

1. Introduction

“... amongst the OECD nations, we are the only one to be in the top ten most effective governments, but the bottom five lowest taxing nations. This is strong evidence that we have a far more efficient government than most of our peer nations”¹

This submission argues that Government in Australia is not excessive in size or scope, is served by an effective public sector and has already been subject to significant fiscal constraint in recent years. The CPSU advocates for a positive role for Government and the public sector that enriches our nation and provides the support and services we need for a fair, safe and prosperous society. The submission outlines some of the reviews and efficiency measures already underway in the Commonwealth government, and raises concerns about the current level of staff reductions and the further cuts proposed at the Commonwealth level. Some examples of the problems that arise from privatisation and outsourcing are also discussed

Given the timeframe and length limitations of this submission process this it is not an exhaustive response to the issues raised by the Commission’s Terms of Reference and is restricted to key points and limited examples of our main areas of concern.

Any review of the scope, efficiency and function of the Commonwealth Government should start with an acknowledgement that our public services are efficient, accounting for only 7% of Commonwealth government expenditures², and that as a country we have a high standard of public services. This does not mean we shouldn’t from time to time look at if and how we can do things better, but any review should be underpinned by three key objectives:

- that public services are reliable, transparent and accountable, available when and where the community needs them;
- these services are staffed by a skilled, professional and stable public sector workforce; and
- recommendations for change arise from evidence-based improvements to public service delivery that ensure community obligations are met and quality outcomes achieved.

We ask that the Commission consider these objectives in its deliberations.

2. Commission Process

The CPSU has serious concerns about the process for the National Commission of Audit. The first line of the Commission’s terms of reference notes that ‘it is almost 20 years since there has been a thorough review of the scope, efficiency and functions of the Commonwealth government.’ However just three months have been allowed between the announcement of the Commission and the first phase of the report to the Prime Minister on the scope of government, efficiency and effectiveness of government expenditure, state of the

Commonwealth finances and the adequacy of existing budget controls and disciplines. Just a further two months have been allowed for the second phase, covering Commonwealth infrastructure and public sector performance and accountability. A thorough review of the entirety of the functions of the Commonwealth government in just three to six months is unrealistic and it is questionable whether valid recommendations can be made in such a timeframe. In stark contrast, the Coombs Inquiry, reporting in 1976, took two years to undertake its work and did so with the powers of a Royal Commission. A proper, comprehensive review of the functions of the Commonwealth and how it interacts with other tiers of Government in less than six months is unrealistic.

The composition of the Commission also raises significant concerns. Rather than being a representative group, the Commission exposes itself to criticisms of a bias towards the views of large corporations and of ignoring the views and expertise of the community sector, small and medium enterprises, trade unions, the public at large and those doing the work of government. This narrows the field of experience and the ideas that could otherwise be generated. Additionally, the CPSU is concerned about public announcements that appear to pre-empt any findings the Commission might make. The proposal that Department of Human Services functions may be delivered by Australia Post and that Medibank Private be privatised are two such examples. It is also unclear how much of the Commission's findings will be made public, an outcome that is inconsistent with claims of open, transparent and accountable decision making.

Given these wide-ranging concerns it is unlikely that the Australian public will have much confidence that the National Commission of Audit will be thorough, evidence-based or reflective of broad community aspirations for government and society.

3. Government in Australia – how big is the problem?

The terms of reference for the Commission open with the following statement:

It is almost 20 years since there has been a thorough review of the scope, efficiency and functions of the Commonwealth Government. During this time the size of the Commonwealth Government has expanded significantly, as has the remit of some of its activities.

This statement is not supported by the evidence as the following discussion demonstrates.

3.1 Comparative size and efficiency

The ACTU notes in its submission to the Commission that the size of Commonwealth government relative to GDP is only 0.2 percentage points higher than it was in 1996-97, when the last review was undertaken³; and that the size of government revenue and expenditure relative to GDP is low compared to other advanced economies⁴. Australia's tax-to-GDP ratio is also on par with developed economies in our region. Commonwealth receipts as a proportion of GDP is estimated to be 23.6 per cent in 2013-14 – similar to the 23.7 per cent level inherited by the previous Labor Government in 2007.⁵

In comparison to other OECD countries, Australia not only has low rates of taxation, but highly effective provision of government services.⁶ As Figure 1 shows, Australia is one of the few OECD countries able to combine these elements.

Figure 1 - OECD nations ranked by lowest taxing and highest effectiveness (2010)⁷



In 2012, Australia was ranked in the 94th percentile for government effectiveness and 97th for regulatory quality by the World Bank.⁸ Government effectiveness measures the quality of public services, its independence and the quality of policy formulation and implementation. Regulatory quality measures the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Ongoing cuts in the public sector through labour and funding reductions threatens this standing.

