Towards Responsible Government

Appendix to the Report of the National Commission of Audit

Volume 2

February 2014
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Introduction

This Appendix provides further details on the analysis and research undertaken for the Phase One Report of the National Commission of Audit (the Commission). It includes consideration of issues relevant to the Commission’s terms of reference, as well as input from submissions to the Commission from government, industry, community organisations and individuals.

The Appendix begins by reiterating the principles that have guided the Commission’s deliberations and then provides further information on the role of government in Australia.

The Appendix then follows the same order as the Phase One Report.

**Volume 1** of the Appendix covers:

- the role of government;
- what governments do in Australia today;
- overviews of Commonwealth Government Portfolios;
- how the government provides and funds its services;
- an approach to government and new fiscal rules;
- fiscal and economic assumptions used by the Commission;
- reforming the Federation; and
- managing expenditure growth.

**Volume 2** of the Appendix covers:

- rationalising and streamlining other programmes and spending;
- rationalising and streamlining agencies and boards; and
- improving government through markets and technology.

These volumes highlight the evidence-based approach of the Commission and provide a foundation to the findings and recommendations contained in the Phase One Report.

**Volume 3** of the Appendix covers matters considered in the Phase Two Report of the National Commission of Audit.
10 – Rationalising and streamlining other programmes and spending

10.1 Industry Assistance

Successive Commonwealth Governments have provided a wide range of industry assistance programmes with differing goals, transmission mechanisms and effective levels of assistance. Assistance is often provided on an ad hoc and inconsistent basis, rather than based on consistent principles.

Background

Australian industry structure

As shown in Chart 10.1.1 below, in 2011-12 services represented the largest sector in Australia (77.4 per cent of industry value added). This was followed by mining (11.3 per cent), manufacturing (8.6 per cent) and agriculture, forestry and fishing (2.7 per cent) (Department of Industry, Innovation, Science, Research and Tertiary Education, 2012).

Chart 10.1.1: Australian industry structure, 2011-12
Per cent of industry value added


Assistance to industry

Assistance to industry by the Commonwealth Government amounted to $17.3 billion in 2011-12. This comprised $7.9 billion in gross tariff output assistance, $5.1 billion of budgetary outlays and $4.3 billion in tax concessions. After allowing for the cost to business
of tariffs on imported inputs ($6.8 billion), estimated net assistance was $10.5 billion in 2011-12 (Productivity Commission, 2013a).

In 2011-12 the manufacturing industry received the highest level ($7.4 billion) of combined assistance, which included tariffs, budget outlays and tax concessions, as shown in Chart 10.1.2 below. This was followed by primary production ($1.6 billion) and mining ($0.5 billion) (Productivity Commission, 2013a).

**Chart 10.1.2: Combined assistance by industry grouping, 2011-12**

![Chart 10.1.2: Combined assistance by industry grouping, 2011-12](image)


Considering only budget outlays, the greatest level of assistance in 2011-12 was provided to the services sector ($2.1 billion, mainly electricity, gas, water and waste services), then to manufacturing ($1.4 billion), followed by primary production ($0.9 billion) (Chart 10.1.3 refers).

**Chart 10.1.3: Budgetary outlay assistance by industry grouping, 2011-12**

![Chart 10.1.3: Budgetary outlay assistance by industry grouping, 2011-12](image)

Current structure of industry assistance

Commonwealth industry assistance is currently provided on an ad hoc basis. There is a range of programmes across multiple portfolios, with differing goals, transmission mechanisms and levels of effective assistance.

Some programmes provide assistance to specific firms (such as a contribution to Acacia Park Industrial Estate Armidale), some to specific industries (such as the Automotive Transformation Scheme) and some to Australian industry more broadly (such as the research and development taxation incentive).

The majority of Commonwealth budgetary assistance in 2011-12 was directed to specific industries (31 per cent), followed by research and development measures (28 per cent) and small business programmes (22 per cent) (Productivity Commission, 2013a), as shown in Chart 10.1.4 below.

Rationale for government intervention

The Commission considers that Government should act in the public interest and only intervene in markets where market solutions clearly fail to produce the best outcome.

It should be recognised that there are costs to the economy associated with raising taxes to provide industry assistance. Taxes can reduce incentives to work or invest, coming at a cost to the economy above the value of the tax raised. There are also administration costs involved in collecting taxes. Estimates produced for the Henry Tax Review indicated that for every additional dollar raised by Commonwealth taxes, social welfare falls by between 10 and 40 cents (Australian Government, 2010).
Given the range of calls on the Commonwealth Budget and the costs involved in raising taxes, industry assistance needs to be carefully considered alongside other potential spending options to ensure the greatest benefit to the community.

**Trends**

Over time, the amount of industry assistance has remained broadly unchanged in real terms. Decreases in tariff support (with reductions in Australian tariff rates) have largely been offset by increases in other assistance, such as budgetary outlays and an increasing tendency to investigate other non-tariff protection measures (see Charts 10.1.5 and 10.1.6).

**Chart 10.1.5: Net tariff assistance**


**Chart 10.1.6: Budgetary outlay assistance**

Issues with the provision of industry assistance

The shortcomings of governments ‘picking winners’ are well known. Taxpayer support undermines the incentives for firms to innovate, reduce costs and improve the quality of goods or services to better meet consumer demands.

The possibility of industry assistance encourages companies to turn their attention to lobbying government to obtain preferential treatment, whether that be in the form of grants, loan guarantees or regulatory changes to protect them from competition. Lobbying becomes the focus for firms, rather than trying to run a successful business, improve shareholder value and provide goods and services that customers value.

In most cases, the benefits of industry assistance will accrue entirely or very largely to the firm or industry supported. Assistance to particular firms or industries subsidises them to continue in the market place, over-expanding one sector over others and distorting labour market and investment decisions. Once provided, assistance is difficult to withdraw. For example, Australia has been providing automotive industry assistance since 1907 (Productivity Commission, 2002).

The Productivity Commission (PC) recently estimated that the equivalent of around $30 billion (2011-12 dollars) was provided to the automotive industry between 1997 and 2012 in the form of tariffs and various subsidies. As well as direct budgetary assistance and tariff protection, the automotive industry benefits from government preferential purchasing policies and restrictions on the importation of second-hand vehicles (Productivity Commission, 2013b).

Firms should adjust to the changing economic environment, such as cost movements and changing consumer tastes. The government’s role is to ensure appropriate policy settings at the economy-wide level that facilitate and encourage productivity and economic growth, rather than favouring certain activities over others.

Governments have an important role to play in setting the right environment for market competition to flourish. This includes creating a stable macroeconomic environment and pursuing microeconomic reform by eliminating unnecessary regulation, promoting more flexible labour laws and an efficient and competitive tax system.

A reduction of budgetary assistance to industry – which in most cases benefits a small number of firms – should be accompanied by a renewed commitment to broader reforms which will improve the operating environment for all businesses.

The Commission has identified a number of programmes where there is no genuine market failure and where the benefits accrue entirely or largely to the firm or industry supported. These include: the Automotive Transformation Scheme, the Steel Transformation Plan, ethanol production subsidies, the Rural Financial Counselling Service, Enterprise Solutions,
the Clean Energy Finance Corporation and specific funding to GM Holden and the Cadbury factory in Tasmania.

While there will be cases where government assistance may mean the difference between a business continuing or not, these are decisions that should be left to commercial discipline and not based on a firm’s ability to receive government assistance.

Supporting uncompetitive firms has broader economic impacts as it draws skills and investment away from more productive uses, reducing overall productivity and hence living standards.

Other programmes which should be abolished under this category include schemes which currently fund services that are, or could be, readily provided by the private sector without government intervention, including Enterprise Connect, Commercialisation Australia and Small Business Advisory Services, some of which overlap with services provided by the states.

The Commonwealth also funds a number of bodies and programmes intended to assist Australian exporters. These include Austrade, the Export Finance and Insurance Corporation (EFIC), the Export Market Development Grants Scheme, the Asian Business Engagement Plan Grants and support for the tourism sector.

Virtually all of Australia’s exports by volume and value take place without government assistance. The Productivity Commission report on Australia’s Export Credit Arrangements (Productivity Commission, 2012) observed that while EFIC was supposed to operate in a market gap, most of its activities were directed at supporting larger businesses. It noted that in recent years EFIC has earned most of its income through the investment of surplus funds and its capital and reserves, not the provision of financial services, and the return on equity was low compared to commercial financial institutions.

The PC concluded that there was no convincing evidence of systemic failures in financial markets that impede access to finance for large firms, or for proponents of resource-related projects and their suppliers.

The PC recommended changes to EFIC’s mandate to focus its support on small businesses which are more likely to face market failures. Amendments to the Export Finance and Insurance Corporation Act 1991 to change EFIC’s mandate were in a bill before Parliament when the election was called (albeit not going as far as the PC had recommended).

The Commission considers that EFIC should be abolished as there is little evidence of genuine market failure in the provision of export finance.

In 2011-12 Austrade was provided with funding of approximately $335 million. Austrade’s annual report indicates that in that year, its assistance led to 205 export sales ‘either under negotiation or concluded’. This does not appear to represent value for money with relatively
high costs for the number of business opportunities generated. The return on investment is poor.

The Export Market Development Grants Scheme, administered by Austrade, reimburses small businesses for up to half of their international marketing costs, including for consultants, marketing visits and promotional material. The previous National Commission of Audit (Australian Government, 1996) argued that it should be abolished as the benefits of success are able to be captured by the business itself without other benefits to the community.

There is unlikely to be a significant spillover effect from the Export Market Development Grants Scheme, as little economy-wide learning is promoted. Changes in the international environment mean that businesses have more opportunities for international marketing and therefore less need for government assistance.

Similarly, the Asian Business Engagement Plan provides funding to assist member-based business organisations to harness commercial opportunities in Asia for small to medium sized Australian businesses, with the benefits then accruing to business members of the organisations. There are minimal broader spillover effects outside of these business members.

Economic modelling for the 2008 review of EMDG (Department of Foreign Affairs and Trade, 2008) suggested that the scheme has a small positive net benefit (a benefit to cost ratio of 1.04:1), but argued that this could be much larger accounting for spillover effects. The PC rejected this argument, observing that the EMDG promoted little economy-wide learning and hence the spillover effects would be small (Productivity Commission, 2009).

Approximately $185 million of Commonwealth funding is directed towards tourism initiatives and management. Most of this funding is for Tourism Australia, although other programmes now administered by Austrade include ‘Tourism Quality’ grants and the Tourism Industry Regional Development Fund. The Department of Foreign Affairs and Trade is responsible for tourism policy.

Nearly two-thirds of Tourism Australia’s budget is directed to advertising and other promotional activities. While tourism is one of Australia’s main exports, most of the benefits of tourism accrue to the tourism operators. There is no clear reason why significant funding should be provided to tourism above other Australian export industries.

The States already provide a marketing budget for tourism. However, it is arguable that marketing Australia as a destination for international tourists should be undertaken at a Commonwealth level rather than on a State-by-State level. The Commission proposes that grant funding for the tourism industry be ceased and funding for Tourism Australia be reduced by 50 per cent to focus on international marketing, with the function incorporated into a commercial arm of the Department of Foreign Affairs and Trade.
The Commission has identified other industry assistance programmes which have a mix of public and private benefits. These programmes should continue but with reduced levels of Commonwealth funding. They include Screen Australia where funding should be halved and focussed on areas of Australian content, including those with a historical perspective that might not otherwise be funded. Bringing together the Australia Council, Australian Business Arts Foundation Ltd, Screen Australia and the Bundanon Trust into a single arts council would also reduce administrative costs and support closer collaboration within the arts community. It will provide improved capacity for grant and procurement processes to be centrally and professionally managed.

Similarly, the Commission considers funding for the National Landcare Programme should be halved and better aligned to the goals of the Environment Protection and Biodiversity Conservation Act 1999.

Commonwealth funding is also provided to meet the public benefit of recovering environmental water for the Murray-Darling Basin. Water recovery is funded through a range of different measures including buying water entitlements and funding private infrastructure that will return water to the river system. The Commission considers that the Government should focus on maximising public benefits and achieving value for money in its water recovery, not on providing industry assistance. This means moving away from infrastructure funding, which is significantly more expensive and which provides substantial private benefits to landholders.

There are also a number of research and development programmes that assist industry. Research and development is discussed in Section 8.2 of the Phase One Report.

The Commonwealth should also refrain from providing industry assistance in areas where there is already a State and Territory presence, or where the States are clearly responsible for the function. Consequently, the Commission considers that the Bass Strait Passenger Vehicle Equalisation Scheme and Tasmanian Freight Equalisation Scheme should be abolished. This mirrors the PC’s conclusions in this area.

The Australian Government should put less emphasis on freight subsidy schemes in favour of policy reforms which have national and Tasmanian benefits (such as coastal shipping reform) and those which directly enhance the competitiveness and productivity of the Tasmanian economy (Productivity Commission, 2014).

Of course, the abolition of cabotage should reduce coastal freight rates for all States.

While the majority of current industry assistance is provided through budgetary measures (payments and tax concessions), some is also provided through trade protection, such as tariffs and other non-tariff forms of protection. Australia was a world-leader in reducing tariff protection in the 1980s and 1990s, reflecting the fact that while tariffs provided
benefits to particular producers they imposed even greater costs on Australian consumers in the form of artificially-inflated prices. However, with the reduction in tariffs there has been some tendency to move, instead, to other forms of non-tariff protection, such as anti-dumping protection.

Australia’s anti-dumping system provides protection for Australian industries which have been materially injured by overseas firms exporting goods to Australia at below the domestic price of the goods in the country of export.

There is nothing illegal about pricing goods for export cheaper than domestic goods. In fact, the Australian Trade Commission (2014) instructs Australian exporters that:

*Calculating a separate price for each of your export markets is important because:*

- **For products, distributor, wholesale and retail mark-ups are often different in each market and industry, which will affect the final price of your products. Remember to include questions about these mark-up costs when you are doing your initial market research.**

- **Your competitors and the way they price their products or services will probably be different in different markets, and you have to take this into account when setting your prices.**

- **The price that end users are willing to pay for your products or services will not be the same in all markets around the world.**

The PC has noted that in applying dumping fees to protect Australian producers from cheap imports, Australia’s current system ‘benefits a small number of import competing firms, but imposes greater costs on the rest of the economy’ (Productivity Commission, 2010). Downstream producers which use the imported goods as an input now have higher costs and consumers also face increased prices. For example, imposing a dumping fee on imported building products will help domestic producers who make that building product, but will also increase the cost of building new homes.

Former Productivity Commission Chairman, Gary Banks, explained that:

*Selling goods abroad at prices below those at home is normal business practice in various circumstances and one adopted by many Australian firms. Imposing (often sizeable) penalty duties on such imports protects less competitive firms at the expense not only of consumers, but also other local user industries (as the auto assemblers are finding right now in relation to their steel inputs). The rules allowing such ‘administered protection’ should be tightened in the true spirit of the WTO accord, not made more permissive* (Banks, 2012).
**Potential areas for reform**

It is important to have a clear, shared, understanding of the areas where governments should and should not intervene to provide industry assistance.

Although Commonwealth industry assistance has reduced over time, there are specific opportunities to remove or streamline industry assistance programmes where there is no role for government. This would also improve productivity and economic growth and reduce the cost to taxpayers. The Commission considers that funds devoted to assisting uncompetitive industries would be better spent elsewhere, or not spent at all.

The Commission considers that:

- industry assistance should be well designed and targeted and be limited to areas of genuine market failure where the benefits of government intervention clearly outweigh the costs. In particular, the Government should focus industry assistance on providing targeted support for research and development, structural adjustment assistance to workers and other measures to address clear externalities;

- the activity should be undertaken by the most appropriate level of Australian government to avoid duplication; and

- when providing industry assistance, consideration should be given as to whether part or all of the cost of a government activity should be recouped directly from the beneficiaries of that activity.

In addition, government has a role in establishing the environment for businesses to flourish. The Government should continue to reduce the cost of doing business in Australia in such areas as labour market reform, deregulation, energy policy and provision of economic infrastructure. Such action will lift the competitiveness and productivity of all businesses.

**Structural adjustment assistance**

There is a role for government in providing structural adjustment assistance in some situations, as labour markets do not adjust seamlessly.

For example, there may a role for government to help workers adjust to a major dislocation caused by the closure or downsizing of a major employer in a region.

If structural adjustment programmes are provided, they should be:

- facilitating of adjustment, not preventing or obstructing it;

- as non-distortionary as possible;
• equitable with respect to firms, both within the industry and firms in similar circumstances in other industries;
• simple and predictable for claimants involving minimal bureaucratic discretion;
• targeted at those who need and can benefit from the assistance;
• transparent;
• limited in regard to time and expenditure; and
• simple to administer.

Most closures and restructuring of activities across the economy will not require structural adjustment assistance in addition to the services already provided through Job Services Australia.

To facilitate change in the economy, structural adjustment assistance should be focussed on moving displaced workers back into the labour market, not on assisting individual firms or industries.

**Targeted support for research and development**

There is a role for government to encourage research and development where the benefits outweigh the costs and there are likely to be significant spillovers for the broader community.

Even in the presence of spillovers, governments should avoid funding research where industry would have reason to fund it in the absence of government support. Government funding for research and development is only justified where it results in additional research that is of net benefit to the community as a whole.

**Anti-dumping**

To act in the public interest, dumping protection should not be implemented unless the benefits to affected producers clearly exceed the costs to other industries and to Australian consumers. Introducing an improved public interest test would be a practical way of assessing the benefits and costs of dumping protection.

The Commission considers that a public interest test should be introduced, so that anti-dumping assistance is only provided where the benefits to affected producers clearly exceed the broader costs (Productivity Commission, 2010). A reverse onus of proof test should not be part of the anti-dumping arrangements.
Proposed treatment of industry assistance programmes

The Commission recommends a range of industry assistance programmes be abolished, phased out or rationalised. Further details are provided in Tables 10.1.1 and 10.1.2.

Consideration should also be given to either abolishing or merging all industry assistance programmes with a Budget impact of less than $5 million per year. This would result in a reduction of departmental costs.

The Commission has only considered those industry assistance programmes which are expenses in the Commonwealth Budget. It is important that the same exercise be undertaken for tax expenditures as part of the forthcoming White Paper on Tax Reform.

The Commission notes that it may take a number of years to achieve savings as the Commonwealth has existing contractual arrangements in relation to many of these programmes.
Table 10.1.1: Outline of recommended changes to industry assistance programmes

<table>
<thead>
<tr>
<th>Programme name</th>
<th>Abolish</th>
<th>Merge</th>
<th>Reduce Funding</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Specific firm or industry assistance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automotive Transformation Scheme</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ethanol production subsidies</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural Financial Counselling Service</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Enterprise Solutions Program</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GM Holden grant</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cadbury Factory funding</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Steel Transformation Plan</td>
<td>✓</td>
<td></td>
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<tr>
<td>Clean Energy Finance Corporation</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Service available from private sector</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Small Business Advisory Services Program</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Enterprise Connect</td>
<td>✓</td>
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<td></td>
<td></td>
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<tr>
<td>Commercialisation Australia</td>
<td>✓</td>
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<tr>
<td><strong>Mix of public and private benefits</strong></td>
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<tr>
<td>Screen Australia</td>
<td></td>
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<td></td>
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<td>National Landcare Programme</td>
<td></td>
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</tr>
<tr>
<td>Murray-Darling Basin water recovery</td>
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<tr>
<td><strong>State responsibilities</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Bass Strait Passenger Vehicle Equalisation</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Tasmanian Freight Equalisation Scheme</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Assistance to exporters</strong></td>
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<tr>
<td>Austrade</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>EFIC</td>
<td></td>
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<tr>
<td>Export Market Development Grants Scheme</td>
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</tr>
<tr>
<td>Asian Business Engagement Plan Grants</td>
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<tr>
<td>Tourism Australia</td>
<td></td>
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<td></td>
<td>✓</td>
</tr>
<tr>
<td>'Tourism Quality' grants</td>
<td>✓</td>
<td></td>
<td></td>
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<tr>
<td><strong>Total programmes: 22</strong></td>
<td></td>
<td>17</td>
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</tr>
</tbody>
</table>

Source: National Commission of Audit.
## Table 10.1.2: Further detail regarding recommended changes to industry assistance programmes

