit report must be one of relief. Major cuts to the ABC and SBS have been averted, for now.

The same cannot be said for the Australia Network, which is funded by the Department of Foreign Affairs and Trade but run by the ABC. The Commission of Audit has recommended it be scrapped because it claims it is not the most efficient way of achieving soft diplomacy in our region. This is certainly arguable and definitely unfortunate given the network's successful inroads into **China** in recent weeks.

But there are no real surprises here: the government has been sending not-so-subtle messages that the Australia Network faces cuts or closure.

On ABC and SBS funding, the Commission of Audit said there really is no such thing as the right amount, insisting instead on driving a culture of efficiency in both organisations. On this score, it looks like the right hand knows what the left is up to because the commission has recommended that the ABC and SBS be benchmarked against commercial television networks and that funding should be based on this.

It is as if communications minister Malcolm Turnbull has already anticipated this, because in January he commissioned former Seven network executive Peter Lewis to conduct an efficiency review of the ABC and SBS.

So now, all eyes must be directed at Lewis' report, which is due to be released around the time of the federal budget. Insiders say Lewis has taken some convincing that the ABC's approach to news and current affairs requires greater funding than the Seven Network. So his recommendations, and the ABC's reaction to them, will tell us much about the future of funding for our national broadcasters.

Ben Spies-Butcher is a voluntary office bearer for the Australian Greens.

Janine O'Flynn has received research funding from the Australian Research Council, the Australian Public Service Commission, and the Brotherhood of St Laurence.

Sinclair Davidson is Professor of Institutional Economics at RMIT University and a senior fellow at the Institute of Public Affairs. He has previously held research grants from the Australian Research Council.

Andrew Dodd, Ben Phillips, Geoff Sharrock, Glenn C. Savage, Gwilym Croucher, Helen Dickinson, Roy Green, and Veronica Sheen do not work for, consult to, own shares in or receive funding from any **company** or organisation that would benefit from this article. They also have no relevant affiliations.

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AN Document CONVAU0020140502ea5100016