3.2 Commonwealth workforce – how big is the problem?

Not only is Australia a low-taxing, low-spending country, it also spends a relatively small percentage of that money on its public sector. Employment in the general government sector (across all tiers of Government) is at 15.7% on par with the OECD average of 15.5%.⁹ Australia also spends less than average on its public services. The OECD average is 13.6% of government expenditure on general public services while Australia spends 12.5%¹⁰ Of this,

the Commonwealth public sector workforce constitutes only 7% of total Commonwealth Government expenditure¹¹.

Increases in the size of Australia’s public sector workforce have been used by critics to illustrate the growth in the size of the Commonwealth Government. To the extent that the Commonwealth public sector workforce has grown, this has been proportional with growth in Australia’s economic activity measured by GDP. Moreover, the growth in the population served by the federal public sector has significantly outstripped the growth in the number of employees. Since the previous Labor Government’s first Budget in 2007-08, the number of public sector employees (general Government sector excluding the Australia Defence Forces and reserves) only grew by 3,269 ASL or 1.9 per cent in seven years (Table 1).¹² In comparison, the population grew by 7.6 per cent between June 2008 and June 2013.¹³

Figure 2: Australian Government Total Expenses¹⁴

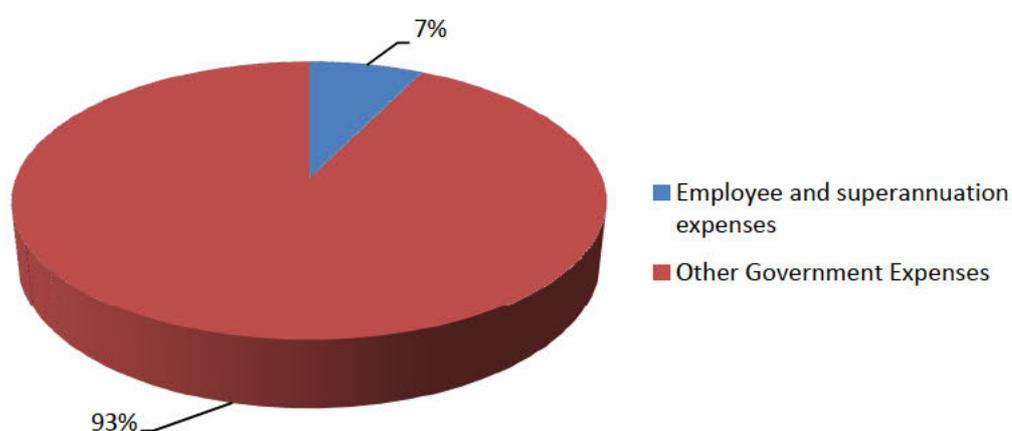


Table 1: Commonwealth Budget Average Staffing Levels (ASL) 2007-08 to 2013-14

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
General Government Sector	248,217	250,566	258,321	261,891	261,637	256,631	257,376
Defence Military -	53,156	55,118	57,777	59,023	57,882	56,711	58,235
Defence Reserves -	19,530	20,026	21,574	21,850	21,250	19,967	20,450
Defence Military and Reserves -	72,686	75,144	79,351	80,873	79,132	76,678	78,685
Public Sector Employees	175,531	175,422	178,970	181,018	182,505	179,953	178,691

If the Government maintains its commitment to cut the public sector by at least 12,000, the size of the general government sector will shrink over the next two years, while Australia's population will continue to grow. Maintaining the level of services the Australian community rightly expects will be extremely difficult in these circumstances.

3.3 Balancing the Budget – a state of crisis?

The ACTU submission reveals that the Commonwealth Budget is on track to hit the target of a 1% surplus by 2023 that has been set for the Commission without further cuts or government downsizing. Rather than a system in crisis, the submission highlights the following strengths of the Australian debt and fiscal performance.

- Australia's net public debt is much smaller than that of most other OECD advanced economies.¹⁵
- The Final Budget Outcome for 2012-13, shows that the fiscal position improved by 1.7 percentage points of GDP, the largest single-year tightening of fiscal policy for at least the past 40 years.
- A 3.2% reduction in expenditure in 2012-13, the largest fall in inflation-adjusted expenditure by the Commonwealth on record, with records going back to 1970.

The ACTU goes on to demonstrate that a decline in revenues, not an increase in expenditure has been the primary source of any deterioration in the structural fiscal position. We support the ACTU proposition that to the extent that tighter fiscal policy is desired, this should be achieved through increasing tax receipts, not by reducing expenditure. CPSU supports the position adopted by the ACTU in relation to revenue and taxation.

4. Government in Australia – what is its role?

The Commission has been asked to identify whether there remains a compelling case for activities to continue be undertaken, and if so could the private or not for profit sector do them more efficiently. The CPSU argues that a review of the work and scope of government should start with a discussion about the type of society we want. Over 2012 CPSU members developed a strategic plan called *Shaping Our Future*¹⁶ that advocates the following principles:

Fairness, equality and opportunity in every part of our community and economy, with government playing a central role.