<table>
<thead>
<tr>
<th>Programme name</th>
<th>Programme description</th>
<th>Recommendation</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific firm or industry assistance</td>
<td></td>
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</tr>
<tr>
<td>Automotive Transformation Scheme (ATS)</td>
<td>ATS provides funding for the production of passenger vehicles in Australia, as well as funding for investment and R&amp;D.</td>
<td>Abolish</td>
<td>The automotive transformation scheme provides a production subsidy for cars made in Australia. As found by the Productivity Commission (2002), automotive manufacturing relies on production scale and labour costs. All vehicle manufacturers in Australia are producing well below the 200,000 to 300,000 vehicles needed annually for an assembly plant to be cost competitive. The ATS subsidises a sector which is fundamentally uneconomic and has been steadily losing local and global market share. Ceasing automotive assistance, with targeted structural adjustment assistance, would benefit the overall community.</td>
</tr>
<tr>
<td>Ethanol production subsidies</td>
<td>ATS provides funding for the production of passenger vehicles in Australia, as well as funding for investment and R&amp;D.</td>
<td>Abolish</td>
<td>The grant subsidises the production of fuel ethanol in Australia. It provides a benefit to a small number of Australian producers, skewing commercial decision making towards ethanol production, and distorting Australian markets for fuel and feedstock products. As the subsidy is not available for imported ethanol, it also provides protection from foreign competition and increases the consumer price of fuel ethanol blends. The environmental benefits are contestable, with the Productivity Commission (2011) finding the grants resulted in only marginal carbon dioxide abatement at a cost of over $500 per tonne of abatement.</td>
</tr>
<tr>
<td>Rural Financial Counselling Service</td>
<td>Financial counsellors provide advice to Australian farmers in financial difficulties.</td>
<td>Abolish</td>
<td>Financial planning and counselling services, including those focused on farm businesses, can be purchased from the private sector without government subsidy or provision.</td>
</tr>
<tr>
<td>Enterprise Solutions Program</td>
<td>Under this programme, Australian companies are asked to identify solutions to technological problems identified by Commonwealth and State governments. Funding may be provided for feasibility studies and proof of concept. Funding is not provided for governments to actually procure the final product.</td>
<td>Abolish</td>
<td>Commonwealth and State government departments already have established procurement processes, and budgets, in place for acquiring new products and intellectual property. There is no clear additional public benefit arising from this intermediate step in the procurement process. Benefits predominantly go to the private sector firms receiving funding for feasibility and proof of concept, as these firms retain full ownership of any resulting intellectual property.</td>
</tr>
<tr>
<td>Programme name</td>
<td>Programme description</td>
<td>Recommendation</td>
<td>Rationale</td>
</tr>
<tr>
<td>Programme name</td>
<td>Programme description</td>
<td>Recommendation</td>
<td>Rationale</td>
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<tr>
<td>Service available from private sector</td>
<td></td>
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</tbody>
</table>
| Small Business Advisory Services Program (SBAS) | Small businesses can access a range of advisory services, such as:  
  - business management skills  
  - financial management skills  
  - business planning  
  - mentoring for business  
  - general business advice | Abolish | SBAS is delivered on the ground through a network of existing not-for-profit business advisory services, established by State or local governments, or by the local community. Commonwealth funding through SBAS allows these organisations to deliver small business advisory services at a lower cost to customers. Small business advice can also be purchased from private sector providers, such as accountants, lawyers and business consultants, without government funding. There is no genuine market failure, with the small businesses themselves reaping any increased returns. |
| Enterprise Connect                      | Enterprise Connect offers comprehensive, confidential advice and support to eligible Australian small and medium businesses. Services include Business Reviews delivered at no charge to businesses, grant assistance to implement recommendations flowing from the Business Review, and a range of tailored innovation services to meet individual business needs.                                                                 | Abolish | Business review services can already be purchased from private sector businesses such as management consultants. There are no clear public benefits arising from the funding, with the small businesses themselves reaping any increased returns.                                                                                                                     |
| Commercialisation Australia             | Commercialisation Australia offers funding and resources to accelerate the business building process for Australian companies, entrepreneurs, researchers and inventors. Funding options include:  
  - Skills and Knowledge: Up to $50,000 to access specialist advice and services  
  - Experienced Executives: Up to $350,000 to engage a CEO or other senior executive  
  - Proof of Concept: $50,000 to $250,000 to prove the commercial viability of new IP  
  - Early Stage Commercialisation: $50,000 to $2 million to take a new product, service or process to market.                                                                                                                                  | Abolish | Commercialisation Australia assists Australian businesses through the process of turning new ideas into commercial outcomes. The intellectual property, and any profits arising from these new ideas remains with the business, and there are no clear public benefits arising. The process of commercialising new products can often be a difficult one. However, skills and finance can be acquired from the private sector, and there is no clear reason for the Commonwealth to provide this assistance in competition with private sector providers. |
<table>
<thead>
<tr>
<th>Programme name</th>
<th>Programme description</th>
<th>Recommendation</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mix of public and private benefits</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Screen Australia</td>
<td>Screen Australia offers funds for the development, production and marketing of Australian screen content, as well as for the development of Australian talent and screen production businesses.</td>
<td>Halve funding. Merge Screen Australia with Australia Council, Creative Partnerships Australia (CPA) and Bundanoon Trust to reduce administrative costs.</td>
<td>There are some positive cultural externalities from Australians having access to local content. Existing policy initiatives include the Australian content requirement for Australian commercial television and funding for the public broadcasters, ABC and SBS. There is also a 'significant Australian content' requirement for the current film tax incentive. There is scope to reduce funding for Screen Australia, with residual funding to be focussed on Australian content, including with an historical perspective, which may not otherwise be funded.</td>
</tr>
<tr>
<td>National Landcare Programme</td>
<td>Supports individuals, farmers, regional natural resource management organisations, community, Coastcare, Indigenous and Landcare groups to protect the natural environment and build resilience in our ecosystems and farmlands. It is an ongoing initiative that offers multi-year funding. $2 billion in funding from 2013-14 to 2017-18.</td>
<td>Halve funding and better align to the goals of the EPBC Act (e.g. continue funding which supports world heritage areas, and dealing with invasive species), focusing on activities with the greatest positive environmental externalities that landholders would not otherwise have an incentive to conduct themselves.</td>
<td>While there are public benefits from the National Landcare Programme, it also provides funding for activities that deliver substantial private benefits and that landholders would have an incentive to undertake without public funding. There is also overlap between Commonwealth and State responsibilities and activity. Funding should be reduced and redirected to the activities with the greatest environmental externalities that do not provide sufficient private benefits for landholders to fund themselves.</td>
</tr>
<tr>
<td>Programme name</td>
<td>Programme description</td>
<td>Recommendation</td>
<td>Rationale</td>
</tr>
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<td>---------------------------------------</td>
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</tr>
<tr>
<td>Murray-Darling Basin water recovery</td>
<td>The Murray-Darling Basin Plan includes a Sustainable Diversion Limit (SDL) of the maximum amount of water that can be taken for consumptive use, which comes into effect in 2019. As current consumptive use is above this limit, the Government has put in place a range of measures to recover sufficient water to 'bridge the gap', including water entitlement purchases, infrastructure upgrades and environmental works.</td>
<td>Following implementation of existing programmes under the Murray-Darling Basin Plan, the Commonwealth should not fund any further water infrastructure activities. To the extent any further water recovery is required, entitlement buybacks should be used.</td>
<td>The different measures used to recover environmental water for the Murray-Darling Basin have a range of different costs per unit of water recovered. Some of the measures, particularly infrastructure, also provide substantial private benefits to landholders that they would have incentives to fund themselves. While the return of water from these measures provides public benefits, these can be obtained at a lower per-unit cost via water entitlement buybacks. To the extent that any further water recovery is provided, these should be obtained via on-market buybacks.</td>
</tr>
</tbody>
</table>

**State responsibilities**

<p>| Bass Strait Passenger Vehicle Equalisation Scheme | Assists with the cost associated with the transportation of passenger vehicles interstate across Bass Strait. | Abolish | The benefits of this scheme accrue almost entirely to Tasmania. Issues relating to the efficiency of Tasmania’s shipping and freight are primarily the responsibility of the Tasmanian Government. |
| Tasmanian Freight Equalisation Scheme          | The Tasmanian Freight Equalisation Scheme (TFES) assists shippers to transport goods by sea, between Tasmania and the Australian mainland. | Abolish | The benefits of this scheme accrue almost entirely to Tasmania. Issues relating to the efficiency of Tasmania’s shipping and freight are primarily the responsibility of the Tasmanian Government. |</p>
<table>
<thead>
<tr>
<th>Programme name</th>
<th>Programme description</th>
<th>Recommendation</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assistance to exporters</td>
<td>Through a global network of offices, Austrade assists Australian companies to grow their international business, attract foreign direct investment into Australia and promotes Australia’s education sector internationally. Austrade administers the Export Market Development Grants (EMDG) scheme and the TradeStart programme.</td>
<td>Significantly reduce the activities of Austrade and incorporate any residual functions into a commercial arm of DFAT</td>
<td>The Commonwealth assistance provided through Austrade leads to a relatively small number of export sales. For example, in 2011-12, Austrade (2012) reported that 205 export sales were 'either under negotiation or concluded'. Only a small number of companies benefit from the assistance.</td>
</tr>
<tr>
<td>Austrade</td>
<td></td>
<td>Abolish</td>
<td>Virtually all of Australia’s exports by volume and value take place without EFIC’s assistance. Support provided by EFIC has mostly been directed at a small number of large businesses, including major resource projects. There is no convincing evidence of systemic failures in financial markets that impede their access to finance. In recent years EFIC has earned most of its income through the investment of surplus funds and its capital and reserves, not the provision of financial services.</td>
</tr>
<tr>
<td>EFIC</td>
<td>EFIC provides assistance to exporters by providing tailored financial solutions.</td>
<td>Abolish</td>
<td>There is unlikely to be a significant spillover effect from the EMDG scheme, as little economy-wide learning is promoted. Changes in the international environment mean that businesses have more experience and more opportunities for international marketing and therefore less need for government assistance. Austrade’s 2011-12 Annual Report stated that 38.7 per cent of EMDG recipients during the previous financial year employed four people or less.</td>
</tr>
<tr>
<td>Export Market Development Grants (EMDG) scheme</td>
<td>Reimburses up to 50 per cent of eligible export promotion expenses above $10,000</td>
<td>Abolish</td>
<td></td>
</tr>
<tr>
<td>Programme name</td>
<td>Programme description</td>
<td>Recommendation</td>
<td>Rationale</td>
</tr>
<tr>
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</tr>
<tr>
<td>The Asian Business Engagement (ABE) Plan</td>
<td>This programme has been established to assist member-based business organisations to harness commercial opportunities in Asia for small to medium sized Australian businesses. The objective of the ABE Plan is to facilitate new initiatives to improve Australian business links into Asia through Australian business organisations based in Australia or in Asia.</td>
<td>Abolish</td>
<td>Businesses already have strong commercial incentives to pursue business opportunities and improve business links with Asia, without Government funding. Funding provides mainly private benefits to the companies concerned.</td>
</tr>
<tr>
<td>Tourism Australia</td>
<td>Tourism Australia markets Australia as a tourism destination, both internationally and domestically.</td>
<td>Cease grant funding for the tourism industry, with funding for Tourism Australia reduced by 50 per cent, to focus on international marketing, with the function incorporated into a commercial arm of the Department of Foreign Affairs and Trade.</td>
<td></td>
</tr>
<tr>
<td>'Tourism Quality' grants</td>
<td>Provides grant funding for tourism operators, or funding to improve tourism infrastructure</td>
<td>Abolish</td>
<td>Most of the benefits of these grants accrue to the tourism operators with few spillover benefits. To the extent that there is any government role in supporting tourism (such as the provision of multi-user infrastructure which would also support the local tourism sector) this role is already, and appropriately, filled by the State governments.</td>
</tr>
</tbody>
</table>

Source: National Commission of Audit.
References


10.2 Research and development

The Commonwealth Government makes a significant investment in research, including science. Total government support for research and innovation is around $9 billion per year (Australian Government, 2013).

Australia’s research system is highly productive and is generally performing well relative to most EU-15 countries. Australia has an above the OECD average number of researchers for every thousand people in our workforce and Australia’s research workforce is publishing at a rate and quality comparable to the top OECD countries. Australia also enjoys a positive reputation globally as a world-class research destination for researchers and research students in areas of research strength (Australian Government, 2011a).

Rationale for government funding of research and development

The Productivity Commission (2007) has identified two strong rationales for public funding support of science and innovation.

The first is that governments exercise many functions and need to fund research and development (R&D) to discharge those functions effectively. The R&D supports both evidence-based policy development and the evaluation of the effectiveness and impacts of government programmes. The absence of publicly funded support would mean a lack of knowledge and analysis to support, for example:

- defence technology (such as the Defence Science and Technology Organisation’s functions); and
- biosecurity problems (such as weed and pest control).

The second rationale provided by the Productivity Commission is that the spillovers that result from innovation cannot be captured by the innovator. This can create a market failure where research that would benefit society as a whole is not undertaken by business as each individual business would not receive sufficient return.

However, the Productivity Commission emphasised that the existence of spillovers was not sufficient to justify government intervention (Productivity Commission, 2011). A range of other conditions also need to be met:

- even in the presence of positive spillovers, public funding support will only be justified where the expected benefits for a producer/industry are insufficient to motivate investment in research that is of net benefit to the community as a whole (additionality principle);
- the expected benefit for the community for any funding for R&D must be sufficient to cover the administrative and efficiency costs of public revenue raising; and
• given the range of calls on government funds, the expected benefits from public investment in R&D must have regard to the likely payoff for the community from alternative spending options (opportunity cost).

Types of research and development

Basic research (also called pure research or fundamental research) works to gain a greater knowledge or understanding of the fundamental aspects of different fields of knowledge without specific applications or products in mind. The benefits of pure research are less clear and less likely to be captured by the innovator and, as such, pure research is less likely to be undertaken by the private sector.

Applied research looks at the practical applications of knowledge and is useful both for government in undertaking its own functions (for example defence research, research into biosecurity issues) and to the private sector in developing new products and processes.

The next step in the research and development chain is implementation, also known as experimental development. Implementation looks at embedding new discoveries within firms and workplaces. The benefits of implementation accrue very largely to the innovator. There are minimal spillovers involved.

Research sectors

Within Australia, research predominantly takes place in one of three sectors:

• universities - Australia’s higher education sector;

• publicly funded research agencies (CSIRO, Defence Science and Technology Organisation, Australian Nuclear Science and Technology Organisation, Australian Institute of Marine Science, Australian Institute of Aboriginal and Torres Strait Islander Studies, Geoscience Australia, Australian Antarctic Division etc); or

• the private sector.

Some research, particularly in the area of health, also takes place in the not-for-profit sector.

Not surprisingly, the different sectors have a different research focus. Chart 10.2.1 shows that Australia’s universities focus on public research; publicly funded research agencies focus on applied research; and the private sector focuses on implementation.
Research funding

The Commonwealth Government provides some $8.6 billion in funding to research and development in Australia each year (Australian Government, 2013). The Government invests in research through a number of mechanisms.

There is direct Budget funding of around $1.8 billion per year to public funded research agencies, such as CSIRO and ANSTO.

The universities sector receives $2.9 billion per year, most of which comes through research block grants. Research block grants are distributed between universities on the basis of current research inputs and outcomes. Universities have considerable say over what research projects, personnel, equipment and infrastructure this funding should support.

There are six different broad schemes to support research and research training in Australian universities (Department of Industry, 2013): Australian Postgraduate Awards; International Postgraduate Research Scholarships; Research Training Scheme; Joint Research Engagement; Sustainable Research Excellence; and Research Infrastructure Block Grants.

The universities sector also receives the majority of Australian Research Council (ARC) funding each year. The ARC administers around $900 million in research funding each year. The ARC runs multiple different national competitive grants programmes, including ARC Centres of Excellence, and six streams of Discovery grants which fund basic research, six streams of Linkage grants which encourage collaboration between higher education researchers and other parts of the national innovation system, and a range of special research initiatives.
The ARC mainly funds the direct costs of research (particularly wages), while research block grants focus on the indirect costs of research (such as capital and on-costs).

Chart 10.2.2 shows that this funding for universities is then supplemented by small amounts of funding from a range of specialist research grant programmes across different portfolios.

**Chart 10.2.2: Commonwealth Government research funding for Australian universities**

The private sector receives government support of around $2.1 billion per year, most of which comes through the R&D Tax Incentive which provides a tax offset for businesses involved in research and development.

Chart 10.2.3 shows that the remaining $1.8 billion of funding each year is accessed by researchers across different sectors. This includes funding from programmes such as the National Health and Medical Research Centre (NHMRC) and Cooperative Research Centres (CRCs). The NHMRC provides almost $1 billion in competitive research funding each year to health and medical research – with funding going to the universities sector, the private sector, the public sector and not-for-profits. CRCs provide medium- to long-term funding for collaborative research between universities and the private sector.
The last decade has seen strong growth in government funding for research and development, with funding growing by around 3 per cent per year in real terms.

**Building research capacity**

**Research workforce**
A strong research workforce is critical to Australia’s current and future research and development capability.

The Office of the Chief Scientist (Australian Government, 2012b) has highlighted the importance of a flow of graduates in the areas of science, technology, engineering and mathematics.

The 2012-13 Budget provided $54 million over four years to the Investing in Science and Maths for a Smarter Future initiative.

There is also a Research Workforce Strategy in place (Australian Government, 2011b) aimed at ensuring Australia has the workforce needed to meet its future research inquiries.

**Research infrastructure**
Quality research infrastructure is a critical component of Australia’s research and development system.

Since 2001, the government has provided a series of funding programmes for large-scale research infrastructure, including the Major National Research Facilities Program ($183 million over five years), the Systemic Infrastructure Initiative ($246 million over five years), the National Collaborative Research Infrastructure Strategy (NCRIS — $542 million over six years) and the Super Science Initiative ($901 million over four years). This investment has created assets and generated expertise which have positioned the Australian research sector strongly in world terms, both to compete with the best...
researchers around the world and to participate in global collaborations of direct benefit to Australia.

The NCRIS programme terminated on 30 June 2011 and the Super Science Initiative terminated on 30 June 2013. Recognising the importance of the facilities established under NCRIS and Super Science, Universities Australia agreed in 2012 for the then Minister for Tertiary Education, Skills, Science and Research to reallocate $60 million of existing research block grants under the Higher Education Support Act 2003 to fund an interim block grant – the Collaborative Research Infrastructure Scheme – to support some of the operations of the most critical research infrastructure facilities to 31 December 2014.

In the 2013-14 Budget, the Government announced it would provide $185.9 million over two years to continue the NCRIS to allow the most critical existing research facilities to continue to deliver maximum benefits to the research community. This funding terminates on 30 June 2015.

**A more strategic approach to research funding**

Given that the government does not have an unlimited budget for research and development, it is important to be strategic about where Australia’s research dollars are spent.

Funding for Australia’s publicly funded research agencies can be directed to those areas which are most important for government policy development and research (for example, funding for the Defence Science and Technology Organisation, or for accurately mapping Australia through Geoscience Australia).

The Government also has a set of Strategic Research Priorities which are intended to drive investment in areas that are of immediate and critical importance to Australia and its place in the world. The Research Priorities are designed to foster a more coordinated and strategic approach to research in Australia.

Currently, the societal challenges outlined in the current Strategic Research Priorities are:

- living in a changing environment;
- promoting population health and wellbeing;
- managing our food and water assets;
- securing Australia’s place in a changing world; and
- lifting productivity and economic growth.

**Collaboration**

Collaboration between participants in the conduct of public sector research is crucial. For example, universities, not-for profit organisations and the private sector collaborate in health research and development.
Australian businesses report that they have relatively low levels of collaboration with universities or other research institutions within Australia (ABS, 2012). Compared to other OECD countries, Australia does not perform strongly in the intensity of collaboration between industry and universities (OECD, 2013).

There is a range of Commonwealth programmes in place to support collaboration. CRCs (around $150 million per year) support end-user driven research partnerships between publicly funded researchers and end-users. The Linkage programme provides competitive grants funding for collaborative R&D projects, with partner organisations providing around $2 (in cash and kind) for every $1 of ARC funding. Within the Research Block Grants system for universities, the Joint Research Engagement (JRE) scheme gives emphasis to end-user research by encouraging and supporting collaborative research activities between universities, industry and end-users, beyond those specifically supported by competitive grants.

Importantly, though, it is not entirely the role of government to regulate the level of collaboration between different research sectors. There are inherent incentives for public and private sector researchers to collaborate to share funding, knowledge and intellectual property. Currently, Australian industry does not necessarily see the lack of collaboration with universities as an impediment to innovation (ABS, 2012).

Furthermore, funding collaboration can often lead to benefits accruing to the private sector proponent, with minimal public benefit or positive spillovers.

**Research clusters/precincts**

It has long been recognised (for example, Marshall, 1890) that grouping specialists together brings benefits through increased economic and productivity growth. These benefits can arise from:

- access by employers to a greater pool of skilled labour, facilitating the entry, exit and restructure of firms;
- access by skilled labour to a greater pool of employers, attracting workers;
- specialisation amongst firms and workers;
- reduced transaction costs through proximity to supply chains, cheaper infrastructure and markets; and
- information exchange.

Many examples of such beneficial ‘clusters’ exist, such as Silicon Valley, the Parkville biomedical precinct and the London financial services district. These cluster examples all evolved organically. This is not to say that they arose spontaneously; all of them arose following deliberate investment decisions by firms and research institutions. However, neither the organisations involved nor relevant governments planned their creation.
Given the demonstrated economic success of clusters, some governments have implemented policies to stimulate the formation and growth of clusters within their countries or regions. Governments intend for cluster initiatives to stimulate regions experiencing structural change, build new technology-based industries or build competitive advantage in existing clusters. Government initiatives can include things like facilitating links between researchers and firms, marketing the cluster, funding R&D and providing common use infrastructure for use by cluster participants.

Analysis by researchers at the Harvard Business School found that access to relevant skills and capital and a competitive business environment were far more important than government intervention in the success of clusters, and that clusters created deliberately by government rarely become independent of government funding (Ketels, 2003; Preissl and Solimene, 2003).

An article for *Bloomberg Business Week* (Wadhwa, 2010) put the situation starkly:

> Many of the hundreds of cluster-development projects that have been started around the world since the 1980s have either failed or are on life support, including Tsukuba, Japan’s science city, and Egypt’s ‘Silicon Pyramid’. Because they typically die a slow death, you don’t read about the failures on the front pages of newspapers. Political leaders long ago held press conferences to claim credit for advancing science and technology, management consultants earned hefty fees, and real estate barons reaped fortunes. Taxpayers were left holding the bag.

The best policy interventions would be those where government can make an improvement to the business environment in Australia.

**Potential areas for reform**

**Research infrastructure**

Research infrastructure is a critical component of Australia’s research system (see Chart 10.2.4). However, there is currently a lack of certainty around funding for research infrastructure beyond 2014-15.

Without ongoing funding, established facilities will not deliver their maximum benefit to the research community and much of the value of the initial investment will be lost. Should established facilities be required to close, the cost of re-establishment would be significantly more than that required for their ongoing operation and maintenance.

The Government should make a commitment to ongoing funding for critical research infrastructure in Australia. This could be informed by a review of existing research infrastructure provision and requirements.
## Chart 10.2.4: Australia’s research and development system

<table>
<thead>
<tr>
<th>Research sector</th>
<th>Public sector research bodies (eg CSIRO)</th>
<th>Universities</th>
<th>Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rationale for government Spending on R&amp;D</td>
<td>Research on government priorities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Type of research</td>
<td>Applied research</td>
<td>Basic research</td>
<td>Implementation</td>
</tr>
<tr>
<td>Research funding</td>
<td>Research Block Grants</td>
<td>Direct government funding</td>
<td>R&amp;D tax incentive</td>
</tr>
<tr>
<td>Funding to encourage collaboration</td>
<td>Joint Research Engagement</td>
<td>Cooperative Research Centres</td>
<td>ARC Linkage programme</td>
</tr>
<tr>
<td>Building research capacity</td>
<td>Strategic research priorities</td>
<td>Research workforce</td>
<td>Research infrastructure</td>
</tr>
</tbody>
</table>

Source: National Commission of Audit.
A strategic approach to research funding

Funding for Australia’s publicly funded research agencies should be directed to those areas which are most important for government policy development and research, or which have the highest expected spillovers.

Given the significant investment in research there is a need to ensure Strategic Research Priorities are clearly defined and pursued from a national perspective and not through the artificial construct of individual portfolios and programmes.

Agencies such as the ARC take into account the Strategic Research Priorities in allocating their annual research funding.

However, the current strategic priorities are relatively broad and risk encompassing research projects that are only tangentially linked. The Government’s applied research effort could be better focussed if these strategic priorities were more narrowly defined. This would provide clearer guidance to the sector about the Government’s priorities while continuing to provide funding to support a broad range of basic and applied research.

CSIRO is by far the largest publicly funded research agency in Australia and the single largest employer of scientists, with more than 6,500 people conducting and assisting with scientific research at 57 sites in Australia and around the world.

CSIRO undertakes research across a huge range of policy areas, some of which have more public interest than others, some of which involve private collaboration and some of which involve collaboration with university researchers.

Changing CSIRO into an FMA Act body (a non-corporate Commonwealth entity under the PGPA Act) would enable the Government to have more visibility over CSIRO’s work and a clearer say over their spending and savings decisions.

Research collaboration

As discussed above, there are already incentives in place for researchers to collaborate to share funding, knowledge and intellectual property. This suggests that government should only play a targeted role in this space.

Currently there is a range of programmes designed to encourage collaboration between universities and the private sector. Given that all of these programmes have the same objective, there would be efficiency benefits in consolidating them. CRCs should be abolished and funding rolled into the ARC. As part of this transition, consideration should be given to allowing longer funding periods for ARC grants.

The Collaborative Research Network programme, which provides funding for larger universities to collaborate with smaller, less research-intensive and regional universities, should also be abolished. Excellence in Research for Australia data shows that while
Australia's major universities have overall higher research ratings, regional universities also rate highly in specific subject areas (Australian Research Council, 2012). Where there are areas of shared research interest, academics already have incentives to collaborate between universities (both within and outside of Australia). A specific funding programme to encourage additional collaboration is likely to actually encourage a misallocation of research resources, as researchers vary their preferred research proposals to meet the programme requirements.

Given that the evidence base shows that government intervention is not generally useful in establishing industry clusters, Government should pull back from this area, abolishing the current Industry Innovation Precincts programme.

**Consolidating research programmes**

The discussion of research funding above outlines the main government funding sources for research in Australia. However, there are some 150 other minor research funding programmes and agreements scattered across the various government agencies and departments, ranging from research into wind forecasting capability, to national acoustics laboratories, to a study of jet fuel exposure syndrome (Australian Government, 2013).

In some cases these particular pieces of research will either match Government’s explicit priorities, or have high spillovers.

However, in a number of cases, the research is not well targeted and the public benefits appear minimal. In these cases, the Commission considers that these smaller programmes should be abolished, or consolidated.

Even in the case of larger research programmes, there may be good reasons for consolidation. A reduction in duplication of administrative support and processes could be achieved by better aligning ARC and NHMRC grant processes (but keeping the medical research funding pool separate). This would reduce administrative costs to the Commonwealth and should also decrease the cost to researchers of applying for grants.

The Department of Industry website (Department of Industry, 2013) identifies six different schemes to support research and research training in Australian universities: Australian Postgraduate Awards, International Postgraduate Research Scholarships, Research Training Scheme, Joint Research Engagement, Sustainable Research Excellence, Research Infrastructure Block Grants. These multiple streams of research block grants and postgraduate scholarships could be streamlined, looking for options to better align funding for the direct and indirect costs of research.

There is an array of Rural Research and Development Corporations in the Agriculture Portfolio which are co-funded by industry (through a compulsory levy administered by the Commonwealth) and by government. These corporations do not receive the benefits of the research and development tax incentive.
In return for a government contribution, the Rural Research and Development Corporations are expected to fund some research that has broader public good objectives. The wider industry and community have access to the outcomes and benefits of the corporations’ research in order to maximise spillovers.

Changes to the current funding model, consistent with Productivity Commission recommendations, would reduce the amount of government funding and better reflect the mix of private and public benefits. In particular, the current cap on dollar for dollar matching of industry contributions by government (currently set at 0.5 per cent of gross value of production) should be halved over a 10-year period.

A new, uncapped subsidy at the rate of 20 cents in the dollar should be introduced for industry contributions above the level that attracts dollar-for-dollar matching. Duplication of administrative support and processes should be reduced by aligning ‘backroom’ processes across the various Rural Research and Development Corporations.

**Industry-specific research programmes**

The government provides support for basic and applied research (informed by the Strategic Research Priorities) across a range of areas. In recognition of positive spillover effects, government support for research and development is available through a range of tax and spending programmes (such as Research and Development tax concession) available to all sectors. Other research which is critical for government’s own operations is supported through the publicly-funded research agencies.

At the level of implementation of research, government should not be ‘picking winners’ and supporting research and development for one sector above other sectors. Sector-specific research programmes risk distorting labour market and investment decisions and hence decreasing overall productivity.

The Commission considers that sector-specific grants (such as those through the National Low Emissions Coal Initiative and Carbon Capture and Storage Flagships and the Innovation Investment Fund) should be abolished.

Support for renewable energy research already comes through the Renewable Energy Target and potentially under the Government’s Direct Action Plan, so further support through the Australian Renewable Energy Agency should not be required.

The Australian venture capital sector is small and relatively new. While there are definite private benefits to Australian companies from the commercialisation of their intellectual property, the public benefits from commercialisation and support through the Innovation Investment Fund are less clear. The venture capital sector receives government support through existing tax concessions.
References


10.3 Indigenous programmes

Background

The Commonwealth and the States all fund Indigenous affairs, through both mainstream and Indigenous specific services. Despite a long history of Indigenous policies, improvements are still needed to address the severe disadvantage faced by Indigenous Australians.

_The history of Commonwealth policy for Indigenous Australians over the past 40 years is largely a story of good intentions, flawed policies, unrealistic assumptions, poor implementation, unintended consequences and dashed hopes_ (Department of Finance and Deregulation, 2010).

It is estimated that $25.4 billion was spent by the Commonwealth and the States on Indigenous affairs in 2010-11, with $19.9 billion spent through mainstream services and $5.5 billion through Indigenous specific services (Productivity Commission, 2012). Of this, $11.5 billion was spent by the Commonwealth and $13.9 billion was spent by the States.

<table>
<thead>
<tr>
<th></th>
<th>Commonwealth</th>
<th>State &amp; Territory</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Indigenous Specific</td>
<td>3.2</td>
<td>2.3</td>
<td>5.5</td>
</tr>
<tr>
<td>Mainstream</td>
<td>8.3</td>
<td>11.6</td>
<td>19.9</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>11.5</td>
<td>13.9</td>
<td>25.4</td>
</tr>
</tbody>
</table>

Table 10.3.1: Total estimated expenditure on Indigenous Australians, 2010-11


Table 10.3.1 highlights the split between jurisdictions with around 55 per cent of spending on Indigenous Australians made by the States and 45 per cent accounted for by the Commonwealth. A significant proportion of State spending (around one third) is indirectly funded by the Commonwealth through national partnership agreements and other specific purpose payments.

Australian governments spent an estimated $44,128 per capita in 2010-11 on Indigenous Australians through mainstream and specific programmes, more than double the average per capita spending on other Australians. This disparity is driven by the greater intensity of service use by Indigenous people, the cost of providing services in remote locations and the high administrative costs associated with a multiplicity of programmes. For example, government spending per person on housing services is around four times higher for Indigenous Australians (Productivity Commission, 2012).

In 2008, the Council of Australian Governments (COAG) set six specific, but interconnected, targets to ‘close the gap’ in outcomes between Indigenous and non-Indigenous Australians.
(Council of Australian Governments, 2014). Three of the ‘closing the gap’ outcomes are on track: mortality rates for children, year 12 achievement and access to early childhood education. Progress needs to be accelerated for the remainder: life expectancy, reading, writing and numeracy, and employment outcomes (Table 10.3.2 refers).

### Table 10.3.2: Closing the Gap targets and status

<table>
<thead>
<tr>
<th>Target</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Close the life-expectancy gap within a generation (by 2031)</td>
<td>Not on track - progress needs to accelerate</td>
</tr>
<tr>
<td>2. Halve the gap in mortality rate for Indigenous children under five</td>
<td>On track (if current trends continue)</td>
</tr>
<tr>
<td>within a decade (by 2018)</td>
<td></td>
</tr>
<tr>
<td>3. Ensure access to early childhood education for all Indigenous</td>
<td>On track</td>
</tr>
<tr>
<td>four year olds in remote communities within five years (by 2013)</td>
<td></td>
</tr>
<tr>
<td>4. Halve the gap in reading, writing and numeracy achievements for</td>
<td>Not on track - progress needs to accelerate</td>
</tr>
<tr>
<td>children within a decade (by 2018)</td>
<td></td>
</tr>
<tr>
<td>5. Halve the gap in Indigenous Year 12 achievement (or equivalent</td>
<td>On track (currently ahead of schedule)</td>
</tr>
<tr>
<td>qualification) (by 2020)</td>
<td></td>
</tr>
<tr>
<td>6. Halve the gap in employment outcomes between Indigenous and non-</td>
<td>Not on track - progress needs to accelerate</td>
</tr>
<tr>
<td>Indigenous Australians within a decade (by 2018)</td>
<td></td>
</tr>
</tbody>
</table>


Since the early 1990s there has been mixed progress in improving Indigenous wellbeing. Mortality rates, especially infant mortality rates, have improved, as have home ownership rates, leading to a narrowing of the gap between Indigenous and non-Indigenous outcomes. For indicators such as education, employment and income, while there has been absolute improvement for Indigenous people, the matching improvements amongst non-Indigenous people has led to the gap remaining static. Finally, indicators have worsened for literacy and numeracy, most health indicators, housing overcrowding and imprisonment rates (Productivity Commission, 2011).

**Rationale for government intervention**

The Commonwealth Government provides access to the same support for Indigenous Australians as they do for other Australians. The vast majority of Commonwealth spending on Indigenous Australians is through mainstream services and programmes (78 per cent in 2010-11) (Productivity Commission, 2012). In addition, the Commonwealth Government
assists through redistribution via specific Indigenous spending to address the extreme disadvantage faced by Indigenous Australians.

The Commonwealth Government provides additional funding in remote areas to develop leasing arrangements that support business, provide access to municipal and essential services in communities without local government authorities and provide public housing where people cannot own their own home because of land tenure arrangements.

Responsibility for Indigenous services is shared between the Commonwealth and the States. In theory, accountability could be improved by giving full responsibility for Indigenous-specific services to the States, whose core responsibilities include education and housing. However, addressing the severe disadvantage faced by Indigenous Australians has been identified as a national priority by successive Commonwealth Governments.

The Commission considers that Commonwealth support for Indigenous Australians should continue, consistent with the Commission’s Principles of Good Government, that the government should protect the truly disadvantaged and target public assistance to those most in need. However, it is vital that duplication between the Commonwealth and the States is eliminated and the highest level of coordination is achieved. At the Commonwealth level, duplication between mainstream and Indigenous-specific programmes should be eliminated and coordination strengthened.

**Current structure of the programme**

Table 10.3.3 shows an estimated breakdown of all Commonwealth Indigenous expenditure by type.

<table>
<thead>
<tr>
<th>Area of Funding</th>
<th>Mainstream ($ million)</th>
<th>Indigenous specific ($ million)</th>
<th>Total ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early child development, and education and training</td>
<td>262</td>
<td>542</td>
<td>803</td>
</tr>
<tr>
<td>Healthy lives</td>
<td>832</td>
<td>771</td>
<td>1,603</td>
</tr>
<tr>
<td>Economic participation</td>
<td>4,069</td>
<td>614</td>
<td>4,683</td>
</tr>
<tr>
<td>Home environment</td>
<td>398</td>
<td>185</td>
<td>583</td>
</tr>
<tr>
<td>Safe and supportive communities</td>
<td>1,034</td>
<td>937</td>
<td>1,970</td>
</tr>
<tr>
<td>Other government services</td>
<td>1,662</td>
<td>194</td>
<td>1,855</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td><strong>8,256</strong></td>
<td><strong>3,242</strong></td>
<td><strong>11,498</strong></td>
</tr>
</tbody>
</table>


Within the Department of the Prime Minister and Cabinet there are more than 150 programmes and activities, totalling funding of approximately $2.4 billion for 2013-14
(including almost $0.8 billion for Indigenous-specific National Partnerships) (Department of the Prime Minister and Cabinet, 2013).

A further $402 million is spent on the four major Indigenous bodies within the Prime Minister and Cabinet Portfolio, being Aboriginal Hostels Limited, Indigenous Business Australia, the Indigenous Land Corporation and the Torres Strait Regional Authority. Additional funding is provided via mining royalties and grant payments to six other bodies in the portfolio, which includes the five Land Councils and Outback Stores. There are around thirty bodies (including committees, councils and boards) relevant to Indigenous Affairs in total within the Prime Minister and Cabinet, Environment, Health, Attorney-General’s and Education Portfolios.

Approximately 1,600 people working on Indigenous Affairs have now transferred into the Department of the Prime Minister and Cabinet (including 800 staff in State and Territory networks) (Department of the Prime Minister and Cabinet, 2013).

**Trends**

There was a 13.9 per cent increase ($3.1 billion) in Indigenous expenditure in the period from 2008-09 to 2010-11, with increases of 10.7 per cent ($1.1 billion) and 16.8 per cent ($2.0 billion) by the Commonwealth and States respectively. The largest overall increases were in the areas of: safe and supportive communities; healthy lives; and early child development, education and training (Productivity Commission, 2012).

The total administered budget within the Department of the Prime Minister and Cabinet is projected to trend down over the forward estimates, largely as national partnership agreements expire (Department of the Prime Minister and Cabinet, 2013).

*Chart 10.3.1: Projected Indigenous specific spending within PM&C*

Source: Department of the Prime Minister and Cabinet, 2013.
Drivers

Growth in Indigenous spending and programmes has largely been driven by ongoing poor outcomes for Indigenous Australians and various attempts to address this.

Despite the large amount of money being spent, outcomes for Indigenous Australians are still well behind the rest of the population and targets are not being achieved. The announcement of the Closing the Gap framework and various National Partnerships to address poor outcomes for Indigenous Australians has resulted in significantly increased levels of investment.

The Northern Territory Emergency Response was introduced to address concerns about child safety and dysfunction in the Northern Territory. This dramatically increased Commonwealth involvement in Indigenous affairs in the Northern Territory.

Issues

Duplication and fragmentation of programmes

There are too many disparate and fragmented Commonwealth Indigenous programmes. This has resulted in duplication, complexity and a lack of accountability.

Over a number of years, layers of programmes have built up, many of which are no longer relevant, while new programmes have been introduced.

The Commission considers that the multitude of Commonwealth Indigenous-specific programmes and activities (around 150) should be consolidated into no more than six or seven programmes to reduce duplication and overlap.

Inadequate evidence base

The Commission considers that the ‘closing the gap’ architecture is a good attempt to set a logical and practical framework of outcomes and performance monitoring which should be retained.

Some effort has also been made to introduce measurable targets for Indigenous outcomes, for example, through the Productivity Commission’s Indigenous Expenditure Reports and the Closing the Gap Clearinghouse.

However, robust evidence is still lacking on the performance and effectiveness of many Indigenous programmes.

The Strategic Review of Indigenous Expenditure (Department of Finance and Deregulation, 2010) found that:
Program evaluation activity in this area has been patchy at best, and many of the evaluations which have been conducted have lacked a suitable measure of rigour and independence.

Advice from the Department of the Prime Minister and Cabinet notes that very few Indigenous-specific programmes have been subject to a comprehensive, outcome-based evaluation.

In 2013, the Coordinator General for Remote Indigenous Services highlighted inadequate performance measurement in the seventh bi-annual report on the Remote Service Delivery National Partnership Agreement, finding that:

The absence of meaningful performance benchmarks has resulted, and continues to result, in a lack of shared direction or vision for the [Remote Service Delivery] National Partnership as a whole.

Overlap in Commonwealth/State services

There is significant overlap between the Commonwealth and the States in Indigenous affairs. Most of the areas of greatest need (education, housing, community safety) are largely the responsibility of the States, but the Commonwealth has stepped in to improve outcomes. This has led to multiple programmes from both levels of government. For example Roebourne in Western Australia with a population of 1,150 has 67 local service providers and over 400 programmes funded by both the Commonwealth and the State (West Australian Department of the Premier and Cabinet, 2013).

The Commonwealth supplements municipal and essential services in remote communities ($44.1 million in 2013-14) as well as providing ad hoc funding for critical infrastructure (Australian Government, 2013b). This should not be the Commonwealth’s responsibility. However, ending this funding without alternate arrangements would create significant health and safety risks for many Indigenous people.

Under-use of some mainstream services

With over 75 per cent of Indigenous Australians resident in urban and regional locations (Australian Bureau of Statistics, 2011), achievement of the Closing the Gap targets depends on the effectiveness of mainstream services. In some critical areas, such as primary health, Indigenous Australians are underutilising services relative to need (Australian Institute of Health and Welfare, 2011).

Effectiveness in remote Australia

Over the last few years, there has been increasing recognition that remote Australia’s very high disadvantaged Indigenous population, cultural complexity and dispersed settlement pattern requires a dedicated policy and service delivery response.
Prominent thinkers in the Indigenous policy area, including former Minister Fred Chaney under the auspices of RemoteFOCUS, have argued that the circumstances and challenges facing citizens in remote Australia are very different from those in metropolitan areas and policy and service delivery responses need to be separately conceived and framed.

_The uniformity of failure to match results with good intentions makes it clear to me that failure is not a matter of partisan politics, of lack of good intentions, of just getting policy settings wrong, or of having the wrong people. There is a system failure here; the present instruments of government are not fit for use in remote Australia_ (Walker et al, 2012).

Issues such as retaining the right staff, coordinating services, working with particular cultural norms and dealing with the lack of any genuine economy in more remote areas should be addressed. The Commission considers that a regional approach is required to address differing needs.

**Empowerment and place-based delivery**

While Indigenous people have been extensively consulted by the Commonwealth and in some cases have spearheaded significant reforms, there is still a case for better engagement of Indigenous representatives and organisations in the decision making.

Senior Indigenous leaders, including Noel Pearson, have called for structural reform under an ‘Empowered Communities’ proposal developed by Jawun Indigenous Corporate Partnerships. This proposal calls for increased involvement of Indigenous people in decision making at the regional level, pooled funding, a system of supports and sanctions and adopting a market development approach to service delivery to ensure local Indigenous organisations are competitive when tendering to deliver services in their own communities. The Government has committed to providing $5 million to support a design phase for the proposal (Cape York Institute, 2013).

**Potential areas for reform**

**Redirecting funding to early childhood, school, vocational education and university vouchers**

As a practical measure to address inter-generational disadvantage, the Commission proposes the establishment of a new programme for Indigenous children and young people by offering comprehensive, means-tested and needs-based vouchers to Indigenous Australians to access accredited early childhood services, schools, vocational education facilities and universities.

_Education, employment and economy can provide a ladder for Indigenous people to lift out of poverty. And ensuring good maternal health is essential to the long term_
health futures of Indigenous people. These will be the most fundamental and effective contributors to better Indigenous health (Mundine, 2013).

Providing education vouchers to Indigenous Australians would provide greater access to quality education through the early childhood and school years, as well as higher and vocational education. The vouchers could be used to help meet the full costs of education, including school, university and vocational education fees, boarding and travel costs. An educational voucher programme could have a genuine impact on the academic prospects of tens of thousands of Indigenous children.

Providing educational vouchers directly to in-need families would empower Indigenous Australians to make meaningful choices about their children’s education.

Secondary school retention rates for Indigenous students are below the average for non-Indigenous students (Australian Bureau of Statistics, 2012). Only 51.1 per cent of Indigenous students completed their schooling from the beginning of secondary school through to year 12, while the retention rate for all students was 79.9 per cent.

According to the Productivity Commission’s 2011 Overcoming Indigenous Disadvantage report:

Evidence suggests that many Indigenous children are leaving school in years 9 and 10 with poor literacy and numeracy skills and with limited post school options. Early school leaving is associated with poor employment outcomes and income in later life. Some of the causes of early school leaving include poor literacy and numeracy skills, lack of student engagement in learning, the quality of teaching staff, low socioeconomic background.

Indigenous students underperform relative to non-Indigenous students on a range of educational measures. In 2010, the proportion of Indigenous year 3, 5, 7 and 9 students who did not achieve the national minimum standard for reading, writing and numeracy was substantially higher than was the proportions of all students. This gap increased as the degree of remoteness increased.

The Productivity Commission noted that scholarship programmes and ongoing, individual student support have increased secondary school participation and attainment for some young Indigenous people (see boxes 10.3.1 and 10.3.2).

**Box 10.3.1: ‘Things that work’ — increasing secondary school participation and attainment**

The Cape York Institute’s Higher Expectations Program — Secondary (HEPS) (Queensland) provides Indigenous children living in the Cape York region with access to secondary education at Queensland’s most academically successful boarding schools. The HEPS provides both financial assistance and ongoing support from a programme administrator and student support officer, who maintain regular contact with students, school staff,
parents/guardians and home communities and assist students and their families with transition and communication issues.

The HEPS has grown each year, from six students in 2005 (HEPS inaugural year) to 36 students in 2010. The programme’s success is due to the individual case management of students and extra activities to increase motivation and develop life skills and leadership. Though only a small number of Cape York students will participate in the HEPS, their success (completion of secondary school and enrolment in tertiary studies) will greatly influence Cape York educational statistics and provide Cape communities with a pool of talented and educated future leaders.

In 2007, four students finished year 12 and three of those students enrolled in university.

In 2008, two students graduated from year 12 and enrolled in university.

In 2009, two students finished year 12 and enrolled in university.

Productivity Commission, 2011.

Box 10.3.2: Australian Indigenous Education Foundation

The Australian Indigenous Education Foundation (AIEF) is a not-for-profit foundation with government funding that provides scholarships to leading independent schools. Schools are responsible for the selection and enrolment of Indigenous students. Scholarship eligibility is based on enthusiasm and commitment from the student and family and the likelihood of the student successfully completing their schooling through to Year 12.

Indigenous students in the AIEF Scholarship programme have an over 90 per cent retention and Year 12 attainment rate (a significant difference to the national average for Indigenous students). Of all Indigenous students who have graduated through the programme: 39 per cent entered tertiary studies at university; a further 54 per cent progressed to vocational training positions or employment and the remaining 7 per cent are working with the AIEF Transition Support Team in one on one transition management (Australian Indigenous Education Foundation, 2014).

Over the longer term, initiatives such as these have the potential to increase cognitive development, language development, school readiness, employment and law and justice outcomes. The Commission notes that it will take time to see measurable results from these activities. It will shift significant Commonwealth resources from administration, directly to Indigenous families with children.
By ensuring the programme is properly means-tested and needs-based, Indigenous Australians in remote areas will not be unfairly discriminated against in their ability to access quality education for their children.

**Consolidating and rationalising programmes**

A consolidation into six or seven programmes with identified outcomes is needed to refocus the Commonwealth’s efforts on practical ways of breaking the cycle of disadvantage affecting many young Indigenous Australians.

The Commission has undertaken a preliminary investigation of the major Indigenous programmes transferred to the Department of the Prime Minister and Cabinet and identified a number of possible programmes that should be retained and others that could be ceased.

Funding for programmes that have demonstrated effectiveness based on outcomes should be retained and consolidated into broad programme streams aligned to priority areas. Programmes related to areas of Commonwealth responsibility such as native title and telecommunications should also be retained.

Employment programmes should be retained and considered in the context of the outcomes of the review of Indigenous employment and training programmes, chaired by Andrew Forrest, which is due to report in April 2014 (Australian Government, 2014). The economic viability of some Indigenous communities is an issue that needs to be considered in the context of this review.

The Commonwealth Government could pull back from areas of direct State responsibility. This would represent a significant pivot for the Commonwealth away from some areas in which it has been heavily involved, such as Indigenous housing and municipal and essential services. Funding for the National Partnership Agreement on Stronger Futures with the Northern Territory could also cease, as many of the services provided are the responsibility of the Northern Territory Government.

Funding for lower performing, or lower priority activities (such as carbon farming or Indigenous sport) could also cease. Funding from these categories of programme, as well as programmes related to early childhood, schooling, higher and vocational education could be redirected into a new programme for Indigenous children and young people (see ‘Redirecting funding to early childhood, school, vocational education and university vouchers’ section above).

**Consolidating and rationalising bodies**

Similarly, the number of Indigenous bodies, advisory boards and committees currently in existence should be reviewed and reduced.
Consideration should be given to the option of merging the Indigenous Land Corporation (ILC) and Indigenous Business Australia (IBA). IBA and the ILC are the two principal Indigenous economic development bodies supported by the Commonwealth. Such an amalgamation would achieve efficiencies, avoid duplication (these organisations already share a common chair) and be more convenient for clients. The Aboriginal and Torres Strait Islander Land Account should be maintained to provide a stable revenue stream to fund Indigenous land acquisition and management activities.