A strong and sustainable economy that protects workers and jobs in rapidly changing times – all Australians should benefit from the nation's wealth and be helped through economic change.

A fair and equitable tax system where everybody pays their fair share and which can fund the services and safety net we all rely on.

A social safety net that supports decent minimum living standards and dignity in retirement for all Australians.

Access to high quality and universal services such as public healthcare, education, childcare, aged care and services for people with disabilities.

A sustainable environment and liveable cities with protection of our natural heritage and provision of adequate infrastructure, transport and housing.

Opposing discrimination in all forms, a tolerant, multicultural and inclusive society and providing equal treatment before the law.

Respect for Aboriginal and Torres Strait Islander people as traditional owners, supporting reconciliation and closing the gap in Indigenous disadvantage, including by increasing employment.

Strong unions as a voice for working people and to help balance the power and influence of business and media interests.

4.2 The work of Government – someone else’s problem?

The CPSU believes the work of Government should be supported by a strong public sector providing quality services. All Australians benefit from a public sector that can meet the big national challenges and deliver the quality public services our community needs. A public service which is properly funded, apolitical, transparent and accountable is a crucial part of our democracy.

The Commission’s terms of reference imply movement of Commonwealth functions to another level of government; the possibility of vacating some areas of service provision entirely; and the diminution of direct responsibility of government through outsourcing and privatisation.

In the CPSU’s view, these courses of action, if adopted, would pose the risk that government fails to meet its full responsibilities to all Australian citizens, and would lead to diminished social outcomes. This has been the experience in the United Kingdom where under the cover of “Big Society” the British government cut thousands of public sector jobs, transferred significant amounts of work to the private sector and slashed social expenditure under the misleading premise of community empowerment. These actions prolonged the recession and increased debt in the United Kingdom. They also dismantled much of the government infrastructure and service capability and significantly reduced community access to services and support.¹⁷

The public sector has a range of social, environmental, governance and community obligations, and delivers outcomes that cannot be captured solely by financial measures¹⁸ A focus on purely financial inputs, i.e. cost of services, may result in situations where increased “efficiency” leads to a reduced quality of services and the neglect of other obligations.¹⁹

Making the work of government someone else’s problem does not make the challenges and opportunities we face as a society disappear. Governments are elected to fulfil obligations to the community, and accordingly they should accept that responsibility.

4.3 Private sector value for money

In determining what represents value for money for the Australian taxpayer it should be noted that significant sums are already spent on private sector providers and government contractors, and these do not always represent best value for money or the same degree of accountability and control that can be exercised with direct service provision. The examples of this are the use of ICT and Defence contractors and private sector providers to deliver core functions.

One-in-five APS ICT employees work as contractors²⁰ and can cost \$186,000 a year, nearly double the cost of an APS ICT employee.²¹ The increased cost of contractors is not limited to ICT employees. Defence Department contractors can cost between 15 and 30 per cent more than APS employees.²² There is no guarantee that the use of contractors will result in a better outcome or that there will be the same level of accountability. An ANAO audit report found that while contractors were treated similarly to APS employees, for the majority of engagements, “there was generally little formal assessment of how the contractor met the contractual terms.”²³

Many APS agencies use private sector providers to deliver core functions. For example, the Australian Taxation Office uses a range of providers for contact centre services. The use of these private providers does not prevent cost blow outs or guarantee value for money. In 2010, the Australian Taxation Office has revealed that its five-year desktop services contract with Lockheed Martin was 25 per cent higher than it had initially estimated.²⁴

These examples show that use of contractors and outsourcing does not necessarily provide better value for money.

4.4 Red tape or protecting citizens?

Characterising all regulation using the pejorative label of “red tape” does not give sufficient credit to the role that good regulatory standards play in both society and the economy. It is also dismissive of the work of public sector employees who are employed to enforce regulation that is determined by government. Regulation defines the obligations individuals, groups, corporations and government have towards each other. Government workers play vital roles in this system. There are many examples of such roles which include provision of a social security safety net; delivering health and education services; ensuring fair laws for consumers and businesses; ensuring medicines and foods are safe, staffing courts and providing law enforcement. Public sector employees in these roles do not deserve to be characterised as faceless bureaucrats with a personal interest in increasing the complexity of regulation.