Consideration should be given to putting the administration of the current IBA Home Ownership programme to a competitive tender on the basis that mainstream banks could deliver the product at a lower cost than is being delivered by government.

The National Congress of Australia’s First Peoples was funded from 2009 to 2013 to provide a national voice for Indigenous Australians (Australian Government, 2010). The Commission considers that Congress should no longer be supported as it duplicates other Indigenous representative advisory bodies.

Outback Stores Pty Ltd was created in July 2006 as a wholly owned subsidiary of Indigenous Business Australia to improve the health of Indigenous people in remote Australia by addressing nutrition-related health problems, unreliable food supplies, stores closing because of poor management and build-up of debt (Outback Stores, 2013). The Department of the Prime Minister and Cabinet should undertake a review of Outback Stores’ statutory model, including consideration of whether this should remain a responsibility of government and if so, options to merge with other commercially focussed agencies within the portfolio.

Aboriginal Hostels Limited (AHL) is a wholly owned Commonwealth company. AHL was established in 1973 as a national network of hostels to provide safe, comfortable, culturally appropriate and affordable accommodation for Indigenous Australians who need to live away from home to access services and economic opportunity. At 30 June 2013, AHL directly operated and administered 52 hostels and houses and provided additional grant funding for 35 community-operated hostels (AHL, 2013). The Department of the Prime Minister and Cabinet should undertake a review of AHL’s statutory model including options to merge with other commercially focussed agencies within the portfolio.

The four Northern Territory Land Councils (Anindilyakwa, Central, Northern and Tiwi) were established by the Aboriginal Land Rights (Northern Territory) Act 1976 (ALRA) and are responsible for representing the wishes and opinions of those Indigenous Australians living within the area of the Land Councils with regards to the preservation, acquisition and development of traditional land. The Land Councils are resourced through a combination of special accounts under the ALRA funded by hypothecated royalties from mining activity in the Northern Territory on Indigenous land, native title funding and numerous ad hoc grants provided by individual agencies and departments. Consideration should be given as to whether the Northern Territory Land Councils should continue to operate under the ALRA.
Act as Commonwealth authorities, or whether they could instead operate as private entities, in a similar fashion to other Native Title Representative Bodies established under the *Native Title Act 1993*, with arrangements to continue the provision of mining royalties.

The Torres Strait Regional Authority (TSRA) is established by the *Aboriginal and Torres Strait Islander Act 2005* (TSRA, 2013). Some purposes and activities of the TSRA overlap with the policy and programme accountabilities of the State Government and administrative efficiencies could be gained through devolution of responsibility. A review should be conducted of the ongoing Commonwealth operation of the TSRA.

The rationalisation of Commonwealth bodies is also discussed in Section 10.18 of the Appendix.

**Establishing a new agency for Indigenous affairs**

The Government’s decision to bring Indigenous affairs together in one department has allowed for a more central, coordinated perspective on Indigenous policy. However, the Department of the Prime Minister and Cabinet has not previously had a significant role in service delivery. There would be merit in establishing an agency within the Prime Minister and Cabinet Portfolio with responsibility for Commonwealth Indigenous specific programme delivery, improving coordination between Indigenous specific programmes and mainstream programmes across the Commonwealth and the States as well as the achievement of certain performance indicators. Reflecting the recent machinery of government changes, the transition to a new agency could occur over a two to three year period.

Initially, the new agency should focus heavily on the skills and training of its own staff. For example it should ensure that both policy and delivery staff have relevant experience working with and in Indigenous communities. It should also invest in a robust data and evaluation strategy to collect meaningful information about the performance of all programmes.

There are likely to be significant administrative savings under this approach. The Commission recommends that these be reinvested in the educational vouchers, discussed above.

**New agreements with the States**

The Commission recommends that responsibility for Indigenous Affairs continues to be shared with the States. However, accountability must be improved, and duplication, lack of coordination and other inefficiencies addressed if better outcomes are to be achieved.

Existing duplication and overlap between the Commonwealth and the States should be addressed, including in the delivery of municipal and essential services, policing and housing. New arrangements should be simple, outcomes based and clearly measurable to ensure results are being achieved. Where programmes are shown to be ineffective, they
should be changed or cancelled. Where there is a role for both levels of government, options for pooled funding and streamlined governance should be explored.

Mainstream services

As noted above, some mainstream services, such as primary health care, are being used at a lower rate, relative to need, by Indigenous Australians. Stronger mechanisms need to be introduced to ensure mainstream programmes are working effectively for Indigenous people and are properly coordinated with Indigenous-specific programmes. Consideration needs to be given in the design of these services as to how they will work for Indigenous people.

Options include requiring that mainstream services: publicly report on Indigenous access and outcomes; use Indigenous providers in areas with high Indigenous populations; and ensure mainstream services are designed and delivered in collaboration with Indigenous communities where practical.

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10.4 Resourcing diplomacy and consular activities

Background
While the foreign affairs function has been one of the most rapidly growing parts of government expenditure, this largely reflected the policy of the previous Government to lift spending on official development assistance (ODA) to 0.5 per cent of Gross National Income (GNI). In contrast, Department of Foreign Affairs and Trade (DFAT) resourcing has broadly remained constant in real terms, while Australian Trade Commission (Austrade) funding has declined.

The Foreign Affairs and Trade Portfolio consists of DFAT, Austrade, the Australian Centre for International Agricultural Research (ACIAR), the Export Finance and Insurance Corporation (EFIC), Tourism Australia and the Australian Secret Intelligence Service. Until 1 November 2013, the Australian Agency for International Development (AusAID) was a separate agency providing international aid but is now a part of DFAT.

The original departments of state at Federation included the Department of External Affairs and the Department of Trade and Customs.

Rationale for government intervention
Diplomacy and consular activities are a traditional function of national governments. The Foreign Affairs and Trade Portfolio also undertakes roles in relation to ODA, trade policy and tourism assistance. These activities are discussed further in Sections 9.14 (Foreign Aid) and 10.1 (Industry Assistance) of the Appendix.

Government intervention in trade is often understood in terms of addressing market failures. Trade policy has usually centred on negotiation with the governments of trading partners to lower tariffs and non-tariff barriers to Australian goods and services. In addition, governments can attempt to directly address market failures, although such activities run the risk of suffering from government failures and not keeping up with change in the international trading environment.

Tourism assistance can also be seen as aiming to address market failures within the tourism industry.

Current structure of the programme
There are a few unique aspects of the Foreign Affairs and Trade Portfolio funding model:

- Passport funding has separate arrangements which see the marginal funding for each passport negotiated with the Department of Finance every three years. DFAT
funding for passports is then adjusted regularly over the three years reflecting updated forecasts of passport demand.

- No win/no loss funding arrangements apply in limited circumstances – currently only for security costs in Afghanistan – with DFAT receiving additional funds if actual costs are higher than budgeted and returning any surplus funds. Although not described as no win/no loss, membership fees for international organisations (like the United Nations) are effectively a no win/no loss arrangement.

- DFAT charges agencies rent for the space they occupy in embassies and for other services they provide (IT, utilities, etc).

- Austrade charges businesses for services they provide (currently at a rate of $190 per hour).

- The Commonwealth Government provides a foreign exchange no win/no loss arrangement where agencies are reimbursed for a deterioration in the value of the Australian dollar, or return funding when the dollar appreciates. DFAT and Austrade participate in these arrangements while AusAID and ACIAR do not (in part reflecting difficulties of managing this within the ODA funding model).

- The ODA funding model which is discussed in Section 9.14 of the Appendix.

**Trends**

The 2013-14 Budget reported that total expenses under the foreign affairs and economic aid sub-function were expected to grow by 12.1 per cent in real terms from 2012-13 to 2013-14 and by 22.1 per cent in real terms across the forward years from 2013-14. This increase was driven by the previous Government’s commitment to increase the level of ODA to 0.5 per cent of GNI. In contrast, DFAT spending prior to gaining AusAID’s functions and resources was $1.4 billion per year and projected to remain at this level across the forward estimates period.

**Drivers**

The Foreign Affairs and Trade Portfolio is facing pressure from the increasingly globalised nature of the world and the complexity of the relationships that result. This includes increasing trade volumes and increasing numbers of Australians travelling abroad.

The environment for international trade has been improving, although the process of reducing trade barriers has been uneven. Generally, more progress has been made in negotiating reduced trade barriers through bilateral processes than on a multilateral basis. Negotiations through the World Trade Organization Doha Round have only recently shown some progress with the Bali package from December 2013.
Nevertheless, opportunities for trade have generally been improving, with businesses becoming more aware of opportunities and greater availability of supporting infrastructure and services.

**Issues**

The merger of AusAID into DFAT and the reduction in aid spending by $4.5 billion over four years means that how the aid programme will be managed in future needs to be - this is addressed in greater detail in Appendix Section 9.14.

**Diplomatic resourcing**

The overall level of DFAT resourcing has been a focus of attention, raised by the Joint Standing Committee on Foreign Affairs, Defence and Trade report *Australia’s Overseas Representation – Punching Below Our Weight?* (2012) and the Lowy Institute for International Policy report *Australia’s Diplomatic Deficit* (2009).

The Parliamentary Committee recommended increased Budget priority for overseas representation, with a substantial (at least 20) increase in the number of DFAT’s diplomatic posts to bring it to a level commensurate with its position in the G20 and OECD economies. The Committee also recommended that DFAT’s funding be increased in the long-term to a set percentage of gross domestic product.

The Government has an election commitment to review diplomatic resources to ‘ensure Australia’s global diplomatic network is consistent with our interests’ (Liberal Party of Australia and National Party of Australia, 2013).

**Consular services**

The pressures on DFAT consular services have gained attention from the Joint Standing Committee on Foreign Affairs, Defence and Trade and the Lowy Institute report *Consular Conundrum: The Rising Demands and Diminishing Means for Assisting Australians Overseas* (Oliver, 2013). The Committee recommended that ‘the cost of meeting increasing demand for consular services should be met through a combination of increased passport fees and a small hypothecated and indexed travel levy’.

**Trade and tourism**

Austrade, EFIC and Tourism Australia are intended to support Australian businesses in exploiting commercial opportunities by assisting them in addressing market failures. In the time since these organisations were founded, there have been significant changes in the international environment, the availability of information (notably through the internet), the maturity of the financial services sector and the accessibility of professional services firms on a global basis.
Many of these arrangements have their origins 40 years ago or longer. The economy has changed significantly since then, undermining the case for intervention to promote exports. Consideration of the effectiveness and public benefits of this assistance is discussed in Appendix Section 10.1.

**International organisations**

Australia is a member of numerous international organisations – some highly valuable and others less so. Membership of international organisations places obligations on Australia to contribute membership fees, to participate in the activities of the organisation – capturing the time of officials and ministers, to provide privileges and immunities to officials of the organisation and, sometimes, to introduce particular laws into Australia. Many organisations have little to show by way of practical outcomes. There is no single list of all the organisations. DFAT funds many, but others are the responsibility of other agencies.

- Proposals to join the African Development Bank or the International Fund for Agricultural Development have been under consideration. While these are desirable organisations, it is not clear why joining them should be a priority.

- AusAID conducted an assessment of many of organisations involved in international aid (AusAID, 2012). For other organisations, there is no formal assessment process.

**Potential areas for reform**

**Diplomatic priorities**

DFAT resourcing is an important issue for the Commission as additional funding for diplomacy makes the task of achieving a longer-term surplus more difficult.

The overall resourcing position of DFAT is now obscured by its merger with AusAID. Even with the reduction in aid spending, AusAID resourcing was much greater than that of DFAT. Broadly the argument about resourcing has centred on four issues:

- DFAT funding has been largely constant in real terms since 1995-96, while peer comparison agencies have been growing rapidly (e.g. AusAID and the intelligence agencies).

- DFAT staffing is lower than it was in 1996 and the number of overseas Australia-Based (A-Based) staff is notably lower.

- DFAT has a smaller diplomatic footprint (i.e. number of overseas posts) than any similar sized G20 or OECD country.

- Growing numbers of Australians travelling overseas are placing increasing pressures on consular services and DFAT workloads.
While the overall level of diplomatic capability involves a choice for government, the Commission does not consider that the case for a significant increase in resources is compelling.

It is not surprising that an organisation delivering essentially the same function as it did 20 years ago should have essentially the same funding in real terms. The underlying details make the story more complex and this is explored in Attachment 10.4.1 of the Appendix.

In any case, any increase in real expenditure should be accompanied by increased outcomes valued by government. At the heart of establishing value for money is the planning and performance measurement system.

Strategic planning necessarily involves sensitive judgements on foreign countries and the publicly provided ‘Asian Century’ strategies probably do not serve as the best basis to assess the quality of DFAT strategy work. Rather, the approach would benefit from assessing the interests of various actors and their sources of power in relationships, the dynamics of relationships and the opportunity costs of the various options available to Australia.

Performance measurement for diplomacy is complicated by the intangible nature of the outcomes being delivered. Nevertheless this means that more effort is required rather than less.

While the DFAT Portfolio Budget Statements and Annual Report list key performance indicators (KPIs), reporting on them is inadequate. The first KPI reads:

*High level of satisfaction of ministers and high-level clients with the quality and timeliness of advice, briefing and support in relation to Australia’s foreign, trade and economic, and international security interests (Program 1.1).*

Although the performance reporting section in the Annual Report is 136 pages, there is no mention of client satisfaction.

Despite the difficulties in measuring intangible outcomes, much work has been done by AusAID in providing more robust self-assessments of aid programmes and this approach can be supplemented by peer and client assessments. Regularly presenting the cost and performance associated with particular relationships would provide a better basis for managing the DFAT budget and those of other agencies with an international presence.

Strategies that should be considered include: client surveys; self-assessment (such as applied in AusAID’s Quality at Implementation (QAI) reports); peer assessment; and assessing public diplomacy through the use the techniques used for measuring the effectiveness of marketing campaigns.
Opportunities for savings

The Commission was asked to report on efficiencies and savings to improve the effectiveness of, and value-for-money from, all Commonwealth expenditure. Some options exist to improve the efficiency of DFAT operations. These include:

- ending future involvement in international expositions. While Australia’s representation at World Expos has some public diplomacy value, costs are very high and it is difficult to secure buy-in and contributions from State Governments or Australian industry. Australia should withdraw from World Expos — a number of ‘like-minded’ countries have decided not to participate in the forthcoming Milan Expo due to budgetary pressures;

- re-examining the need for embassies in high cost locations, where the additional security costs can make representation in some countries several times as expensive as a similar sized presence in a more secure country. Options might include providing representation from a neighbouring country and providing a minimal footprint in-country;

- reviewing overseas conditions and allowances. Overseas postings are a significant part of DFAT’s costs and that of other agencies. An Executive Level 2 officer might have a salary of around $140,000. Once overheads are added, the cost of a posting to New York can total around $600,000. An option would be benchmarking allowances against what corporations pay. The range of allowances and other support provided to personnel being posted overseas appears generous in comparison to that offered by major corporations and there would be merit in benchmarking the allowances paid by all agencies;

- exploring options to further reduce Canberra staffing. While the Lowy Institute, in *Australia’s Diplomatic Deficit* (2009), argued for an increase in overall resourcing for DFAT, they also noted that the proportion of overseas staff was low compared to comparison countries; and

- making greater use of arrangements to share resources with like-minded countries. Australia already has a longstanding agreement with Canada to provide consular assistance in locations where one country has a mission and the other does not. While in 2012 the United Kingdom announced its intention to have shared embassies with Canada and Australia, nothing further has been heard of this idea.

The Government has invited public comment on an *Issues Paper: Development of a new Consular Strategy 2014-16*. That paper notes that ‘At present, Australia is among the most generous providers of consular services, especially in comparison to our closest consular partner countries (Canada, United Kingdom, New Zealand and the United States)’. Demand for consular services would be better controlled by applying cost recovery. Australian
travellers would then be conscious of the need for better preparation, insurance and use of alternative sources of advice and assistance. As a comparison, the United Kingdom charges an ‘attendance fee’ of £130 for each hour (including travel time if performed away from the consular office).

While Traveller Emergency Loans are a relatively small expense, the recovery rate is only about 70 per cent. DFAT advice is that ‘There is an expectation the money will be repaid, but interest is not charged. Passports are not issued if the loan is outstanding, and the loan is not written off unless there is very clear evidence that recovery is unlikely’. Slow repayments of interest free loans should not be surprising. An interest rate equivalent to that charged for credit card advances would be appropriate.

DFAT provides 1.7 million passports per year, which it expects to grow to 2.1 million by 2015-16. It provides around $374 million annually to consolidated revenue at a cost of around $223 million. Significant parts of the passport production have been outsourced and DFAT is in the midst of a major upgrade of its IT systems. Despite the outsourcing of functions, the current funding model is not effective in ensuring that there is a continuing improvement in efficiency, with costs increasing in real terms. The introduction of the last passport funding agreement in 2012-13 saw costs jump by nearly 20 per cent.

The argument that security requirements prevent further outsourcing is not compelling. The government already outsources a number of national security related activities to be performed by appropriately cleared contractors. Furthermore, the need for retaining separate state passport offices is unclear and these could be closed.

The average cost of issuing overseas passports is significantly greater than the fee charged to clients. These overseas costs reflect relatively high overheads and poor economies of scale. A surcharge could be considered for overseas issued passports.

Opportunities also exist to cease or scale back funding for public diplomacy activities such as the Australia Network and the International Relations Grants Program. Ostensibly, these activities are intended to support Australia’s international goals, but the relationship between the funded activities and these goals is not clear.

The Australia Network is broadcast to more than 46 countries in the Asia-Pacific region. It seeks to promote a positive and accurate image of Australia and build regional, cross-cultural understanding. The ABC has been awarded successive contracts to deliver this service including the most recent contract in September 2012, valued at $223 million for 10 years.

A number of submissions raised concerns surrounding the tender process for the Australia Network, which the previous government decided should be provided to the ABC in perpetuity – irrespective of the cost-effectiveness of offers by other media companies. However, the Australia Network is an expensive option for meeting diplomatic objectives
given its limited outreach to a small audience. Funding directed toward the Australia Network would be better directed to other areas or returned to the Budget.

The International Relations Grants Program – costing $5 million per year – provides a key tool to strengthen people-to-people and institutional links in our region and enhance Australia’s profile internationally. Some grants appear to fund useful engagement between Australia and other countries; however, others are difficult to relate to any diplomatic goals.

Australia should consider withdrawing from organisations that are of only peripheral strategic interest, such as European Bank for Reconstruction and Development and the International Criminal Tribunal for the Former Yugoslavia. It should not pursue joining the African Development Bank or the International Fund for Agricultural Development, whose functions overlap with other organisations of which Australia is already a member.

Better use of international organisations provides the opportunity to both reduce costs and improve outcomes related to Australia’s interests. This should include making organisational reform and better value-for-money a key part of Australia’s involvement with organisations, particularly where Australia has a leadership role (such as the G20 or the United Nations at present); looking for the opportunity to simplify and rationalise international bodies; and ensuring that proposals for expansion should be treated with caution and based on a robust business case.

A number of issues to be considered in implementing the Commission’s recommendations on resourcing diplomacy and consular activities are summarised in Box 10.4.1.

**Box 10.4.1: Implementation notes**

In implementing the Commission’s recommendations for resourcing diplomacy and consular activities a number of issues should be considered:

1. improvements to DFAT’s performance reporting and evaluation through strategies such as: client surveys; self-assessment (such as applied in AusAID’s Quality at Implementation (QAI) reports); peer assessment; and assessing public diplomacy through the use the techniques used for measuring the effectiveness of marketing campaigns;

2. DFAT undertaking ongoing assessments of the performance and cost of maintaining Australia’s international relationships with each country, including assessing: the cost of the embassy, any aid provided and staff based in the country and Australia; the quality of the relationship and any specific aid activities, using self-assessment and peer/client assessment tools; and indicators of the importance of the relationship;

3. in introducing fees for consular services, DFAT should apply fees to cost-recover most forms of consular assistance, including an attendance fee for consular visits on
par with that applied by the United Kingdom and apply interest to Traveller Emergency Loans;

4. revising the guidelines and approval process for the International Relations Grants Program to ensure that funding addresses critical areas of relationship building, rather than cultural activities of limited appeal;

5. further outsourcing of passport production, once the Passport Redevelopment Project has delivered new systems — DFAT could submit an in-house bid for this, as well as assess the need to retain separate state passport offices; considering a surcharge for overseas issued passports.

6. benchmarking overseas allowances for DFAT and other agency staff against major corporations;

7. giving priority to improving organisational performance and value for money of international organisations that Australia is a member of – including through DFAT compiling a single list of international organisations of which Australia is a member and the Government reviewing these organisations every three years to determine whether Australia should continue membership and to allow funding to be directed at the better performing organisations; and

8. withdrawal from: the European Bank for Reconstruction and Development and the International Criminal Tribunal for the Former Yugoslavia; not joining the African Development Bank and the International Fund for Agricultural Development.

References


Department of Foreign Affairs and Trade various years, *Annual Reports 1996 to 2013*, Canberra.


Overall level of diplomatic resourcing

DFAT resourcing has not changed significantly in real terms over the last two decades. Chart 10.4.1 shows DFAT appropriations in nominal and real (CPI) terms.

Chart 10.4.1: DFAT departmental appropriations

While this is the most direct way of showing resourcing, it is worth noting that:

- the cost of producing passports, a significant non-discretionary part of DFAT’s expenditure, has grown strongly over the period; while

- the Australian dollar appreciated from around US$0.76 in 1995-96 to US$1.03 in 2012-13. About a quarter of DFAT’s annual departmental expenditure is in foreign currencies.

Some issues that have complicated DFAT’s management within this budget include:

- one-off changes to the efficiency dividend which affect DFAT disproportionately as most of its funding is departmental;

- specific savings demands to address other budget priorities such as the $45.5 million saving applied to the portfolio in the 2010-11 MYEFO; and

- finding offsets for capital expenditure such as new diplomatic missions and IT systems.

DFAT’s staffing level overall is lower than 1996 levels. Like other agencies, DFAT staffing was reduced significantly in the late 1990s. However, staffing levels have been trending upward since 2003-04 and are now nearly back at the level they were in the mid 1990s (see Chart 10.4.2).
Chart 10.4.2: DFAT staff numbers (A-based)

Source: Department of Foreign Affairs and Trade, Annual Report, various issues. A-based staff are engaged under the Public Service Act 1999. This excludes locally engaged staff.

Other relevant factors to note are:

- Much of the decline in overseas staffing was in the APS grades (junior staff), while there has been corresponding growth in the Executive Level or EL grades (middle manager) – presumably reflecting a more capable workforce (see Chart 10.4.3). A similar trend has been seen across the public service more generally.

- There has been significant growth in overseas staff across agencies. Broadly, DFAT staff (excluding AusAID) make up about half the people posted overseas. Specialist personnel from other agencies thus provide engagement on security, economic and other issues that would otherwise be performed by DFAT staff.

- The Lowy Institute (2009) noted that DFAT has proportionately fewer staff posted overseas than some comparable countries and recommended that there be a goal of raising the proportion of DFAT’s A-based staff (excluding passports staff) posted overseas to 40 per cent of the total. While the proportion has been declining, the target would not have been achieved at any point over the last two decades.
Chart 10.4.3: DFAT overseas staff by seniority (A-based)

While DFAT has fewer overseas missions than many G20 states (Chart 10.4.4), it is less clear that this observation has much significance in addressing Australia’s international objectives.

- DFAT has an embassy with all the major powers and (with a couple of exceptions) the countries of the Pacific; and East, South and Southeast Asia. DFAT has a presence in countries that produce 93 per cent of the world’s GDP.

- Other G20 countries tend to have significantly more consulates than Australia. The significance of this is not clear. It appears that the Australian total does not include consulates headed by an honorary consul. It is not clear whether the overseas totals include honorary consuls. It should also be noted that Australia gains greater effective reach overseas through its consular sharing agreement with Canada.

- This approach is a simplistic one, which equates the number of posts with outcomes.
While increasing numbers of Australians are travelling – the numbers have doubled over a decade – the data provided by DFAT in their annual reports does not show a corresponding increase in demand for consular services (see Chart 10.4.5).

While demand for consular services is volatile, with the periodic natural disaster or political crisis adding to pressure in particular years, DFAT usually manages crises by reallocating people internally to focus on consular issues in the affected country.
10.5 Drought Assistance

Background

The Commonwealth provides significant assistance to farmers through various drought assistance and farm finance initiatives.

In the past, drought assistance involved the declaration of Exceptional Circumstances areas. For an area to be declared, it had to demonstrate that it was experiencing a rare and severe event (occurring on average once every 20 to 25 years) resulting in severe downturn in farm income over a period of greater than 12 months.

Farmers in Exceptional Circumstances-declared areas were eligible to apply for a number of programmes, with the key ones being:

- the Exceptional Circumstances Relief Payment (ECRP), which provided payments equivalent to the Newstart level but with a more generous assets and income test; and
- the Exceptional Circumstances Interest Rate Subsidy (ECIRS), which provided a subsidy of between 50 and 80 per cent of interest payable on loans, to a cap of $500,000 over five years.

At the height of the last drought, in 2007-08, combined drought assistance payments were around $1 billion. Although the Exceptional Circumstances framework was not intended to be used as long-term income support, some declarations lasted for over 10 years (Productivity Commission, 2009).

In its 2009 review, the Productivity Commission found that the Exceptional Circumstances system was inequitable as it applied differential treatment to farmers inside and outside declared boundaries and to farmers compared to non-farm businesses who also face major business risks.

In response to the national drought review, the previous Government announced that the Exceptional Circumstances arrangements would be replaced. A new assistance arrangement – the Farm Household Allowance – is scheduled to commence on 1 July 2014 to replace the existing ECRP. This new allowance is an income support safety net that will be available to eligible farm families in periods of financial hardship regardless of the source of that hardship.

Separately, the previous Government introduced the Farm Finance Concessional Loans Scheme, providing $420 million over two years to fund productivity-enhancing projects and debt restructuring. Concessional loan rates are available for the first five years of the loan. This programme is delivered by States and the Northern Territory through various delivery agencies including regional adjustment authorities.
A range of other, non-drought related, assistance is also available for farmers. These include income averaging, which allows income and tax payable to be averaged over a maximum period of five years to reduce fluctuations in tax obligations. The Farm Management Deposit (FMD) Scheme also addresses fluctuations in cash flow by allowing farmers to set aside pre-tax income from primary production in years of high income, which can be drawn down in years of low income. Farmers can hold up to $400,000 in FMDs and can earn up to $65,000 in non-farming income, increasing to $100,000 from 1 July 2014 (Department of Agriculture, 2013).

Drivers

The key driver of Commonwealth expenditure on drought assistance under the Exceptional Circumstances system was climate variability, with expenditure cyclical and dependent on weather conditions.

Lower farm net cash income, off-farm income and liquidity and higher debt levels were correlated with higher rates of assistance, even within Exceptional Circumstances declared areas (Productivity Commission, 2009).

The widening of eligibility criteria under the Farm Household Allowance to include non-drought financial hardship will likely mean that broader economic conditions will also become a driver of Commonwealth expenditure.

Issues

Drought assistance

Drought and farm assistance is complex and regularly subject to review and changes. Reforms announced by the previous Government are in the process of being implemented, with substantial details yet to be announced.

Continuation of drought assistance can discourage drought-preparedness and self-reliance. Extending assistance to all situations creating financial hardship may exacerbate this problem. While the Farm Household Allowance is intended to only be available for up to three years, the significant number of farmers who received assistance for more than three years under the Exceptional Circumstances arrangements indicates that there will likely be pressure to extend this time limit.
Interest rate subsidies and concessional loans

A number of reviews over the past two decades have been highly critical of interest rate subsidies (Department of Agriculture, Fisheries and Forestry, 2012). Particular findings have included:

- as the greatest assistance is provided to those with the largest debt, there is an incentive to increase debt and/or not reduce debt in the face of drought, even when this would be the most prudent business approach if a government subsidy were not available;
- recipients may actually be less responsive to drought conditions, as financial assistance increases funds available to spend on variable inputs, allowing farmers to maintain production at levels higher than that justified by the climatic conditions, with consequent environmental impacts;
- there can be disincentives to diversify income to off-farm sources, as there are caps on off-farm income that could be earned and still be eligible for the subsidy;
- interest rate subsidies provide a competitive advantage to recipient farmers over non-recipient farmers; and
- interest rate subsidies can distort the market for agricultural land by propping up land values, reducing the ability of viable farmers to expand and new farmers to enter the sector (Department of Agriculture, Fisheries and Forestry, 2012; Productivity Commission, 2009).

The Productivity Commission also found that there was little rationale for government intervention in relation to debt, as viable farm businesses had continuing access to credit.

While the previous Government abolished the Exceptional Circumstance Interest Rate Subsidy, it replaced it with a concessional loan scheme. This scheme is likely to produce similar perverse incentives as the interest rate subsidy.

Farming is often a capital intensive business, however this is also the case in other sectors such as manufacturing. Firms in these sectors need to put in place financial and business structures to allow them to manage and respond to fluctuations in trading conditions and longer-term structural shifts in competitiveness. Maintaining interest rate and debt support for farmers is inconsistent with the treatment of non-farm sectors.

Potential areas for reform

The Commission recommends abolishing the Farm Finance Concessional Loans Scheme. The Scheme encourages farms to take on more debt, when there is little evidence to suggest
that farm businesses that are viable over the longer term have difficulty accessing commercial finance.

This is consistent with the Commission’s recommendations to cease providing other government loan facilities and financial assistance, such as that provided to exporters (through the Export Finance and Insurance Corporation) and renewable energy companies (through the Clean Energy Finance Corporation).

Beyond the Farm Finance Concessional Loans Scheme, the Commission has not undertaken a full reassessment of drought support which would involve a comprehensive look at farm assistance through the tax system and outlays.

However, the guiding principle in drought policy should be to ensure that farmers face incentives to prepare for drought and other climatic and economic conditions. Weather variations are a normal part of farming and should be incorporated into risk management practices. There may be opportunities to further consolidate drought and farm programmes.

**References**

Department of Agriculture 2013, *Farm Management Deposits*, Canberra.


10.6 Housing Assistance

There is no specific head of power under the Constitution for the Commonwealth in relation to housing. Housing affordability and homelessness prevention are the responsibility of the States.

Nonetheless, the Commonwealth currently has two major areas of spending on housing – the provision of Rent Assistance and payments to the States for affordable housing and homelessness.

Rent Assistance payments are provided to certain income support recipients. More than a million renters around Australia currently receive Rent Assistance at a cost of around $3.6 billion per year. Rent Assistance is not paid to public housing tenants (Department of Families, Housing, Community Services and Indigenous Affairs, 2013).

Rent Assistance is a non-taxable income supplement payment added on to the pension, allowance or benefit of eligible income support customers who rent in the private rental market. In order to receive Rent Assistance, a customer must first qualify for a social security income support payment, more than the base rate of Family Tax Benefit Part A or a service pension. Rent Assistance is paid at the rate of 75 cents for every dollar of rent paid above the specified threshold until the maximum rate is reached. The maximum rates and thresholds vary according to a customer’s family situation and the number of children they have.

<table>
<thead>
<tr>
<th>Family situation</th>
<th>Maximum payment per fortnight</th>
<th>No payment if your fortnightly rent is less than</th>
<th>Maximum payment if your fortnightly rent is more than</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single, with no children</td>
<td>$124.00</td>
<td>$110.00</td>
<td>$275.33</td>
</tr>
<tr>
<td>Single, with no children, sharer</td>
<td>$82.67</td>
<td>$110.00</td>
<td>$220.22</td>
</tr>
<tr>
<td>Couple, with no children</td>
<td>$116.60</td>
<td>$179.00</td>
<td>$334.47</td>
</tr>
<tr>
<td>One of a couple who are separated due to illness, with no children</td>
<td>$124.00</td>
<td>$110.00</td>
<td>$275.33</td>
</tr>
<tr>
<td>One of a couple who are temporarily separated, with no children</td>
<td>$116.60</td>
<td>$110.00</td>
<td>$265.47</td>
</tr>
</tbody>
</table>

Source: Department of Human Services, 2014.
The Commonwealth contributes approximately $1.3 billion each year to the States through the National Affordable Housing Agreement. A further $159 million is also provided each year through the National Partnership Agreement on Homelessness (Australian Government, 2013).

The National Affordable Housing Agreement commenced on 1 January 2009 and aims to ensure that all Australians have access to affordable, safe and sustainable housing that contributes to social and economic participation.

The National Partnership Agreement on Homelessness focuses on: prevention and early intervention to stop people becoming homeless; breaking the cycle of homelessness; and improving and expanding the service response to homelessness.

In addition, the Commonwealth provides funding through the National Rental Affordability Scheme which seeks to address the shortage of affordable rental housing by offering financial incentives to business and community organisations to build and rent dwellings to low and moderate income households. Funding from this source is around $1.5 billion over four years.

Various reports from the COAG Reform Council on housing and homelessness suggest that there has been limited success in delivering affordable housing and reducing the incidence of homelessness. National agreements have added complexity and increased the administrative burden to all levels of government (COAG Reform Council, 2013).

The most recent COAG Reform Council report on housing affordability (for 2010-11) noted that ‘none of the indicators we report on, for the years for which we have comparable data, suggest housing affordability at the national level has improved from the previous period’.

The Commission considers there is a strong case for the Commonwealth to limit its involvement in this area to providing Rent Assistance to income support recipients and continuing to offer State governments access to the Commonwealth’s one stop shop social services policy.
State governments (sometimes in conjunction with local governments) control most of the levers for housing affordability including stamp duty, land tax, zoning issues and infrastructure charges. It is therefore appropriate for State governments to have sole responsibility for housing affordability.

The Henry Tax Review outlined the case for extending Rent Assistance to public housing tenants, with these tenants facing the market rent of the dwelling (Australian Government, 2010). Under such an arrangement, the Commonwealth would need to increase aggregate Rent Assistance funding. However, this additional funding could be sourced from a redirection of funding currently contributed to the National Affordable Housing Agreement and the National Rental Affordability Scheme.

As noted above annual funding for these two programmes is currently around $1.5 billion per year (Australian Government, 2010).

The Commission considers that there is merit in considering this option further. Two benefits would arise from this approach. First, the market would determine rents for public and private housing. Second, abolishing housing agreements with the States would remove duplication of effort, improve accountability and alleviate the reporting burden for State governments. Commonwealth funding currently directed to the housing agreements should be redirected to fund the extension of rent assistance to public housing tenants.

The Commission notes that there may also be flow-on effects to eligibility for Rent Assistance flowing from its recommendations on family payments, age pension and other social welfare areas. If this option is adopted, implementation should include an examination of ways of ensuring that Rent Assistance is well targeted and delivered in the most appropriate way.

Further examination of the effectiveness of the First Home Saver Account scheme may also be warranted. This is another programme run by the Commonwealth Government to promote affordability.
References


Australian Government 2013, Budget Papers 2013-14, Canberra.


Department of Families, Housing, Community Services and Indigenous Affairs 2013, Annual Report 2012-13, Canberra.

10.7 Vocational Education and Training

Background

The Vocational Education and Training (VET) sector is an integral part of the higher education system, training 1.9 million students in 2012. Commonwealth funding to the sector, through the National Agreement for Skills and Workforce Development and supporting national partnerships, is $1.8 billion in 2013-14 (Australian Government, 2013).

The VET sector provides the technical skills required by employers, entry-level skills for those leaving the schools system and retraining for those already in or re-entering the workforce. Whilst the other two sectors of education have more clearly defined roles (schools by age and the universities by qualification) VET provides for the other educational needs of the community and industry.

Australia’s VET system dates back to the first half of the 1800s when the colonies began to replicate Britain’s apprenticeships system of training. The Commonwealth’s first involvement in the VET system was during the First World War, when it set up temporary technical education institutions to support the war effort, in parallel to State systems, arguing that it could not fund the State systems for constitutional reasons. During the Second World War, the Commonwealth initially declined State requests for financial assistance to provide technical education. However, technical education became such an important part of the war effort that the Commonwealth agreed to assist the States with the cost.

In 1992, the Commonwealth offered to take full responsibility for VET funding from the States in exchange for substantial growth in Commonwealth funding. While the proposal had some support, it was ultimately rejected by most States, resulting in a compromise which is still the basis of the current national VET agreements (Australian Government 1992).

The 1996 National Commission of Audit recommended that the Commonwealth and States should negotiate a delineation of education roles, with the Commonwealth’s role being VET and higher education and the States taking responsibility for schools and pre-schooling. Like the 1992 proposal, this recommendation was not implemented.

Rationale for government intervention

Government intervention in the VET sector promotes the provision of skills training to meet the needs of industry. This contributes to a more productive workforce that is skilled and flexible, leading to higher wages and lower unemployment. Positive externalities flowing from this include higher tax revenues, reduced unemployment expenses and improved international competitiveness.
Commonwealth interventions have recently been targeted to improve the number of qualified Australians, consistent with key recommendations of the Bradley Review (Australian Government, 2008). This includes efforts to improve the VET sector’s responsiveness to the skills needs of employers and the needs of students. Examples of interventions have included VET FEE-HELP, which reduces the up-front financial burden of students undertaking advanced VET qualifications, and introducing a range of incentives for apprentices pursuing qualifications in an area of national skills shortage.

**Current arrangements**

The VET sector has experienced steady growth, with Chart 10.7.1 showing the number of students undertaking VET studies and the number of qualifications completed. Recent efforts to improve completion rates, particularly in apprenticeship programmes, have demonstrated some success, although the latest data available, which is for the 2008 cohort of students (those students commencing apprenticeships in 2008 and finishing in the years to 2012), indicates that completions remain low at around 50 per cent — see Table 10.7.1.

![Chart 10.7.1: VET student and qualification trends](image)

**Chart 10.7.1: VET student and qualification trends**

Source: National Centre for Vocational Education Research (NCVER), 2013a and NCVER, 2013b.

Efforts to alleviate skills shortages have contributed to strong apprenticeships growth since the late 1990s. Non-trade qualifications (traditional traineeships) have increased much faster than trade apprenticeships, reflecting the decline of Australia’s manufacturing industry — see Chart 10.7.2.
Table 10.7.1: Completion and attrition rates for apprenticeships commencing in 2008

<table>
<thead>
<tr>
<th>Occupation (ANZSCO) group</th>
<th>Completion rates %</th>
<th>Attrition rates %</th>
<th>Continuing or outcome not known $</th>
<th>Number of contracts ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 Engineering, ICT and science technicians</td>
<td>58.6</td>
<td>36.3</td>
<td>5.1</td>
<td>3.5</td>
</tr>
<tr>
<td>32 Automotive and engineering trades workers</td>
<td>50.1</td>
<td>46.5</td>
<td>3.4</td>
<td>26.9</td>
</tr>
<tr>
<td>33 Construction trades workers</td>
<td>42.5</td>
<td>53</td>
<td>4.5</td>
<td>28.8</td>
</tr>
<tr>
<td>34 Electrotechnology and telecommunications trades</td>
<td>54.1</td>
<td>39.5</td>
<td>6.4</td>
<td>14.3</td>
</tr>
<tr>
<td>35 Food trades workers</td>
<td>30.4</td>
<td>65.4</td>
<td>4.2</td>
<td>14</td>
</tr>
<tr>
<td>36 Skilled animal and horticultural workers</td>
<td>46.3</td>
<td>47.9</td>
<td>5.8</td>
<td>5.1</td>
</tr>
<tr>
<td>39 Other technicians and trades workers</td>
<td>44.6</td>
<td>51.9</td>
<td>3.5</td>
<td>15.5</td>
</tr>
<tr>
<td>391 Hairdressers</td>
<td>37.8</td>
<td>59.5</td>
<td>2.7</td>
<td>8.4</td>
</tr>
<tr>
<td>392 Printing trades workers</td>
<td>57</td>
<td>37</td>
<td>6</td>
<td>0.7</td>
</tr>
<tr>
<td>393 Textile, clothing and footwear trades workers</td>
<td>47.8</td>
<td>47.3</td>
<td>4.9</td>
<td>0.2</td>
</tr>
<tr>
<td>394 Wood trades workers</td>
<td>38.9</td>
<td>57.3</td>
<td>3.8</td>
<td>2.5</td>
</tr>
<tr>
<td>399 Miscellaneous technicians and trades workers</td>
<td>61.4</td>
<td>34.1</td>
<td>4.5</td>
<td>3.7</td>
</tr>
<tr>
<td>Total trade occupations</td>
<td>45.4</td>
<td>50.2</td>
<td>4.4</td>
<td>108.2</td>
</tr>
<tr>
<td>Total non-trade occupations</td>
<td>55.4</td>
<td>38.7</td>
<td>5.9</td>
<td>209.3</td>
</tr>
<tr>
<td>All occupations</td>
<td>52</td>
<td>42.6</td>
<td>5.4</td>
<td>317.5</td>
</tr>
</tbody>
</table>

Source: NCVER, 2013c.

Chart 10.7.2: Apprentices in-training by qualification type

The national regulatory system for vocational education and training was established in 2011 through a referral of powers to the Commonwealth from most States (except Victoria and Western Australia which retain their own regulatory systems). The Australian Skills Quality Authority is the national regulator, with responsibility for registering training organisations and accrediting courses in participating States.
In recent years COAG has embarked on reforms in the VET sector aimed at improving skills and better aligning skills to labour market demand. The reform agenda recognises that the VET sector must be responsive to changes in the labour market. Market based reforms are being introduced to develop an entitlement based system with greater contestability. This includes strategies to ensure TAFE’s operate effectively in an environment of greater competition and improving information for students and employers about training options, training providers and provider quality.

These reforms are given effect through the National Agreement for Skills and Workforce Development and supporting national partnership agreements. The National Agreement sets two targets for 2020:

- halve the proportion of Australians without qualifications at Certificate III level or above by 2020 (from 47.1 per cent of 20 to 64 year olds to 23.6 per cent); and
- double the number of higher level (Diploma and Advanced Diploma) qualification completions by 2020.

The Commonwealth’s contribution to the States to deliver upon these outcomes is $1.76 billion in 2013-14. Most of the Commonwealth’s other VET expenditure is through Commonwealth Own-Purpose Expenditures, which target specific areas of VET reform, such as improving apprentice completion rates.

**Trends**

The 2013-14 Budget forecasts VET agreement expenditure growth over the forward estimates of 13.9 per cent, which is around 3.3 per cent annualised – see Chart 10.7.3.
Drivers

VET student numbers are impacted by many factors, with the strongest being population growth then unemployment. During times of high unemployment Commonwealth programmes direct welfare recipients into the VET system for training/re-training to improve their skills, job prospects and employability.

A large part of the Commonwealth’s funding to States is targeted at reforming the VET sector to make it more responsive and demand driven.

Issues

Commonwealth and State roles

There is a clear overlap between the Commonwealth and the States in terms of VET funding, with implications for efficiency. Chart 10.7.4 below illustrates the complex system of COAG committees and reporting arrangements. Some States have proposed a consolidation of responsibility at the State level. For example:

- the Victorian Government (2013) has recommended to the Commission that ‘consolidating youth transitions and VET activity at the State level would enable both levels of government to get more value for their investment’; and
- the Queensland Government (2013) has noted that ‘over recent years there has been increasing duplication of effort and confusion in the vocational education and training market due to both States and the Commonwealth Government undertaking the role of purchaser of training and related services’.

The COAG VET reform agenda

Progress towards a contestable, entitlement-based system varies across the jurisdictions. At this stage, Victoria and South Australia have made the most progress.

A Productivity Commission research report into the impact of COAG reforms stated:

> over time, there would be a gain in moving from a regulated and supply driven system to a demand driven contestable market, provided quality is maintained. In fact, with improved information to prospective students and employers, and stronger auditing and validation of course outcomes, improved quality should result over time (Productivity Commission 2012).

The Productivity Commission also concludes that a more efficient and flexible VET sector would be expected to also improve the functioning of the labour market through faster retraining and better matching of people to vacancies.
There are several areas where the Productivity Commission concludes VET reform efforts could be improved, including:

- the information available to prospective students;
- regulatory systems that can identify and respond to poor performance by training providers;
- mechanisms for timely information collection and data analysis;
- provision of adequate information about employment outcomes to potential VET clients;
- governance arrangements that allow public providers greater autonomy and capacity to compete with other providers; and
- systems to pay providers on outcomes achieved.
Occupational licensing

For over a decade there has been recognition that jurisdictional differences in occupational licensing hinders mobility between States.

- At present, occupations are licensed by each State or Territory and the licence held determines the work to be performed in that jurisdiction.

- Under mutual recognition arrangements that have been progressively introduced since 1992, some occupational licensees in a given jurisdiction may apply for an equivalent licence in another jurisdiction. However, they may be required to undertake additional training and must pay additional licence fees. It can also take up to a month to receive mutual recognition.

- In July 2008, COAG agreed to establish the National Occupational Licensing System for a number of specified occupations to ensure licences issued by any jurisdiction allow a licensee to operate in all participating jurisdictions.

- However, in December 2013, COAG agreed to abandon the national scheme in favour of re-focussing on improving mutual recognition arrangements.

Potential areas for reform

Roles and responsibilities

VET is a complicated area of Commonwealth-State relations with cumbersome governance arrangements. Market based reforms are at different stages across the States, with various COAG committees overseeing a range of initiatives. Yet VET completion rates remain low.

The Commission is of the view that the States should take responsibility for VET, including the current reform agenda. This simplified governance and accountability would be more efficient than the current arrangements.

Transferring responsibility for VET would require an equivalent adjustment in funding. Should the Government move to improve vertical fiscal imbalance between the Commonwealth and the States, VET could be funded under the new arrangement. Alternatively, the Commonwealth could provide the States with an annual lump sum, with limited conditions, including appropriate national reporting and quality assurance requirements.

Occupational licensing

Slow progress on streamlining occupational licensing has been a frustration for business, tradespeople and other professions for many years. The current arrangements hinder mobility in Australia.
Given the COAG decision to abandon a national licensing scheme, it is now incumbent upon the States to quickly settle improved mutual recognition arrangements.

References


National Centre for Vocational Education Research 2013a, VOCSTATS, NCVER, Adelaide.