4.5 Delivering high standards

The APS continues to deliver high standards of public administration regardless of which party forms Government. It is essential that the APS has the support and funding needed to continue this high standard. As the current Speaker of the House and former Shadow Minister of State, Bronwyn Bishop, has noted that “it is always essential that the public service can be

relied upon for fair and impartial advice that ministers can act upon. Having been a minister in the previous government, I can tell you it is very valuable to have.”²⁵

Other former Howard Government Ministers have also spoken of the high standard of the Australian Public Service. Former Senator Chris Ellison stated that “as a minister, I have received the support and advice of a Public Service who are too often overlooked and too often not noticed for the great work that they do in the service of their country. Whether it is Centrelink during times of emergency, Medicare providing valuable services to the people of Australia or the AFP and Customs keeping Australia safe and secure, I have seen outstanding work.”²⁶ Former Finance Minister, Senator Nick Minchin, has also commended the Australian Public Service stating his strong support for “what we know from our years in government is an extremely professional and confident Australian Public Service.”²⁷

5. Efficiency and reviews

A review of this scope should acknowledge both the range of initiatives already underway, and recent reviews of the work of government. Contrary to the assertion in the National Commission of Audit’s Terms of Reference, there have been many reviews of the Commonwealth Government since the last National Commission of Audit.

Over the past five years, the Government has undertaken multiple reviews into the role, efficiency and effectiveness of the Australian Public Service. The reviews have recommended a range of options to improve the efficiency of Government. Many of the suggestions listed in the Commission’s Terms of Reference have already been examined by these reviews. The recommendations have emphasised that improving efficiency is a long-term process that requires planning, co-ordination and Commonwealth investment in the skills of APS employees and information and communications technology infrastructure.

Recent initiatives include the APS Management Advisory Committee project on public sector innovation; Service Delivery Reform in the Department of Human Services; Operation Sunlight on enhancing budget transparency; and, implementing the recommendations of the Gershon report on government use of information technology. This submission reminds the Commission of the main features of some of these reviews.

5.1 Gershon Review

In 2008, a report into the ‘Government’s Use of Information and Communication Technology’ (Gershon Report) was commissioned by the Commonwealth Government. The Report found that outsourcing has cost the Commonwealth Government significantly. A key finding was that the extensive use of ICT contract staff had been significantly more expensive than engaging in-house employees. An ICT contractor cost an agency \$186,000 per annum, \$94,000 more than the average *Financial Management and Accountability Act* (FMA Act) agency ICT employee.²⁸

Key recommendations arising from the Report to improve ICT efficiency included:

- developing and maintaining a whole-of-government strategic ICT workforce plan;

- careful consideration of the use of shared services;
- reducing the total number of ICT contractors across the APS by 50 per cent over the next two years and increasing the number of APS ICT staff; and
- making better use of the Government’s collective buying power.²⁹

All report recommendations were endorsed in full in November 2008 and an ICT Reform Program initiated.³⁰

The *Independent Review of Implementation of the ICT Reform Program* (‘Independent Review’) released in June 2010, identified that the Gershon initiatives would have resulted in savings on ICT budgets totalling \$1 billion over four years.³¹ Unfortunately \$447.5 million in funding quarantined to implement the Gershon recommendations were reclaimed prior to the implementation of the initiatives that would generate the savings.³²

The Independent Review noted other initiatives under early consideration for shared services include; establishment of a common payments utility, a single granting platform, greater standardisation around a single parliamentary workflow system and records management and web site rationalisation.³³ The Gershon experience clearly shows there is potential for significant savings but only if the necessary investment is made and only if ICT is not seen only as a cost but also as an important element in government infrastructure and capability.

5.2 Review of Commonwealth Legal Services

A 2009 review of Commonwealth legal services procurement found that significant long term savings could be made by investing more resources into training and development of in-house legal services in the short term. The review found that increased professionalism of in-house legal teams would improve service delivery and lead to more informed and better value procurement.³⁴

5.3 Moran Review

In September 2009, the then Prime Minister, Kevin Rudd, established an Advisory Group on Reform of the Australian Government Administration to develop for reform of the public service (‘Moran Review’).

Released in March 2010, it made a number of recommendations regarding improving efficiency, simplifying services, delivering services in closer partnership with other tiers of Government and reducing unnecessary regulatory burdens.³⁵

In May 2010, the Government announced it would accept all the Review’s recommendations.³⁶ Recommendations included:

- Reviewing the current mechanisms used to drive agency efficiency
- Conducting agency capability reviews
- Providing simplified funding arrangements
- Implementing simplified citizen-focused service delivery with automated and simplified business processes

- Minimising reporting and compliance requirements for business and removing unnecessary or poorly designed regulation
- Streamlining administrative and legislative compliance in areas and
- Developing mechanisms that ensure red tape was minimised.³⁷

While the CPSU did not support every recommendation in the Moran Review, it is an example of a comprehensive Government review process that involved agencies, employees and public policy experts. It recognised the productivity and good work of public servants and their role in the community and provided a broad ranging and ambitious plan for the APS.

The CPSU acknowledges the mixed results from this review, predominantly because of inadequate funding arrangements. An initial allocation of \$38.5 million was provided to implement the Moran Review recommendations but in a decision highly criticised by the CPSU this was reduced during the 2010 election campaign, leaving only \$9 million for APS reform.³⁸

As the Moran Review was undertaken only three years ago, it is unclear why it is necessary for the Commission to cover much of the same ground. There is an opportunity to save much duplication of effort through re-visiting the outcomes of that process and identifying which areas require further support for implementation.

5.4 APSC Capability Reviews

In response to the Moran Review, the Australian Public Service Commission commenced development of the Capability Review Program in mid-2010.

In December 2011, the Australian Government rolled out a program of Capability Reviews across the Australian Public Service, including 23 departments and major agencies. Reviews have been undertaken in a range of agencies including the Department of Human Services, Customs and Border Protection, Department of Immigration, Department of Prime Minister and Cabinet and Department of Infrastructure and Regional Development.³⁹ One of the biggest, the DHS Capability Review, was released in August 2012.

DHS Capability Review

The DHS Capability Review found that one of strengths of the DHS was its exceptional performance and reliability day after day in the delivery of activities of extraordinary scope and scale.⁴⁰ The significant crisis response capability of the Department, which has been particularly evident over the last few years, was also acknowledged. The Review also noted that DHS was already undergoing workforce restructuring and upgrading with the aim of transforming service delivery so that most transactional services were automated and most routine entitlements would be settled through customer self-service.⁴¹

While identifying some areas for improvement, the DHS Capability Review assessed DHS as well-placed for innovative delivery and to manage performance. It found that DHS continued to trial positive new models of service delivery based on good practice and that it consistently delivers on an extraordinary range of activities, to the satisfaction of customers, the

community and government.⁴² The Capability Review also noted that DHS often does not get recognition for the important role it does:

*“As much as the department is held in high regard by the public, the extraordinary scope of the work that DHS does is often not well recognised within the APS and throughout the broader community. Yet the department delivers on a consistent basis an extraordinary range of payments, services and activities, and any breakdown in this regard would soon manifest itself in social disruption. This is generally done out in the Network by relatively junior staff who occupy leadership roles in regional offices”.*⁴³

5.5 Building on existing work

Supporting the ongoing implementation of the range of reviews and restructures already underway could be the most cost effective way of improving public sector capacity and performance in a way that is aligned to the needs of government and taps into the experience and capacity of those already doing the work. As outlined above, there is already considerable expertise and commitment to support this task within the Australian Public Service.

6. Outsourcing and Privatisation: challenges and examples

A number of the reviews outlined above identified additional costs which have accrued to government expenditure as a result of contracting out. The CPSU notes that the ACTU submission to the Commission provides a detailed examination of the issues that can arise in contracting out of government services, notably vendor dependency, provider concentration, and gaming.

6.1 Centrelink functions

In Senate Estimates hearings it has been revealed that Australia Post has been given clearance to make a submission in relation to taking over services such as administering Centrelink payments. We understand that Australia Post may have been advocating for such work for some time and as such have deep concerns a decision has already been made in regard to this matter.

Both Australia Post and DHS staff already undertake a wide range of complex tasks in their day to day roles. To expect that these can be easily combined undervalues the work of both organisations and the complex infrastructure each set of functions relies upon. It also fails to recognise that DHS already performs exceptionally and reliably day after day in delivering a massive scope and scale of services.⁴⁴

It is unclear at this stage exactly which services or transactions it is envisaged that Australia Post could take over. A recent newsletter sent out by Licenced Post Offices refers to carrying out the “day-to-day face-to-face functions of Centrelink” and doing “simple transactions” such as lodging forms that require proof of identity or pay slips.⁴⁵ However there are few simple transactions in Centrelink and those that are straightforward such as lodging forms are

increasingly being conducted online. When a customer attends a Centrelink or Medicare office, it is usually because they cannot perform the function online or need more comprehensive support or assistance. Australia Post staff are not trained to deal with these more complex matters, and nor are post offices laid out and equipped to allow these functions to be undertaken.

As two thirds of Australia Post shopfronts are privately run,⁴⁶ time consuming and complex Centrelink client queries that are assessed as being ‘unprofitable’ risk being put to the back of the queue by private-sector franchisees. This would have a disproportionate impact on senior citizens, people with a disability, and the most vulnerable Australians. Combining functions of the two organisations would only result in more queues and more frustration among both Centrelink and Australia Post clients. This is likely to result in an increase in customer aggression, especially if a DHS customer’s questions cannot be answered, and an overall increase in transactions and double-handling when DHS customers who cannot have their matters dealt with then need to attend or call a DHS office or call centre . This situation would result in an overall reduction in the quality of service delivery on behalf of DHS, an organisation many Australians rely on at various points of their lives.

Australia Post shopfronts are not designed for the high incidences of customer abuse and aggression directed towards Centrelink staff. In 2011-12, 5,900 incidents of aggression were reported, an increase of 400 on the previous year. The results of the 2011/12 CPSU *What Women Want* survey also found that 60.6% of DHS women have experienced customer aggression. Most security incidents involving DHS clients happened in a “face-to-face environment”. Some clients have also carried “weapons of some description” into some DHS offices.⁴⁷ Managing the risk of client aggression would require significant shopfront redesign for post offices, and hiring of security personnel in some instances. Security guards have been placed in 76 Centrelink sites to counter increasing client aggression.⁴⁸ The cost of refitting and upgrading Australia Post offices and providing security guards to ensure safe workplaces would be substantial.