National Centre for Vocational Education Research 2013c, Completion and Attrition Rates for Apprentices and Trainees 2012, NCVER, Adelaide.


10.8 Mental Health

Background
The Australian Bureau of Statistics (ABS) defines mental health as a ‘state of wellbeing in which individuals can cope with the normal stresses of life, work productively and fruitfully, and are able to make a contribution to their community’. Mental illness, on the other hand, describes a number of diagnosable disorders that can significantly interfere with a person’s cognitive, emotional or social abilities (ABS, 2013).

The 2007 National Survey of Mental Health and Wellbeing conducted by the ABS found that almost half (45 per cent or 7.3 million) of Australians aged 16 to 85 years reported that they would have met the criteria for a diagnosis of a mental disorder (a mood disorder, such as depression, anxiety or a substance use disorder) at some point in their life. An estimated 3.2 million Australians (20 per cent of the population) had a mental disorder in the 12 months prior to the survey (ABS, 2007).

At the more acute end, a survey conducted in 2010 of people living with psychotic illness estimated almost 64,000 people in Australia aged 18 to 64 had a psychotic illness and were in contact with public specialised mental health services each year (Department of Health and Ageing, 2011).

Rationale for government intervention
Mental illness can have severe effects on the individuals and families concerned. Social problems associated with mental illness include poverty, unemployment and homelessness.

The Australian Institute of Health and Welfare’s (AIHW) burden of disease and injury in Australia 2003 study indicated that mental disorders constitute the leading cause of non-fatal disability burden in Australia, accounting for an estimated 24 per cent of the total years lost due to disability (AIHW, 2007).

Mental illness also has broader societal impacts. According to the Organisation for Economic Cooperation and Development (OECD), Australia has one of the lowest rates of employment participation by people with lived experience of mental illness (OECD, 2011). The annual cost of mental illness in Australia has been estimated by the ABS at $20 billion, which includes the cost of loss of productivity and labour force participation (ABS, 2013).
Australian governments provide services to support people with mental health issues and their families to live productive and healthy lives. In 2012, the Council of Australian Governments (COAG) launched a Roadmap for National Mental Health Reform, noting:

*Our long term aspiration is for a society that: values and promotes the importance of good mental health and wellbeing; maximises opportunities to prevent and reduce the impact of mental health issues and mental illness; and supports people with mental health issues and mental illness, their families and carers to live contributing lives.*

*All governments are committed to reducing stigma and discrimination in society; significantly reducing suicide rates; and ensuring that people affected by mental health issues and their families have access to appropriate services and supports, stable and safe homes, and are able to participate successfully in education and employment.*

### Current structure of mental health programmes

An estimated $6.9 billion was spent on recurrent mental health-related services during 2010-11 (or $309 per Australian) (AIHW, 2013). Of this, $4.2 billion came from the States, $2.4 billion from the Commonwealth and $257 million from private health insurance funds (refer to Chart 10.8.1).

**Chart 10.8.1: Funding sources for recurrent mental health-related services**

![Pie chart showing funding sources for recurrent mental health-related services]  

- **State and Territory**: 61%  
- **Commonwealth**: 35%  
- **Private health insurance funds**: 4%


The States provide hospital-based, specialised, clinical and community-based mental health services that target people with severe and persistent mental illness. These services are provided directly by the States and through partnerships with non-government organisations (Council of Australian Governments, 2012).
The States also play a role in mental health promotion and prevention, as well as reducing stigma and discrimination associated with mental health. They have primary responsibility for the planning and delivery of public health and hospital services, early childhood and education services, housing, drug and alcohol services, and law and order measures.

The Commonwealth’s principal role is to support primary care through Medicare (for example, via the Better Access to Psychiatrists, Psychologists and General Practitioners initiative) and target the needs of people with common disorders, such as mild or moderate anxiety and depression.

People with severe mental illness are also supported by the Commonwealth through the primary health care system and psychiatrist services. The Commonwealth also delivers some community and social support services (often in partnership with non-government organisations).

The Commonwealth provides funding to the States for the delivery of health services, including hospitals.

The Commonwealth also has primary responsibility for employment services and the provision of income support for people with psychiatric conditions and other disabilities, and their carers.

**Trends**

Expenditure on mental health services has increased by 5.7 per cent per Australian over the five years to 2010-11 (AIHW, 2013).

Commonwealth expenditure on both Medicare services and pharmaceutical prescriptions has increased.

- In 2011-12, $851 million was paid in benefits for Medicare-subsidised mental health related services. These costs increased by an average annual rate of 8.5 per cent per Australian between 2007-08 and 2011-12.

- In 2011-12, $854 million was spent on mental health-related subsidised prescriptions, equating to 8.8 per cent of all subsidised prescriptions. These costs increased by an average annual rate of 2.1 per cent per Australian between 2007-08 and 2011-12.

Expenditure on State and Territory specialised mental health services has also increased from $165 per Australian to $190 between 2006-07 and 2010-11, an average annual increase of 3.6 per cent.
Drivers

Since the early 1990s governments have committed to a range of progressively wider mental health policy and planning initiatives (generally accompanied by significant increases in expenditure), including the:

- National Mental Health Strategy (1992), including the first five-year National Mental Health Plan (and three further plans in 1997, 2003 and 2009);
- COAG National Action Plan for Mental Health (2006-11);
- COAG National Partnership Agreement Supporting National Mental Health Reform (2012);
- development of COAG’s 10 year Roadmap for National Mental Health Reform (2012); and
- establishment of the National Mental Health Commission (2012) and a number of state-level commissions (Medibank, 2013).

For example, in 2006, as part of the COAG National Action Plan, the Commonwealth introduced the Better Access initiative. This initiative gave patients Medicare-subsidised access to psychologists and other allied health providers after the preparation of a Mental Health Treatment Plan by a general practitioner. Implementation of this measure has driven growth in Medicare subsidised services with an average annual increase of 11.2 per cent over the five years to 2011-12 (see Chart 10.8.2) (AIHW, 2013).

**Chart 10.8.2: Medicare-subsidised mental health-related services, over time**

Issues

Complexity

The mental health system is complex and fragmented. Funding and service delivery responsibilities are overlapping and uncoordinated. Mental health services are not well integrated with broader health, welfare and social services. There is also an absence of information to demonstrate whether the right amount of money is being spent and in the right areas of mental health.

A submission to the Commission from the Mental Health Council of Australia noted that

*despite constant data collection and reporting for over 20 years, as a nation we still cannot get a clear picture of Australia’s mental health system - what it is, how much it costs, how it interacts with other systems, and most importantly whether it is efficiently and effectively meeting the needs of consumers and carers.*

A 2013 white paper from Medibank called for urgent reform of Australia’s mental health system noting the complexity of the mental health system.

*Australia’s mental health system lacks a clear end-to-end system design. The nature of mental illness increases the likelihood that consumers will interact frequently with multiple parts of the healthcare system. Yet the system is characterised by fragmentation and insufficient coordination. This is compounded by similar problems with social services (including employment services) and the support payment system.*

*The number of service providers illustrates the complexity of the system. In 2008-09, there were 156 public hospitals providing mental health care, 150 residential facilities, 990 community services, and 50 private psychiatric hospitals. There are hundreds of mental health NGOs (with estimates ranging from 400 (in 2008) to 798 (in 2011)) and there are currently 36 private health insurers. This is in addition to the numerous other service providers who deliver mental health services (Medibank, 2013).*

Potential areas for reform

National Mental Health Commission review

In September 2013, the Government announced that the National Mental Health Commission would be undertaking a national review of mental health services to assess the efficiency and effectiveness of Commonwealth, State and non-government services. The review has been tasked with ensuring that services are properly targeted and not duplicated, and that programmes are not unnecessarily burdened by red tape. The review will identify gaps in both mental health research and workforce development and training. It will also consider the challenges of providing services in rural, regional and remote Australia.
In keeping with its principles, the Commission considers that the review should identify ways to better target mental health funding for the most vulnerable and identify opportunities for coordinating and integrating mental health services with broader social and health services. The review should also examine how fragmentation in the services system and overlapping roles and service delivery responsibilities can be reduced.

**References**


Australian Bureau of Statistics 2013, *Gender Indicators, Australia – Mental Health*, cat.no. 4125.0, Canberra.


10.9 Natural Disaster Relief

Background
Natural disaster relief can be a significant and largely uncontrolled part of the Commonwealth Budget. Over the past four years, natural disasters including the Black Saturday bushfires in Victoria, the Brisbane floods and Cyclone Yasi in Queensland and other events across the eastern States and Tasmania have claimed more than 200 lives and directly affected hundreds of thousands of people. Damage has been significant.

Rationale for government intervention
Disaster management is the responsibility of the States and local governments, which largely determine the type and level of relief and recovery measures to be adopted following a disaster and the administrative arrangements to manage these measures. State and local governments are also the predominant owners and managers of economic and infrastructure assets impacted by natural disasters, and are also responsible for the planning and zoning decisions relevant to the way disasters affect individual interests (loss of life, property loss and business loss/interruption).

Similarly, individuals and businesses who build and manage the assets most likely to be affected by natural disasters should, as much as possible, act in a prudent fashion by seeking appropriate levels of insurance and taking whatever physical steps are necessary to minimise the possibility of damage to themselves and their property.

Notwithstanding the Commonwealth’s limited jurisdictional responsibility for disaster management and response, natural disasters often result in large-scale expenditure by State governments, imposing financial burdens on their budgets. To alleviate this burden, assistance from the Commonwealth Government was formalised under the Natural Disaster Relief and Recovery Arrangements (NDRRA) in 1974 following Cyclone Tracy. Cyclone Tracy was, at the time, a disaster on a scale unparalleled in Australian history. It caused millions of dollars in damage and destroyed most of Darwin, with over 30,000 people evacuated from a population of 45,000. It also exposed inadequacies in Commonwealth responses to disasters.

Current structure of the programme
The Attorney-General's Department (AGD) is the lead agency for natural disaster response within the Commonwealth. It will often draw on contributions from other agencies and liaise closely with the States which have prime responsibility for natural disaster management. Emergency management within AGD is primarily undertaken across two divisions:
• the National Security Resilience Policy division provides policy advice on emergency management; and

• the Emergency Management Australia (EMA) division is responsible for preparing for emergencies and disasters through the development and maintenance of national plans, and coordination of Commonwealth Government crisis response and recovery efforts. It also assists with overseas requests for disaster assistance, in conjunction with the Department of Foreign Affairs and Trade. Within the EMA, the Australian Emergency Management Institute at Mt Macedon is a centre of excellence for education, knowledge and development in the emergency management sector.

Within the Department of Infrastructure and Regional Development, the National Disaster Recovery Taskforce (the Taskforce) was established in February 2011 in response to the extreme weather events of late 2010 to early 2011 in Queensland and Victoria. It provides coordination and oversight of the Commonwealth Government’s contribution to reconstruction efforts and supports the Australian Government Reconstruction Inspectorate.

The Commonwealth Government provides States, individuals and some businesses with financial assistance to assist with relief and recovery in a number of forms.

Natural Disaster Relief and Recovery Arrangements

The Commonwealth Government provides funding through the Natural Disaster Relief and Recovery Arrangements (NDRRA) to help pay for natural disaster relief and recovery costs. AGD administers partial reimbursement to States for eligible expenditure on certain natural disasters and terrorist events. There are four categories of assistance.

• Category A: provides assistance to individuals for immediate needs.

• Category B: provides assistance to State or local governments for the restoration of essential public assets.

• Category C: provides for the establishment of a community recovery package.

• Category D: provides assistance beyond Categories A to C in response to exceptional circumstances.

Whether or not a State receives Commonwealth funding under the NDRRA in any given financial year depends on how much it has spent as a proportion of state revenue.

The first threshold is disaster spending totalling 0.225 per cent of the State’s total general revenue and grants. From that point on, the States will be subsidised 50 cents in every dollar they spend above that amount until the State’s disaster spending reaches 1.75 times its first threshold (0.39 per cent of their revenues). From that point, any additional dollar they spend will be reimbursed 75 cents.
Australian Government Disaster Recovery Payment

The Australian Government Disaster Recovery Payment (AGDRP) is a short-term, non-means-tested financial assistance payment for eligible Australian residents adversely affected by a major disaster, either in Australia or overseas.

The AGDRP is activated when the impact of a disaster on individuals and families warrants Australian Government assistance, in addition to any provided under the NDRRA. The recovery payment is $1,000 for eligible adults and $400 for eligible children. Claims for this assistance, when available, can be made through the Commonwealth Department of Human Services (Centrelink).

New Zealand Special Category visa holders ex-gratia payment

The ex-gratia payment is a short-term, non-means-tested financial assistance for eligible New Zealand visa holders adversely affected by a major disaster in Australia. It has the same eligibility criteria as AGDRP and is paid at the same rate.

Disaster Recovery Allowance

The Disaster Recovery Allowance (DRA) ex-gratia payments assist employees, small business persons and farmers who experience a loss of income as a result of a major disaster.

Australian Government Reconstruction Inspectorate

In addition to these arrangements, the Commonwealth has also entered into separate National Partnership Agreements with Queensland and Victoria to oversee large Commonwealth contributions towards reconstruction costs relating to disaster events in those States. These agreements allowed for upfront contributions of Commonwealth funds in return for which more direct management and oversight was provided by a newly created body, the Australian Government Reconstruction Inspectorate.

An Australian National Audit Office (2013) report on the work of the Reconstruction Inspectorate found that its activities have led to significant value for money outcomes for both the Commonwealth and the States, likely to have reduced Commonwealth expenditure by about $100 million.

Trends

Commonwealth contributions to the States for disaster expenditure are often significant, unexpected and highly variable (see Chart 10.9.1). In particular, since 2009 a number of major disasters have resulted in over $12 billion in reimbursements being paid or committed to the States.

Spending since 2010-11 has been relatively high due to the floods and cyclones during that time, particularly in Queensland. Increases in population density and regional development
could see costs continue at a higher level, but this is contingent on where and what events occur. For example, while the NSW bushfires in October 2013 destroyed over 120,000 hectares of bushland and 208 houses, claims will not be of the order of magnitude of the Queensland floods and cyclones.

Due to the considerable difficulties in estimating impacts there is no provision for future disasters in the forward estimates.

**Chart 10.9.1: Commonwealth disaster assistance to the States**

![Graph showing Commonwealth disaster assistance to the States from 2000-01 to 2014-15.](image)

Source: Department of Finance.

**Drivers**

Deloitte Access Economics (2013) suggests that the cost of natural disasters will increase over time from around $6.3 billion in 2012 to $23 billion in real terms by 2050. However, these forecasts need to be treated with caution. The economic costs of natural disasters are not collected systematically and there is little agreement on how they might be calculated (Crompton and McAneney, 2008; Latham, McCourt & Larkin, 2010).

As natural disasters – particularly the most severe ones – timing and severity is unpredictable and funding for recovery is volatile. The cost of natural disasters in the last few years can largely be explained by three incidents:

- the Black Saturday bushfires in Victoria (7 February 2009) in which 173 people were killed with damage causing insurance costs of $1.1 billion;

- the Queensland Floods (December 2010 to January 2011) where 38 people were killed with damage causing insurance costs of $2.4 billion; and

- Cyclone Yasi in north Queensland (February 2011) with damage causing insurance costs of $1.4 billion.
Disasters of this magnitude have generally been infrequent, but account for a large portion of the damage. The other recent disasters of this magnitude include Cyclone Tracy in 1974, the Newcastle earthquake of 1989 and the Sydney hailstorm of 1999. It could be argued that recent data represents an aberration rather than a trend.

While the cost of natural disasters could increase over time because of population growth and more people living in areas more likely to be affected by disasters and climate change, the growth rate nominated by Deloitte Access Economics is broadly in line with GDP. Hence the capacity of individuals, businesses and governments to respond to disasters is increasing at largely the same rate as underlying growth in the damage.

**Issues**

The major issues with the Commonwealth’s role in natural disasters are:

- Commonwealth relief and recovery funding – the extent to which the Commonwealth should be responsible for funding the recovery efforts after natural disasters and the associated procedures (currently as reflected in the NDRRA); and

- mitigation – the case for funding mitigation expenditure, and again the extent to which the Commonwealth should provide funding.

**Relief and recovery**

Currently, the Commonwealth pays a major share of the reconstruction costs of large natural disasters. Beyond certain thresholds the Commonwealth contributes either 50 per cent or 75 per cent of a State’s reconstruction expenditure on replacing essential public assets (mostly road infrastructure) damaged by natural disasters. In principle, the Commonwealth has a better revenue base and hence a greater capacity to absorb the financial shock associated with large natural disasters.

However, the high share of Commonwealth contribution has created perverse incentives for State and local governments to minimise their investment in mitigation measures such as planning and development, capital investment and insuring assets. The Queensland Under Treasurer advised a House of Representatives inquiry in 2011 that his State had not sought to reinsure all the assets that could be covered partly because of the existence of Commonwealth funding.

In the absence of any changes to the currently generous Commonwealth funding arrangements, State and local governments are unlikely to face sufficient incentives to change current behaviours relating to planning and zoning requirements, infrastructure spending and maintenance, and restoration or replacement decisions.

The very low threshold ($240,000 in damage) triggering potential Commonwealth NDRRA support, when taken with the past AGDRP arrangements, has also contributed to ongoing
community expectations that the Commonwealth will provide support for ‘minor’ disasters, including financial support for losses that are potentially insurable and/or avoidable or otherwise capable of being provided by State and local governments.

In relation to the AGDRP, there is also overlap between Category A of the NDRRA (provided, at least initially, by the States) and the AGDRP. Further, under previous AGDRP arrangements, persons suffering some form of loss were awarded the same payment whether they were severely affected or merely inconvenienced. Community concerns were highlighted during the recent NSW bushfires in October 2013, where the Commonwealth provided assistance only to those severely affected, but in doing so, attracted considerable media scrutiny and public criticism.

The NDRRA claims process has also been problematic. Attempts have been made over time to improve the terminology, timeliness and processes in dealing with and processing state claims, including trying to ensure that they are as consistent as possible with other reform initiatives relating to disaster resilience and Commonwealth specific reforms. For example, in September 2013, the Queensland Auditor-General reported that NDRRA local council claims totalling $725 million had been qualified because they lacked the necessary documentation that would allow a reliable assessment of the claim.

Notwithstanding these steps, for significant disaster events such as cyclones and major flooding, years will elapse between the event, the immediate response and the reconstruction efforts, involving a myriad of local governments, various state departments, state Auditors-General and Commonwealth departments including AGD (where EMA oversees and determines the claims) and the Departments of the Treasury, Finance, and the Prime Minister and Cabinet.

In relation to particular Queensland and Victorian disasters, there is a further layer of scrutiny through the Reconstruction Inspectorate.

According to a recent ANAO (2013) report, this increased scrutiny has decreased potential Queensland claims for Commonwealth reimbursement under the NDRRA by more than $100 million. This suggests that closer scrutiny of state claims is warranted, but also that some of the credit for the value for money outcomes is the result of improved State claims management processes through the Queensland Reconstruction Authority (QRA), which is responsible for coordinating and managing Queensland reconstruction activities.

The very large and unforeseen state payments that can arise under the NDRRA pose considerable risks for managing the Commonwealth’s Budget and its fiscal strategies. These payments also present timing and management risks, arising from the drawn-out reimbursement process to pay state claims, which has led to substantial movements of funds across financial years.
In principle, State and local governments should simply insure their assets. In practice, insurance is not available for most public assets that could be affected by natural disasters.

- Following a number of significant natural disasters occurring in 2011, Senator Nick Xenophon requested that the NDRRA include a three-yearly review of the potential for insurance of all State-owned assets. The NDRRA was subsequently amended in 2011 to incorporate requirements for States to submit independent assessments of their insurance arrangements.

- The Department of Finance completed an initial review of State assets in 2011, with the outcome being that while non-road assets were generally insurable, there was little appetite in the commercial insurance market to insure State government road assets against natural disasters (Department of Finance and Deregulation, 2012). At this stage, it is not clear when a further review will be undertaken.

In order to reduce moral hazard (and hence total costs to society) the principles underpinning an improved approach would ensure that, to the extent possible, costs are borne by those who are in a position to reduce them by their behaviour.

**Mitigation**

Arguably, another important part of future disaster related spending is to increase investment on mitigation measures. There is growing and widespread community support for increasing mitigation spending, aided by recent reports prepared by the private sector - particularly the insurance industry.

A 2002 COAG Review noted that additional investment in natural disaster mitigation was estimated to reduce the economic cost of natural disasters and, in particular, that for every dollar invested in flood mitigation around $2.10 was saved.

A 2013 paper by Deloitte Access Economics noted that the budgetary impact of responding to and recovering from natural disasters could potentially be significantly reduced through carefully considered and directed investment in pre-disaster resilience. In particular, the paper stated that annual programme expenditure on pre-disaster resilience of $250 million, could potentially generate budget savings of $12.2 billion for all levels of government and reduce natural disaster costs by more than 50 per cent by 2050.

However, the case for increased spending on mitigation is not conclusive. Damage caused by natural disasters is highly volatile and most of the cost is the result of a small number of extremely damaging events. While reasonable data is available on insured costs, information on the total economic cost is largely speculative. Thus attempts to project the cost of disasters into the future, as seen in the Deloitte Access Economic study, should be treated with caution due to the extent of assumptions that are needed.
The potential benefits of mitigation are difficult to assess and test and thereby likely to be overstated. The potential benefits (arising from actual spending) would also depend on the quality, quantity and timing of the infrastructure decisions and the fact that the measures would not be overwhelmed by a major disaster. Notwithstanding how much knowledge and foresight governments might have, funding for mitigation, without appropriate governance mechanisms to evaluate projects, could lead to poorly targeted expenditure on sub-optimal projects.

Under the current arrangements, the States (and the wider community) appear to be looking to the Commonwealth to provide funding support for significant mitigation projects. The logic appears to be that as the Commonwealth bears the majority of the costs of large disasters, the Commonwealth can save itself money if it invests in mitigation.

The alternative view – that better aligns with the Commission’s Principles of Good Government – would be that as State and local governments are primarily responsible for disaster mitigation, response and recovery, they are not only the appropriate funders of mitigation measures, but are also in a better position to maximise the chances of the most efficient allocation of funding on those projects calculated to minimise State risks and exposures.

Irrespective of how much knowledge and foresight governments might have, funding for mitigation, without appropriate governance mechanisms to evaluate projects, could lead to poorly targeted expenditure on sub-optimal projects.

**Potential areas for reform**

**Relief and recovery**

Taking the above principles into account, possible options for reform of Commonwealth Relief and Recovery Funding include:

*Option 1. Substantially reduce Commonwealth involvement in disaster recovery funding*

The Commonwealth could retain the AGDRP but allow for appropriate contributions to be paid directly by the Commonwealth to only those individuals severely affected by natural disasters. This is consistent with the view that the Commonwealth should support only those who have suffered severe hardship. To continue providing payments to those moderately affected will maintain community expectations of Commonwealth taxpayer support even where the effects of events are not severe.