The claimed savings from transferring functions to Australia Post are unlikely to account for the full cost of replicating and maintaining DHS ICT infrastructure and the ongoing training that would be required for Australia Post staff. It would a far better decision to invest the money required on enhancing existing DHS infrastructure to improve efficiency and capacity.

The CPSU does not support transfer of DHS functions to Australia Post for the reasons outlined above. Any transfer of functions will only serve to reduce the quality of service that both Australia Post and the DHS currently provide in their own areas of operation. The CPSU fails to see any advantage to either Department of Human Services clients, existing Australia Post clients, or the staff of either of these organisations.

Centrelink was established in 1997 by the Howard Government to be the “service delivery agency” of the Commonwealth. In 2009 the announcement of the “Service Delivery Reform” program and the formation of the Department of Human Services, bringing together Centrelink, Medicare and the Child Support Agency, further extended this concept. One of the particularly disappointing aspects of the current proposal to transfer some of the functions of the Department of Human Services to Australia Post is the lack of recognition of the substantial work of bringing these agencies together to create a better service for the

community; nor of work over the last fifteen years to create a comprehensive network of online services, a national call centre network and one stop shops for government services around the country. Rather than outsourcing work from Centrelink, the expertise and network capabilities of Department of Human Services should be harnessed to take on other Commonwealth work that requires assessments of customers such as the Aged Care Gateway, a single point of entry established for those seeking aged care services

6.2 Changes to Medibank Private

Medibank Private is Australia's largest health insurer. It covers 3,832,000 people and has over 4,800 employees. Medibank Private has won the CanStar award for outstanding value in health insurance for the last four years and has kept premium increases below the industry average for the past ten years.⁴⁹ By any measure it is efficient and effective.

While competition exists in the private health insurance industry, the market is dominated by the five largest insurers which are 83.2% of the market in terms of total policies.⁵⁰ The size of Medibank Private and its dominant market position allows Medibank Private to use its bargaining power to put downward pressure on the cost of hospital services.

In the 2011-12 financial year, Medibank Private (including AHM) had a market share of 30.07%. BUPA's market share was 26.68%, and HCF 10.72%.⁵¹ If the government owned entity in this mix is privatised, we anticipate there will be pressure on the government to deregulate the industry and remove government price control on premiums. Premiums could be forced higher as private owners seek a quick return on investment to help service the equity needed to fund the purchase, with that risk increasing the higher the purchase price.

The legislative restrictions limiting a holding of Medibank Private by one group to 15% in the event of sale means the most likely outcome from a sale will be the split up of its current client base to existing providers, further reducing the number of providers in the field. The CPSU is not alone in its concerns. The Australian Medical Association has also raised many of these concerns about increased premiums, a decrease in competition and exposure to international financial risk.⁵²

A once off dividend from selling Medibank Private will not address the challenge of declining government revenue, and will reduce future revenue opportunities. The beneficiaries of such a move would be investment consultants seeking large commissions. and other health insurers who would welcome the elimination of a publicly owned competitor.

Given that Australians are financially penalised for not having private health insurance, it is essential that the Government continues to maintain ownership of a reliable, secure insurance provider through Medibank Private. Government vacating the health insurance field is short-sighted and unjustified. Such a move would create uncertainty for customers and staff with no long term gain to the community.

The broader Australian public does not support the sell off of Medibank Private. According to an Essential Media poll, only 22% of Australians support the sell-off of Medibank Private⁵³ and with good reason. There is no compelling argument for its sale.

6.3 Publicly funded science

The Commonwealth Government plays an important role in funding scientific research through public institutions such as the CSIRO. Cuts to Commonwealth funding of science will only undermine the national benefits it delivers such as:

- Improved policy, regulation and public trust in innovation and development;
- Better commercial outcomes in industry, agriculture, mining, communications and IT; and
- Job creation and future opportunities for our citizens.

Government-funded laboratories are important for critical public good functions such as weather forecasting and are also important for high risk science where scale is necessary. For example, CSIRO space observation from where communications innovations like Wi-Fi technologies occurred.

Innovation that leads to better jobs depends on strategic development in science. Australia currently has low investment in Government laboratories (< 10% of overall activity), low business investment (< 30%) and high higher-education investments (> 60%). Industrialised nations typically have large business research sectors and parity between government laboratories and research in higher education. The low level of business investment in Australia is not because government activity ‘crowds-out’ business. Competition in science and innovation is mostly between nations not sectors.