The Commonwealth could replace the NDRRA with a grant – paid upfront or in instalments – to the States in the event of a significant natural disaster. The level of Commonwealth contribution would vary depending on the size of the event and the Commonwealth’s capacity, but could be set at between 25 and 33 per cent of the likely reconstruction costs of
the disaster, with the amounts based on assessments by infrastructure and insurance expert assessors. These amounts would be determined by the Commonwealth and could be provided across future years based on the likely timing of the road infrastructure spend and taking into account the Commonwealth’s spending estimates for the Budget and forward years.

This approach would seek to ensure that State and local governments are more focused on disaster management and prevention, particularly mitigation measures, as well as managing disaster recovery expenditure on infrastructure. It would allow for significant yet flexible Commonwealth financial involvement in disaster funding with minimal initial oversight, avoiding the complex and administratively burdensome NDRRA claims process.

**Option 2. Amend the NDRRA to retain the basic structure and main processes, but amend thresholds and Commonwealth contribution rates**

Another option could be for the Commonwealth to maintain the basic structure of the NDRRA (and the AGDRP) but to significantly amend its contribution rates for the NDRRA. Under this model the NDRRA would be retained, but significantly amended to:

a. lower Commonwealth contributions for infrastructure funding (Category B) to either 25 or 33 per cent of government contributions. Conditions of this contribution could include:

i. significantly increasing the level of expenditure at which a *small disaster* becomes an *eligible disaster* (for the purposes of calculating support under the NDRRA), currently $240,000. In keeping with the principle that only significant disasters justify Commonwealth funding, this should be increased to, say, $50 million for the larger three States, $20 million for South Australia and Western Australia and $5 million for Tasmania and the two Territories;

ii. raising the threshold for prior State expenditure (the ‘excess’) to 0.5 per cent of State revenue before Commonwealth contributions commence (this is more than double the current first threshold of 0.225 per cent);

iii. State and local governments equally sharing the remaining 66 (or 75) per cent of funding; and

iv. that civic assets, such as buildings, which are capable of being commercially insured, be excluded from claims; and

b. simplify and strengthen the claims process, adopting lessons learned by the Reconstruction Inspectorate. Options could include:

i. requiring States with significant reconstruction expenditure to establish agencies similar to the QRA to manage and coordinate reconstruction work and NDRRA claims for reimbursement; and
ii. clarifying, consolidating and harmonising the claims approval process, through steps such as: merging the EMA claims function with the Reconstruction Inspectorate functions; adopting consistent approaches to funding for all States (with no state-specific National Partnership Agreements); and fast-tracking assessment and decision making for claims.

Similar to Option 1, the lower contribution rate under Option 2 would still provide Commonwealth support but would limit the Commonwealth’s liability for poor decisions by State and local governments and limit the extent to which they can in effect upgrade their assets using Commonwealth funds (for example by upgrading or widening roads to current engineering standards) and ensure that responsibility for disaster management resides with the States. Any decrease in the proportion of the Commonwealth’s reconstruction costs reduces the perverse incentives (moral hazard) imposed by the NDRRA and reduces the budgetary risks to the Commonwealth.

Either Option 1 or Option 2 could be implemented before the 2014-15 disaster season.

Overall, Option 1 is preferred, as it limits Commonwealth involvement in predominantly state affairs, yet still allows for substantial intergovernmental and community support as necessary.

Although the claims process could be significantly improved under Option 2, it would still maintain a potentially unnecessary level of Commonwealth involvement in State matters and duplicate State oversight. Notwithstanding the significant gains achieved through the Reconstruction Inspectorate process, it remains very difficult to effectively, efficiently or consistently manage state claims for NDRRA contributions.

Under Option 1, the need for a Reconstruction Inspectorate would not be required, however in the interim it would be desirable for all aspects of disaster response to be dealt with by the one department and minister.

**Mitigation**

On mitigation, as yet there is not a compelling case for increased Commonwealth involvement, but this issue could be considered further after the planned Productivity Commission Review of Disaster Relief Arrangements announced on 20 December 2013. This could advise on the extent to which disaster mitigation funding is justified.

**Organisational arrangements**

If the Government adopts the Commission’s recommendations on providing a grant for NDRRA there may no longer be a need for the National Disaster Recovery Taskforce currently in the Department of Infrastructure and Regional Development. The Taskforce coordinates the Commonwealth’s contribution to reconstruction efforts in Queensland and Victoria and supports value for money assessments by the Australian Government
Reconstruction Inspectorate. The role of AGD in administering the NDRRA would also need to be examined.

References


Australian National Audit Office 2013, The Preparation and Delivery of the Natural Disaster Recovery Work Plans for Queensland and Victoria, Canberra.


Department of Finance and Deregulation 2012, Review of the Insurance Arrangements of States and Territories under the NDRRA Determination 2011, Canberra.


Productivity Commission 2013, Barriers to effective climate change adaptation, Canberra.

10.10 Community Investment Programme

The Commonwealth Government has a long history of providing grants funding to the community sector.

The Community Investment Programme provides funding to improve the responsiveness and integration of local community services to increase the participation of vulnerable people in community life (Department of Social Services, 2013). Funding is provided in the form of grants and funding to not-for-profit organisations.

Total funding for the Community Investment Programme in 2013-14 is $43.2 million.

There are four streams of grants funding under the Community Investment Programme:

- **Community Capacity Building Projects** – this stream provides grants to community organisations to deliver local projects to strengthen communities and assist disadvantaged individuals to participate in community life. Current funding agreements expire on 30 June 2014, except one which expires on 30 June 2015;

- **Volunteer Grants** – this stream offers ad hoc grants of between $1,000 and $5,000 to not-for-profit organisations to help cover the costs of volunteers, including training, fuel and any required background checks. Grants rounds are conducted on an annual basis and funding for 2013-14 is fully committed;

- **National Secretariat** – this stream provides funding for seven peak organisations to manage relationships with stakeholders and provide advice to government. Funding agreements expire on 30 June 2014, except one which expires on 30 June 2016; and

- **Indigenous Community Links** – this stream supports Indigenous community members and their families by providing links and referrals to a range of mainstream and Indigenous services, such as welfare and social support, employment, legal and housing. Funding is provided for Indigenous Community Links to 2014-15.

The programme has an explicit aim of assisting those who identify as Indigenous, culturally and linguistically diverse, having a disability or a volunteer.

Performance reporting for the programme is relatively limited and generally relates to the numbers of people assisted, with no specific reference to outcomes.

State governments already provide grants in this area. For instance, the South Australian Government provides grants for multicultural, youth and other community organisations.

Some examples of funding arrangements under the programme are shown in Table 10.10.1.
Table 10.10.1: Selected Community Investment Programme grants

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Amount</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bucketts Way Neighbourhood Group</td>
<td>$81,469</td>
<td>Assists children and young people in Gloucester with homework and assessments, as well as extending their knowledge base academically through one-on-one tutoring. The project aims to increase the number of volunteers from culturally and linguistically diverse and refugee backgrounds in the City of Greater Dandenong. The project recruits and trains participants in skills such as community development or administration, matches volunteers to appropriate roles, provides supervised on-the-job training by qualified staff, and creates opportunities for volunteers to undertake accredited training.</td>
</tr>
<tr>
<td>Springvale Community Aid and Advice Bureau Inc</td>
<td>$188,006</td>
<td></td>
</tr>
<tr>
<td>Multicultural Centre for Mental Health and Well-Being Inc</td>
<td>$220,437</td>
<td>Strengthens communities, builds capacity and leadership skills, and reduces antisocial behaviour within the community. The project delivers mentor programmes to improve communication, interpersonal skills and self-esteem to create healthy relationships for recently arrived refugee youth. The project also provides educational forums on law, culture, sexual and mental health, and employment rights and responsibilities. The project activities take place in Yeronga.</td>
</tr>
<tr>
<td>Metropolitan Migrant Resource Centre</td>
<td>$310,209</td>
<td>Provides leadership training programmes in Mirrabooka and Clarkson for young people from across the metropolitan area. The project promotes self-awareness and encourages young people to develop productive ways to address issues faced by their community.</td>
</tr>
</tbody>
</table>

Source: Department of Social Services, 2013.

The Commonwealth Government does not have an explicit constitutional head of power to deliver community development programmes. Community grants for development and volunteers are currently provided by at least some State and/or local governments. There would appear to be scope for the Commonwealth to transfer responsibility and funding for these programmes to the State governments.

Reference

10.11 Outsourcing visa processing

Around 4.7 million visas were granted in Australia in 2012-13 (Chart 10.11.1). The cost of handling enquiries, assisting with lodgements and reviewing applications is around $600 million per year (including fixed costs), while the fees generated from Visa Application Charges exceed $1.2 billion (Department of Immigration and Citizenship, 2013a and 2013b).

Chart 10.11.1: Number of Visas Issued and Variable Funding for Visa Processing

The Department of Immigration and Border Protection is currently implementing a reform programme that aims to: steer a greater number of visa applicants towards online and electronic visa lodgement; use greater automation to process low-risk visa applications; and expand the use of outsourcing arrangements for the operation of Australian Visa Application Centres that collect and register visa applications in a number of locations globally.

Notwithstanding the efficiency gains from moving from paper to electronic lodgement, there remain a large number of functions that could potentially be done at the same or higher levels of quality, at a reduced cost, through outsourcing or co-sourcing arrangements.

Many tasks related to visa processing are high volume and low complexity and would be well suited to outsourcing. Examples include call centres, shop fronts, counter services, data entry, payment collection, design and operation of web sites and the processing of low and medium risk visa applications.

An outsourced arrangement could have the added advantage of avoiding periodic major capital outlays for the fit-for-purpose information technology systems necessary to support visa processing.

However, outsourcing of this function would need to be handled carefully, as not all visa related tasks are suitable for outsourcing. The high risk of fraud associated with some visa
applications and the complexity required in resolving these cases require that at least a residual processing capability should be retained by the Department.

That said, the Commission considers that the potential for significant efficiency gains and service advantages warrants the development of a business case and scoping study for the outsourcing of visa processing functions. This study should identify and group functions that are suitable for outsourcing and include a strategy for approaching the market to maximise savings.

References

Department of Immigration and Citizenship (DIAC) 2013a, Annual Report 2012-13, Canberra.

Department of Immigration and Citizenship 2013b, DIAC Portfolio Budget Statements 2013-14, Canberra.
10.12 Employment services

The bulk of Commonwealth Government employment services are provided through Job Services Australia, which currently offers services to around 760,000 job seekers. Funding under Job Services Australia is around $1.3 billion per year.

The existing round of employment services contracts are due to expire in the middle of 2015. A review has been conducted with a view to making further modifications to the next round of contracts (Department of Education, Employment and Workplace Relations, 2012a).

While the average cost per job seeker has declined since the introduction of the Job Network and then Job Services Australia, there are still concerns about whether the employment services arrangement provides the most cost effective way of getting unemployed people into work.

In particular, there is a focus on how well the arrangements work at placing the longer-term unemployed. At present, around 400,000 Job Services Australia clients have been out of work for more than 12 months and of these 170,000 have been out of work for 36 months or more.

Substantive changes to the current employment services model do not appear to be warranted at this time. International evidence suggests that the Australian approach is seen as being at the frontier of good policy in this area. Job Services Australia and its predecessors demonstrate the benefits of using contracting arrangements compared to traditional government provision of these services.

Changes could, however, be contemplated to improve the effectiveness of the arrangements. This could include, inter alia, examining the case for changes to the payment structure to providers to provide greater incentive for job placement (in other words, outcomes rather than servicing).

This could result in increased payments for placing the most disadvantaged job seekers and reduced payments for placing ‘job ready’ job seekers. Another option would be to delay access to employment services for those job seekers who are most ‘job ready’ on the grounds that they require the least assistance.

Wage subsidies

Employment services are also supported by wage subsidies, including the Wage Connect programme. Under Wage Connect, subsidies are available to employers who take on long-term unemployed job seekers.

The subsidy is paid at the rate of $233 per week for 26 weeks. The job seeker must have been on income support for at least two years and had limited work experience, in order for
the subsidy to be available. There are 10,000 capped places per year for Wage Connect. In December 2013, the Government advised that there would be a pause on new entrants to the Wage Connect scheme as it was fully subscribed.

The effectiveness of wage subsidies is open to question, given that they may displace other job seekers or simply result in employment ceasing once the subsidy is finished. A study undertaken by the Department of Employment showed that while subsidies can be effective in certain circumstances, there is a need for targeting to minimise the deadweight losses which can occur (Department of Education, Employment and Workplace Relations, 2012b).

Another issue is the average rate of subsidy under Wage Connect, which is higher than similar programmes such as the Tasmanian Jobs Programme and Seniors Employment Incentive Payment.

An outline of selected Commonwealth Government wage subsidy programmes is shown in Table 10.12.1.

<table>
<thead>
<tr>
<th>Name</th>
<th>Details of incentive</th>
<th>Amount of subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage Connect</td>
<td>Available in respect of individuals who have been on income support payments for at least the last 2 years and have minimal or no work experience.</td>
<td>$6,050 over 6 months</td>
</tr>
<tr>
<td>Tasmanian Jobs Programme</td>
<td>For full-time, ongoing new employment for Tasmanian businesses. Employees must have been receiving an income support payment for 6 months before the job commences.</td>
<td>$3,250 after 6 months</td>
</tr>
<tr>
<td>Seniors Employment Incentive Payment</td>
<td>Available in respect of people aged 50 and over who have been hired and have been receiving income support for at least 6 months.</td>
<td>$3,250 over 6 months</td>
</tr>
</tbody>
</table>

Source: Australian Government 2013a, 2013b and 2013c.

The wage subsidy under Wage Connect should be reduced to the same level as other similar programmes.
References


10.13 Efficiency of the public broadcasters

Background

The Australian Broadcasting Commission was established in 1932 and renamed the Australian Broadcasting Corporation (ABC) in 1983, although various forms of publically owned and funded broadcasting have existed in Australia since 1923. Today, the ABC has annual expenses of around $1.2 billion, of which government provides $1.1 billion (ABC, 2013). The ABC’s charter requires it to:

provide within Australia innovative and comprehensive broadcasting services of a high standard as part of the Australian broadcasting system consisting of national, commercial and community sectors and, without limiting the generality of the foregoing, to provide:

(i) broadcasting programs that contribute to a sense of national identity and inform and entertain, and reflect the cultural diversity of, the Australian community; and

(ii) broadcasting programs of an educational nature. (Australian Government, 1983).

The Special Broadcasting Service Corporation (SBS) was established in 1978, following a number of initiatives that began in 1975 to provide ethnic-specific broadcasting content to inform migrant populations about specific government policies. SBS has annual expenses of around $0.4 billion, of which $0.3 billion is provided by government (SBS, 2013). SBS’s charter requires it to:

provide multilingual and multicultural radio, television and digital media services that inform, educate and entertain all Australians, and, in doing so, reflect Australia’s multicultural society (Australian Government, 1991).

National Indigenous Television (NITV) is part of the SBS family of free-to-air channels broadcasting across Australia providing a nationwide Indigenous television service via cable, satellite and terrestrial transmission means and selected online audio visual content. The content for these services is primarily commissioned or acquired from the Indigenous production sector.

Rationale for government intervention

The traditional arguments for government funding of public broadcasting are:

- universality, a form of media and content accessible by all, regardless of cost of provision;
• independence from commercial and corporate influence, with sufficient safeguards to establish independence from political influence;

• diversity, the delivery of content for which there is no incentive for commercial broadcasters to produce or distribute, such as localised, ethnic, cultural and educational forms of content; and

• a mechanism with which to pursue government policy aims, especially concerning delivery of non-commercial content to achieve social and educational outcomes.

Media convergence, especially the availability and access of text, audio and video media via the internet, is increasingly eliminating the traditional arguments for public broadcasting. The need for government intervention or support has now been largely superseded by technology and commercial imperatives.

While historically, the ABC was the only broadcast service available in many communities, especially in regional and rural Australia, the availability of the internet and increased coverage by commercial broadcasters is diminishing this market failure. Indeed, the onset of digital broadcasting has seen the number of free-to-air television channels now available increase from five (including ABC and SBS) to over 20, depending on the location of the viewer.

Multicultural, ethnic, educational, children’s and informative content can be produced through other means, such as increased producer incentives, tax concessions and community service obligations, and do not necessarily require the existence of a sole-purpose public broadcaster. Furthermore, access to diverse multicultural programming is now readily available through new media platforms that do not require the costly fixed infrastructure of a broadcaster to support it. Similarly, government objectives can be pursued through grant and incentive arrangements.

In light of recent trends that have weakened the traditional arguments for public broadcasting, there is a strong case to review the level of government funding of public broadcasting for this purpose.

**Current funding of the public broadcasters**

The ABC and SBS are both statutory Commonwealth authorities, but have a significant degree of independence from government. The ABC and SBS receive 89 per cent and 73 per cent, respectively, of their total revenues from government, with the remainder coming from advertising (on SBS), programme sales and merchandising.

The funding of each broadcaster is broken down into ‘transmission funding’ and ‘base funding’. Transmission relates to the costs of broadcasting the radio and television content of the ABC and SBS. These are delivered through long-term contracts with Broadcast
Australia. Transmission costs are fully funded by government and cost around $200 million per year for the ABC and $80 million per year for SBS (ABC, 2013; SBS, 2013).

Base funding is the remainder and is used to conduct their television, radio and online content production, staff costs, asset management, retail operations and policy-specific operations.

The charters of the ABC and SBS do not set any specific operational requirements, such as hours of content produced, required quotas of Australian content, or channels to be broadcast. Instead, in practice the ABC and SBS are free to use the funding they receive from the government as they see fit.

As shown in Chart 10.13.1 below, there has been strong recent growth in the amount of base funding available for the ABC and SBS. Both organisations are also exempt from the efficiency dividend.

The ABC and SBS also have access to a moderate amount of own-source funding. The ABC receives around $160 million per year, primarily through the sales of goods and services, which include both retail sales to consumers and the enterprise selling of programmes and ABC professional services. SBS receives around $90 million per year in own-source revenue, of which $60 million is from advertising and sponsorship (ABC, 2013; SBS, 2013).

Trends and drivers

Media convergence

The existing economic models of the broadcasting and media industries are changing because of media convergence. Simply put, convergence refers to the phenomenon where
the method of distribution of content is becoming increasingly unimportant when compared to the consumption of content. Much of Australia’s broadcasting and media industry’s distribution practices are restricted and regulated, leaving them it to respond effectively to changing consumer behaviour (Australian Government, 2012).

As stated above, the ABC and SBS are not bound by specific production or distribution requirements as a condition of their broadcasting licences. Given this, the public broadcasters have benefitted, relative to the commercial broadcasters, in responding to media convergence. Indications of that benefit may be drawn from the increasing audience share of the ABC and the significant efficiency in cost-per-broadcast-hour of SBS.

**Digital television**

The introduction of digital television and, in particular, the ability for multiple digital signal television channels to be broadcast in the same amount of spectrum as a single analogue television channel, has also placed cost pressures on the ABC and SBS. Whereas previously each broadcaster produced only a single channel, there are now seven distinct channels across the ABC and SBS, with a rise in content acquisition and production costs, albeit at a relatively marginal cost.

Digital television has also sharply reduced the ability of SBS to raise advertising revenue. Previously, SBS had served as a channel of last resort for those advertisers unable to secure space on one of the three commercial channels. With the proliferation of digital multichannels across the three commercial networks, there is now a much greater supply of televised advertising space, with the potential consequence of less need to resort to SBS. This has caused SBS to seek supplementary funding from government in the last two budgets to make good the missed advertising revenue forecasts.

**Changing consumer demand**

The public broadcasters respond to changing consumer demand – most evident in the development of the ABC and SBS online delivery portals, iView and ON DEMAND respectively – and the resulting cost pressures. SBS has also faced sharply declining advertising revenues.

**Issues**

The charters and enabling legislation of the ABC and SBS allow the broadcasters significant freedom in deciding how their operations should be structured and impose no obligations to produce specific amounts or types of content. This is in significant contrast to both free-to-air and subscription access broadcasting companies, which are subject to significant regulation in the content they are allowed and required to produce in exchange for their operating licences.
The level of funding to provide to the public broadcasters is a value-decision for the government of the day.

**Independence of the ABC and SBS in achieving programme-specific savings**

The legislation of both the ABC and SBS grants them a significant degree of independence through restricting the ability of the government to give directions with relation to the content and scheduling of online, radio and television activities.

In practice, the ABC and SBS have used this independence to actively pursue new programmes and service offerings funded by internal savings, such as the SBS ON DEMAND online portal and ABC News24. Government is limited in its ability to halt or moderate this activity. For example, reducing the appropriation provided to the ABC by an amount equivalent to the cost of, say, running ABC News24, would still allow the ABC to choose to continue running the service and absorb the reduced funding in other areas of operation.

**Future of SBS**

There are concerns about the ongoing financial viability of SBS. As discussed above, SBS advertising revenues in recent years have failed to reach estimated levels, resulting in the SBS seeking additional funding from government in the past two Budgets. Still, rather than reduce services in response to declining own-source revenue, SBS has continued to expand its service offering.

**Potential areas for reform**

There is no ‘right’ level of funding that should be provided to the ABC and SBS, or ‘right’ level of services that should be provided by the public broadcasters.

**Increased efficiency**

The Commonwealth has no powers to target specific services of the ABC and SBS. Nor can efficiencies be harvested from the public broadcasters where they find more effective and efficient ways to deliver services.

The Commission proposes that the ABC and SBS be benchmarked against each other and the commercial broadcasters. This exercise should provide a sense of the savings that could be achieved without compromising the capacity of the public broadcasters to deliver services including to remote and regional Australia.
References


10.14 Illegal Maritime Arrival costs

The detention and processing of Illegal Maritime Arrivals (IMAs) has been the fastest growing government programme over recent years. Between 2009-10 and 2013-14 annual expenditure has increased from $118.4 million to $3.3 billion, growing at 129 per cent per year.

Projected costs over the forward estimates currently exceed $10 billion.

While the growth in expenditure is largely due to an increase in arrival rates, there has also been a material increase in costs associated with running the immigration detention network. For example, estimates of the annual cost of holding one IMA in onshore detention have increased from $179,000 in 2011-12 to $239,000 in 2013-14.

To a significant extent this growth in costs has been due to increases in the scope of services provided under the contracts the Department of Immigration and Border Protection has in place with service providers, as well as increases in workload demands on the Department and subsequent increases in staffing levels.

The costs incurred in the delivery of this programme depend on a range of complex factors, with the major cost driver being the number of people in immigration detention, community detention or living in the community on bridging visas. This in turn is influenced by the number of IMAs, average processing times and other policy settings. Chart 10.14.1 illustrates the relative cost for each detention option.

![Chart 10.14.1: Relative cost per person for 12 months in detention, 2013](source: Department of Finance)

The detention and processing arrangements were necessarily developed in an ad hoc fashion in response to a number of crises (including significant overcrowding, riots, fires and growing incidences of self harm) and a rapidly changing policy environment. The Australian National Audit Office (2013) commented that ‘immigration detention is one of the most complex, controversial and debated areas of government policy’.
While it is unsurprising that costs have grown substantially in the face of such circumstances, there is scope to improve efficiency and eliminate waste and to ensure that decision making recognises the need to secure cost effective outcomes.

The policy settings now in place appear to have been effective in reducing arrival rates. Arrivals have fallen from a peak of around 4,300 per month in July 2013 to around 200 per month by November 2013. If these trends continue, the Department of Immigration and Border Protection should be able to redirect its efforts away from constantly managing crises and focus achieving better value for money across the network.