Other nations invest strategically in science as a whole-of-government process and recognise Government-funded laboratories as vital assets. Australia spends 0.27% of GDP on these assets⁵⁴, but has responsibility for disproportionate land, ocean and Antarctic science and agricultural production. Improved biosecurity, energy security, food security, health, communications and land use, demands strategic investment in science. Growing new economic opportunities from innovation depends critically on Government laboratories because of low business research investment in Australia.

6.4 Contestability and risk/cost of outsourcing

The ACTU submission also discusses at length the risks of outsourcing and contestability. In this section we provide some examples from the direct experience of the CPSU.

The transfer of meat export inspections from a government run service to a system of company self-regulation illustrates how deregulation and outsourcing can be a major risk to Australia’s economic interests. In 2012, an audit by the European Commission found that Australia’s privatised meat inspection system was not in compliance with European food safety regulations.⁵⁵ The European Commission audit staff concluded that having company-paid inspectors perform inspection was a conflict of interest. These arrangements led to a loss of quality control and the rejection of Australian meat by European import inspectors. These types of problems are not confined to the European market. Thirteen shipments of Australian meat were rejected by the United States last year because they contained faeces or other matter and E. Coli was detected in three shipments.⁵⁶ Vietnam has also rejected frozen Australian beef that was contaminated with salmonella.⁵⁷ These incidents demonstrate that

outsourcing government functions can undermine overseas confidence in Australian products and threaten major exports to markets such as the United States which is worth more than \$1 billion a year.⁵⁸

In a number of cases, the failure of outsourcing has forced governments to bring services back in-house. A good example is Dame Phyllis Frost Corrections Centre, a women's prison in Victoria. It was a private prison built and operated by Corrections Corporation of Australia (CCA). After a legion of problems and consistent failures by CCA to meet their contractual targets, the centre reverted to state government control after five years.

The increased use of contractors within the public sector has also created a greater risk of corruption. The recent case of a Serco contractor at the Department of Immigration corruptly receiving almost \$100,000 cash highlights what can occur. The contractor received the cash from two western Sydney construction companies as kickbacks for information that would help them win the work at Villawood Detention Centre.⁵⁹

A recent Victorian Ombudsman's report into CenITex, the shared services agency that provides ICT support, has also questioned whether key government positions should be filled by contractors, particularly those with responsibility for procurement and human resources.⁶⁰

Following a tip-off, the Ombudsman conducted a detailed investigation, which was published in October 2012. Among the failings listed were:

- appointments made on the basis of fabricated documentation
- invoices paid for services that were not actually rendered
- CenITex officers awarded contracts to their own companies, and
- in one instance, a document was prepared attesting to the conduct and outcome of competitive market testing process that the author knew had never actually taken place.⁶¹

The report suggested the appointment of contractors with little or no understanding of probity or procurement policy, coupled with a high-pressure and results-driven environment, created a culture of short-cuts, nepotism and fraud, which resulted in more than \$4 million worth of government contracts being awarded improperly.⁶²

The risks of corruption are not isolated to for-profit sector or contractors in the public sector. A 2012 Fraud Survey conducted by the NSW Auditor-General identified a growing trend in frauds in outsourced functions contracted to non-government organisations.⁶³ The New South Wales Independent Commission Against Corruption (ICAC) has also noted that “with agency controls under pressure and an environment in which large numbers of funding allocations are available, the situation is conducive to corruption.”⁶⁴

Problems and risk factors identified as part of the ICAC investigations into NGO delivery of public services include:

- staff using government resources and money for their own benefit
- staff using funds to deliver a different service to the one contracted
- organisations receiving funding for the same service from multiple funders
- theft and inappropriate use of government funded assets

- services provided to favoured clients of the organisation's manager
- collusion between government frontline staff and the organisation's staff
- false reporting on service delivery.⁶⁵

The NSW Parliamentary Committee on Outsourcing Community Service Delivery recommended that the NSW Auditor-General:

- Be given legislative authority to examine and audit the accounts of NGOs in receipt of government funding for the provision of housing, disability and home care services.
- Reports annually on the accounts and activities of NGOs operating in the housing, home care and disability sectors.⁶⁶

These are just a few of many examples of the range of problems that have occurred with the outsourcing, privatisation or deregulation of government functions.

7. Current staff reductions

Between the federal election in September and 18 November, 3525 job cuts have been announced. . In the lead up to the election the Coalition made a number of statements about their intention to cut 12000 jobs from the federal public sector by natural attrition. CPSU opposition to this policy position and the previous Labor Government's job cuts through increased efficiency dividends and other savings measures is on the public record. In recent media reports and parliamentary debate the Coalition Government has claimed that (a) the long term effect of the ALP efficiency dividends may be as high as 14,500 job losses over the period to 30 June 2017, a questionable assertion; and (b) that the Government is now stating that they consider job cuts associated with previous Government savings to be in addition to their target of reducing 12,000 jobs by natural attrition. This means total federal public sector job cuts could be anywhere between 12,000 and 26,500.

The Coalition Government has announced there would have to be a "recalibration" of the proposed additional 12,000 job cuts which may reduce this below 26,500 cuts. However the CPSU is deeply concerned about the impact of cuts that have already occurred. Agencies are already struggling with the impact of budget cuts and there is nothing left to cut except essential functions. Even agencies considered "frontline" by the new Government such as Customs and Border Protection are facing budgetary challenges. The Chief Executive of Customs has told Senate Estimates that budget cuts will force it to slash, "through bone and out the other side," while Customs has tried to quarantine its border protection patrols from budget cuts "but even that's become stretched."⁶⁷ Any further cuts will only make the situation worse because "not all savings can be achieved ... in the back of office." Any more cuts to staffing will only exacerbate this situation. These types of impacts are being felt across the sector.

This debate about reducing staff numbers ignores the need for any decisions about the work of the Commonwealth to be based on a functional need first rather than starting with an arbitrary staffing target. Even cuts at the bottom end of this range will see a significant loss of policy expertise and public sector capability that may never be regained. Inappropriate cuts

and savings run down the capacity of the public service and have the potential to undermine the achievement of a Government's policy and service objectives.

The announcement that the Government has now asked the National Commission of Audit to ensure that any reforms and suggested redundancies are "based on effective staffing" fails to clarify the Government's policy on staffing or provide guidance to staff concerned about an uncertain future.

7.1 Regional employment

Cuts to the Australian Public Service have a disproportionate impact on employment outside the ACT, particularly in rural and regional areas. Many of the identified federal public sector job losses are occurring in state offices and in rural and regional areas. Indeed the latest State of the Service Report shows that from 30 June 2011 to 30 June 2012 all locations except for the ACT have lost APS jobs.

Job cuts announced since September 2013 show that any budgetary cuts will affect regional areas. Already the Department of Agriculture has specified that passenger, mail and cargo staff in the regions will be targeted for voluntary redundancies and in DHS up to 1200 non-ongoing call centre staff in Wendouree, Geelong, Bendigo and Moreland did not have their contracts renewed despite high workloads.

Many rural and regional areas have already felt the impact of successive cuts over the past few years. For example, since mid-2009 Burnie and Devonport Human Services offices in Tasmania have lost 26 staff, 11 of those staff were in positions directly serving members of the community and a further 15 were from specialist areas.

Other job losses over the past two years have included:

- Australian Taxation Office losing approximately 473 jobs in regional areas, including 33 jobs in Newcastle, 24 jobs in Wollongong, six jobs in other areas of regional NSW, 133 jobs in Townsville, nine jobs in other areas of regional Queensland, 92 jobs in Tasmania, and one job in regional Victoria.
- Department of Agriculture losing eight staff members through voluntary redundancies in Western Australia.
- Customs cutting 14 out of 31 positions in Tasmania and job losses in regional offices including in Port Hedland, Broome, Mackay, Thursday Island and Dampier.
- The Department of Human Services losing 35 jobs in Tasmania.

These continuous cuts not only affect services but also the local community and the economy. In many of regional and rural centres, unemployment is higher than the national average. As one Tasmanian delegate commented:

"The public service is the third biggest employer in Tasmania. We are the backbone of the economy and maintain small businesses. Cuts to our jobs lead to [a] ripple effect on those who need our support, including rework, longer waiting times and inability to really serve customers. Mistakes can be costly with an increase in Compensation for Detriment caused by Defective Administration claims. We do not

have the opportunity in Tasmania to go look for other jobs, we or our children will have to move to the mainland to seek career opportunities.”

Tasmania provides a stark example of the uneven impact of cuts. APS employment in Tasmania has been reduced by over 500 since 2008, a reduction of about 12%. Many of these job losses have occurred at higher classification levels, further exacerbating their impact. There is also a higher level of APS insecure employment in Tasmania with 14% of APS jobs non-ongoing or casual, compared to the national average of 7%.⁶⁸

Maintaining the presence of the APS across Australia must be a consideration in any recommendations made by the Commission. Rural and regional employment of APS staff is crucial to maintaining those economies. The APS often provides quality, permanent, full-time employment in areas where employment options are limited.

8. Conclusion

The CPSU supports a public service that is efficient, effective and delivers the services that Australians rely on every day. Government plays an important role in shaping the nation, providing for those in need but also in creating a sense of shared community. The public sector ensures that the Government is able to meet citizens' expectations. Public sector expenditure should be seen as an investment in the capacity of government to respond to its citizens and meet the challenges of the 21st century.

The role of government has changed over time. Decisions about government's future role must take into account a full range of evidence and views, and government's community, social and environmental obligations. The National Commission of Audit should not have an implicit bias that assumes the private or not-for-profit sector is automatically preferable to the public sector. Government should continue to play a role in delivering important services such as providing health insurance and frontline welfare assistance.

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