Notwithstanding the recent announcement of the closure of four detention centres, the cost of operating the onshore immigration network could be further wound back to 2011-12 levels (approximately $179,000 per person). Savings would primarily be achieved by renegotiating contracts and, in some cases, reductions in the services provided to people in detention.

In order to determine the appropriate level of services it may be necessary to conduct an audit of the scope and the cost of services currently being provided and how these have changed over time. This could include reviewing the roles of departmental staff and service providers with a view to removing duplication as well as ensuring that support provided was targeted effectively.

Should the policy settings continue to be successful in reducing arrival rates, further savings could be generated through the consolidation of the immigration detention network to achieve economies of scale – in particular through closing smaller, inefficient centres.

References


Australian National Audit Office 2013, Individual Management Services Provided to People in Detention, Audit Report no. 21 2012-13, Canberra.


Department of Immigration and Citizenship 2013, Annual Report, Canberra.

Department of Immigration and Citizenship 2013, Portfolio Budget Statements, Canberra.
10.15 Fair Entitlements Guarantee Scheme

The Fair Entitlements Guarantee Scheme was introduced, via legislation, in late 2012 and replaced the former General Employee Entitlements and Redundancy Scheme.

Under the Fair Entitlements Guarantee, an advance may be paid to former employees of a liquidated company in relation to their leave and redundancy entitlements.

Where a firm enters into liquidation after 5 December 2012 and is unable to pay employee entitlements, the Fair Entitlements Guarantee Scheme provides the following payments to eligible workers:

- redundancy pay of up to four weeks per full year of service;
- up to 13 weeks’ unpaid wages;
- annual leave and long service leave payments; and
- payment in lieu of notice – up to five weeks (Department of Employment, 2014).

While the Fair Entitlements Guarantee Scheme largely picked up the conditions in the General Employee Entitlements and Redundancy Scheme (as well as providing a legislative basis for the scheme) it also increased the level of generosity in payments from the General Employee Entitlements and Redundancy Scheme, particularly in relation to the uncapping of redundancy pay. The previous cap was 16 weeks, but is now effectively unlimited in certain circumstances.

One concern with the design of the scheme is that it may reduce the incentive for companies to guard against risk because they are protected from the consequences by the government. It could be argued that with the government picking up the tab for a major portion of all redundancy entitlements, companies have less incentive to worry about this aspect of costs if they are in a marginal financial position.

Claimants under the Scheme have 12 months after the end of their employment or an insolvency event to lodge a claim for an advance. A special subset of the Fair Entitlements Guarantee Scheme for workers in textile, clothing and footwear industry was created in May 2013.

In 2012-13, payments were made to 16,023 individuals under the scheme. Total payments were around $260 million. In this same financial year, around $37 million was recovered from liquidated companies’ assets (Department of Education, Employment and Workplace Relations, 2013).

Total payments under the General Employee Entitlements and Redundancy Scheme and Fair Entitlements Guarantee Scheme have increased significantly since 2007-08, even though growth in the number of insolvencies has been relatively stable.
Payments under the scheme have increased by 330 per cent in the five years since 2007-08 and by 34 per cent in one year alone in the most recently completed financial year.

Provision is made in the forward estimates for expected payments under the Fair Entitlements Guarantee Scheme but as it is a demand driven programme, actual payments will reflect the total number of eligible recipients in that year.

Under the Fair Entitlements Guarantee Scheme, someone who has worked with the firm for 25 years could theoretically receive the equivalent of full pay for 100 weeks, plus other entitlements. By contrast, the amount of redundancy pay under the National Employment Standards is capped at 16 weeks (Australian Government, 2009).

Concerns have been raised that the uncapped nature of the Scheme, combined with the fact that recoveries are quite low, means that there could be moral hazard for company directors (Wellard, 2013).

Prior to the year 2000, no such government scheme existed. The Fair Entitlements Guarantee Scheme is now an uncapped guarantee in respect of redundancy pay. Consistent with the principle that government should not and cannot eliminate or insure every risk to the community, the Commission considers that there is a strong case for reintroducing caps into the payments available under the scheme.

A cap of 16 weeks for redundancy pay could be introduced, with a 26 week cap for total payments under the scheme.

A further option would be to change the wage base upon which the Fair Entitlements Guarantee Scheme applies. Currently the entitlements are paid up to a maximum wage of $2,451 per week (Department of Employment, 2014). This could be changed to Total Average Weekly Earnings, which are currently $1,105 per week (Australian Bureau of Statistics, 2013).
The low level of recoveries from liquidated companies (generally around 10 per cent of total outlays over recent years) suggests that there could also be merit in examining ways to increase amounts recovered. Wellard (2013) notes that changes could be made to the Corporations Act 2001 which would go in this direction.

The Commission also acknowledges the importance of the Australian Securities and Investments Commission enforcing the penalties companies and directors face when they trade while insolvent.

References


10.16 Medical Indemnity

Background
Since 2003, the Commonwealth has subsidised indemnity insurance premiums for medical practitioners in Australia and provided financial assistance to indemnity providers and medical practitioners for high-cost claims. This followed the collapse of HIH Insurance in 2001 and United Medical Insurance in 2002.

The Medical Indemnity Insurance Fund (the Fund) includes the following schemes at a cost of around $100 million in 2013-14:

- Exceptional Claims Scheme;
- Run-off Cover Scheme;
- High Cost Claims scheme;
- Premium Support Scheme; and
- Incurred-but-not-reported Indemnity Claims scheme

Structure of the programme

Exceptional Claims Scheme
Under the Exceptional Claims Scheme, medical practitioners are protected against personal liability for eligible claims that exceed the level of their insurance cover. Above this level, the government covers 100 per cent of the cost of private practice claims.

The doctor must have medical indemnity insurance cover to at least the nominated threshold.

The threshold is set by the government through legislation. It is currently:

- $20 million for claims not notified from 1 July 2003; and
- $15 million for claims notified from 1 January to 30 June 2003.

As at 30 June 2013 no claims have been submitted against this scheme.

Run-off Cover Scheme
The Run-off Cover Scheme (ROCS) (see Table 10.16.1) was developed in response to concerns within the medical profession about the capacity of doctors to pay for run-off cover when they no longer earn an income. The scheme came into effect on 1 July 2004.

Under the Run-off Cover Scheme, the government covers the cost of claims for eligible doctors who have left the private medical workforce. The government uses funds paid into
the scheme by medical indemnity insurers to cover incidents that occur in connection with a doctor’s practice. Indemnity cover for eligible doctors will mirror the last claims arrangement they had with their medical indemnity insurer.

Table 10.16.1: Run-off Cover Scheme claims and benefits

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of claims received</td>
<td>25</td>
<td>27</td>
<td>72</td>
</tr>
<tr>
<td>Total benefit paid ($ million)</td>
<td>4.6</td>
<td>1.7</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Source: Department of Human Services, 2013.

The increase in claims is consistent with expected variances. There will be a general increase in the number of medical practitioners becoming eligible for the scheme since it began in 2004. Medical practitioners (or their estate) may become eligible for the scheme when they cease private medical practice, for example, through retirement (after a three-year qualifying period), maternity leave, transferring to the public hospital system or death. The number of claims will vary based on the number of medical incidents reported each year.

**High Cost Claims Scheme**

The High Cost Claims Scheme was established to address upward pressure on medical indemnity premiums by reducing the cost of these large claims to insurers. It does so by reimbursing insurers 50 per cent of the cost of medical indemnity claims above a threshold amount up to the limit of the practitioner’s insurance cover.

This scheme has three threshold levels that depend on the date the claim was first notified to the insurer (see Table 10.16.2). Recent claims and benefits are shown in Table 10.16.3.

Table 10.16.2: High Cost Claims Scheme thresholds

<table>
<thead>
<tr>
<th>Notification dates (inclusive)</th>
<th>Threshold amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 January to 21 October 2003</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>22 October to 31 December 2003</td>
<td>$500,000</td>
</tr>
<tr>
<td>On or after 1 January 2004</td>
<td>$300,000</td>
</tr>
</tbody>
</table>

Source: Medicare Australia, 2008.

Table 10.16.3: High Cost Claims Scheme claims and benefits

<table>
<thead>
<tr>
<th></th>
<th>2010-11</th>
<th>2011-12</th>
<th>2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of claims received</td>
<td>122</td>
<td>124</td>
<td>211</td>
</tr>
<tr>
<td>Total benefits paid ($ million)</td>
<td>24.5</td>
<td>20.3</td>
<td>33.4</td>
</tr>
</tbody>
</table>

Source: Department of Human Services, 2013.
The High Costs Claim Scheme is demand-driven. The number of medical negligence claims exceeding the scheme’s threshold amount is only a small proportion of the total number of medical negligence claims occurring each year and can be expected to vary from year to year. The total benefits paid each year are also influenced by the amount of each individual claim, which is highly variable. A small number of claims may significantly affect the overall cost of the scheme.

**Premium Support Scheme**

The Premium Support Scheme assists eligible privately practising medical practitioners with their medical indemnity premiums (see Table 10.16.4).

Under the Premium Support Scheme, eligible medical practitioners receive a subsidised reduction in their insurance premiums. Insurers are then reimbursed the subsidised amount.

If a medical practitioner’s gross medical indemnity costs exceed 7.5 per cent of their private medical income, the scheme will subsidise 60 per cent of the cost of the premium beyond the threshold. The subsidised amount has decreased from 80 per cent before 1 July 2012, to 70 per cent for 2012-13, to 60 per cent from 1 July 2013.

Actual income is used as part of the formula for determining eligibility for a subsidy.

**Table 10.16.4: Premium Support Scheme eligibility and costs**

<table>
<thead>
<tr>
<th></th>
<th>2010-11</th>
<th>2011-12</th>
<th>2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total eligible practitioners</td>
<td>2,191</td>
<td>2,013</td>
<td>1,993</td>
</tr>
<tr>
<td>Total amount paid ($ million)</td>
<td>13.1</td>
<td>11.4</td>
<td>9.3</td>
</tr>
<tr>
<td>Total administration fees ($ million)</td>
<td>2.5</td>
<td>2.5</td>
<td>2.4</td>
</tr>
</tbody>
</table>

*Source: Department of Human Services, 2013.*

**Incurred-But-Not-Reported Indemnity Claims Scheme**

Under the Incurred-But-Not-Reported Indemnity Claims Scheme, the government covers the costs of claims from medical defence organisations that do not have adequate reserves to cover their liabilities. United Medical Protection (now known as Avant Insurance Limited) is the only medical defence organisation actively participating in the scheme. Ongoing costs associated with the scheme are partly funded through a contribution payment (the United Medical Protection Support Payment) imposed on those people who were members of United Medical Protection on 30 June 2000 (see Table 10.16.5).

In 2012-13 the number of claims decreased. To meet eligibility requirements for the Incurred-But-Not-Reported Indemnity Claims Scheme, incidents that lead to claims must have occurred prior to 30 June 2000. The number of unreported incidents is expected to decrease in future.
Table 10.16.5: Incurred-But-Not-Reported Indemnity Claims Scheme claims and benefits

<table>
<thead>
<tr>
<th></th>
<th>2010-11</th>
<th>2011-12</th>
<th>2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of claims received</td>
<td>125</td>
<td>75</td>
<td>34</td>
</tr>
<tr>
<td>Total benefits paid ($ million)</td>
<td>13.4</td>
<td>3.9</td>
<td>3.7</td>
</tr>
</tbody>
</table>

Source: Department of Human Services, 2013.

Rationale for government intervention

The package of medical indemnity schemes was introduced following the demise of HIH Insurance in March 2001, which was Australia’s second largest insurance company. The initiatives were a response to a market failure and intended to make the indemnity market more sustainable, giving doctors the certainty they need to continue practicing and making medical indemnity cover more affordable.

Trends

The Medical Indemnity Insurance Fund is forecast to increase over the forward estimates by around 20 per cent as outlined in Table 10.16.6 below.

Table 10.16.6: Profile of the fund

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$ million</td>
<td>98.6</td>
<td>104.5</td>
<td>110.9</td>
<td>118.3</td>
<td>118.3</td>
</tr>
</tbody>
</table>

Source: Department of Finance.

Issues

There is strong evidence that suggests that the market is normalising, including a detailed report by the Australian Competition and Consumer Commission from as far back as the 2007-08 financial year (ACCC, 2009).

Average premiums have fallen since 2003-04, making them more affordable. This indicates that the industry has been able to sustain significant price falls or stagnation while remaining viable and that the market has normalised following the collapse of HIH.

Furthermore, major players in the medical indemnity sector have been making healthy profits. Avant, the single largest provider with approximately 50 per cent of the market, made a pre-tax profit of $159 million from total revenues of $207 million in 2012-13. It also has an asset to liability ratio of 1.89. Table 10.16.7 shows the 2012-13 financial results for major players in the medical indemnity industry (excluding QBE which operates in many insurance markets and reports an aggregated total).
Table 10.16.7: Financial results of the four major players in medical indemnity

<table>
<thead>
<tr>
<th>2012-13 Annual Report results</th>
<th>Premium Revenue (inc. Subscription income) $'000</th>
<th>EBIT $'000</th>
<th>EBIT/Revenue Ratio per cent</th>
<th>Net Assets $'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>MDA National Insurance</td>
<td>56,048</td>
<td>18,546</td>
<td>33.0</td>
<td>144,967</td>
</tr>
<tr>
<td>Medical Insurance Group Aust.</td>
<td>30,210</td>
<td>15,107</td>
<td>50.0</td>
<td>105,829</td>
</tr>
<tr>
<td>Medical Indemnity Protection Society</td>
<td>60,912</td>
<td>40,901</td>
<td>67.0</td>
<td>219,433</td>
</tr>
<tr>
<td>Avant Insurance</td>
<td>207,159</td>
<td>159,380</td>
<td>76.9</td>
<td>840,266</td>
</tr>
</tbody>
</table>


The Premium Support Scheme

The Premium Support Scheme supports a small and decreasing number of doctors (1,993 in 2012-13). It is expensive to administer and distributes a small amount of funds. In 2012-13 the scheme only paid out $9.3 million, but it cost the Commonwealth $2.4 million to administer.

The need for the Premium Support Scheme has decreased as average premiums have continued to fall and it appears that the market has recovered.

High Cost Claims

It is worth considering whether the market can now assume the risk for high cost claims given the profit ratios for insurers represented above.

Exceptional Claims Scheme

As at 30 June 2013 no claims have been submitted against the Exceptional Claims Scheme.

Areas for reform

The Premium Support Scheme supports a very limited number of general practitioners (albeit many rural based) and its closure would be expected to have only a minimal impact on overall premiums and save the Commonwealth several million dollars in administration fees.

The Premium Support Scheme should be ceased, potentially with grandfathering arrangements for a short time. The impact on doctors in rural areas or on low incomes could be monitored.

Other schemes in the Fund, including the High Cost Claims Scheme and Exceptional Claims Scheme, could also be ceased and any impact on the market monitored.
References


Department of Human Services 2013, Annual Report 2012-13, Canberra.


Medicare Australia 2008, Guidelines, Medical Indemnity High Cost Claim Indemnity Scheme, Canberra.
10.17 Grants programmes

Background

Grants are a substantial proportion of Commonwealth expenditure, in the order of $22 billion in 2012-13 across over 500 programmes, depending on the definition used (Australian Government, 2013). This represents approximately 6 per cent of total Commonwealth expenditure. This report largely uses the definition of a grant included in the Financial Management and Accountability Act 1997 (FMA Act) regulations, which excludes foreign aid, payments to the States and local governments and scholarships or ‘grants’ made by Commonwealth Authorities and Companies Act 1997 (CAC Act) entities (Australian Government, 1997).

Broadly, a grant is an arrangement for the provision of financial assistance by the Commonwealth:

- under which money is to be paid to a recipient other than the Commonwealth;
- which is intended to assist the recipient to achieve its goals;
- which is intended to promote one or more of the Commonwealth Government’s policy objectives; and
- under which the recipient is required to act in accordance with any terms or conditions specified in the agreement.

The FMA Act definition of what does and does not constitute a grant payment is at Attachment 10.17.1.

Grant programmes vary in form and scale. They range from one-off measures to project-based or ongoing services with a high level of specification around deliverables. Grants can be competitive or entitlements, capped or uncapped. The amounts paid can span the very small, such as $210 under the Indigenous Capability and Development programme for a sporting event (Department of Social Services, 2014), to $224 million to a mental health foundation (Department of Health, 2013a).

Grants activities involve individuals, small business, community organisations, the not-for-profit sector, corporations, primary producers and whole industry sectors. Accountability requirements for grants range from simple to complex, often reflecting the risk appetite of the granting body, rather than risk assessment.
The Australian National Audit Office's submission to the Commission notes that:

*The precise number and value of grants made by the Commonwealth Government in any one year is difficult to establish as details are contained in individual entity documents... Nevertheless, it is fair to say that total grants expenditure in any one year is many billions of dollars, many thousands of grants are made by the Commonwealth, and the administration costs associated with grants is considerable, representing a sizable amount in some agencies’ departmental budgets* (Australian National Audit Office, 2013).

An indication of the number of government grant activities can be garnered from the 2008 *Strategic Review of the Administration of Australian Government Grant Programs* (Strategic Review) that found that more than 49,000 discretionary grants were approved in 2007 under some 250 separate funding programmes (Australian Government, 2008).

The States also administer significant grant programmes. For example, in 2011-12, Queensland Government grants amounted to $11 billion (representing 24 per cent of government expenses) with over 400 individual grant programmes to nearly 90,000 recipients (Queensland Government, 2013). In 2007-08, New South Wales spent $5.5 billion or 12 per cent of general government expenditure on grants that were neither subsidies nor inter-agency payments (New South Wales Government, 2009).

There is no comprehensive whole-of-Commonwealth-government repository of information about grant activity at this time. In addition, different definitions of what constitutes a grant are used within the Commonwealth. For example, the FMA Act definition excludes assistance provided under the *Higher Education Support Act 2003*, such as Commonwealth Grant Scheme (CGS) funding to higher education providers for students enrolled in bachelor degrees (Australian Government, 1997). However, the CGS is included in the Government Financial Statistics (GFS) definition of what constitutes a grant used to calculate the value of grants included in the Final Budget Outcome, published in the Commonwealth Budget papers.

The *Commonwealth Grant Guidelines* require that all grant payments that are awarded to recipients are published on agency websites (Department of Finance and Deregulation, 2013), but does not require this to occur on a single Commonwealth web page. As such, data can be difficult to find and assimilate. The commencement of the online initiative, Grants.gov.au, in 2016 will provide information on contracts for grants awarded in the same way AusTender does currently for procurement contracts. This will significantly improve the information available on Commonwealth grants.

**Rationale for government intervention**

The Strategic Review noted that discretionary grants have three interrelated purposes:
• promote change within a policy area by establishing a regular competitive grant allocation process;

• incorporate an element of flexibility which allows the programme to be tailored for an uncertain or variable policy environment; and/or

• enable a government to exert influence over a policy area where it lacks a legal or moral standing to deliver programmes directly (Australian Government, 2008).

Grants are often used for issue-management and ad hoc policy-making and can be seen as a convenient vehicle for addressing emergent issues expediently.

**Current structure of grants programmes**

The *Commonwealth Grant Guidelines* set out the Commonwealth grants policy framework and are a legislative instrument under the FMA Act. Agencies develop their own specific grants practices based on these guidelines.

**Trends**

Grants are a substantial proportion of spending by the Commonwealth. Both the number and, as shown in Chart 10.17.1, value of grants awarded has doubled over the past 10 years – from a total value of around $11.1 billion in 2002-03 to $22.4 billion in 2012-13 (Australian Government, 2013).

**Chart 10.17.1: Grants actual and estimated spending from 2002-03 to 2016-17**

![Chart 10.17.1: Grants actual and estimated spending from 2002-03 to 2016-17](chart)


As Chart 10.17.2 illustrates, the Commonwealth uses grants programmes to fund most functions of government. In 2012-13, three functions – Education, Health and Social Security and Welfare – comprised around 80 per cent of grants.
Issues

Limited competition

More than one third of grants selection processes are non-competitive in nature (Australian National Audit Office, 2012). Competitive grants can improve efficiency and innovation and encourage new programme providers. These benefits are unlikely to be realised where there is limited competition, ongoing rollover of grants or the allocation process does not encourage new entrants or limits the market.

The Australian National Audit Office has also noted the potential for ‘electoral advantage’ to arise, or be sought, from the making of grants.

Disparate approaches

While the Commonwealth Grant Guidelines establish the overarching requirements for grants administration, agencies largely determine their own practices including advertising, application, agreement and reporting processes. Disparate grant administration practices within and across agencies can generate red tape and costs for recipients and government. While a single approach is unlikely to suit all grants, there is capacity to improve consistency according to types or categories of grants.

UnitingCare Australia’s submission to the Commission notes that:

Multiple processes and requirements associated with government contracts, grants and funding managed by different Commonwealth departments and agencies, each with their own specific practices, are a critical issue for the UnitingCare network.
A lack of transparency

As noted above, there is currently no single, whole-of-government repository of information on grants. This reduces transparency and the quality of information available to government in decision-making.

In many cases, programme knowledge and expertise reside in the agency responsible for administering grants and they have the discretion to determine their own practices and approaches to risk management. This can lead to an ad hoc approach to programme development and poor design, which in turn can lead to the risk of fraud, outcomes not being achieved and waste. This is particularly evident where there are limited timeframes, lack of capacity and involvement of multiple entities.

Additionally, it is difficult at this time to ascertain whether organisations are the recipients of multiple grants and, with that, the total amount of support that the Commonwealth is providing to such organisations (see Box 10.17.1).

Combined, the Commonwealth may be providing very significant subsidies for particular services or outcomes without a good understanding of the level of subsidy provided and consequently value for money.

Box 10.17.1: Social and Community Services

In 2011-12, the Commonwealth provided over 5,000 individual grants to social and community service sector service providers valued in the order of $1.8 billion. A range of service providers benefited, including disability, mental health and family support programmes. Of the more than 3,000 service providers receiving grants in 2011-12, over 1,600 received more than one grant (over 750 received more than two grants). The Commission understands that some received over 50 individual grants.

A focus on acquittal

According to the Strategic Review most performance management and evaluation of grants focuses on ensuring the financial probity and effectiveness of grant spending. These are necessary under the FMA Act but, as recommended in the Strategic Review, can be informed by considering and adopting appropriate risk-based approaches, including the abolition of any need to provide receipts to support expenditure below a material threshold. This would reduce administrative burdens on recipients and administrators.

Often, processes tend to focus on acquittal rather than on outcomes and effectiveness.

Grants may not be the optimal mechanism

In some cases grants are being rolled over almost automatically for the same organisation each grant round. In other cases, grants are funding procurement-like activities. In both
cases grants may not be the most effective or efficient funding arrangement. In those cases where grants are not allocated on the basis of competition, it may be that other options may be more appropriate such as ongoing project funding, procurement or gifts.

**A weak case for Commonwealth involvement**

The Commission’s Terms of Reference ask it to identify, among other things, whether there remains a compelling case for activities to continue to be undertaken. Given the number of grant activities and the amount of expenditure, it is likely that grants are being delivered in areas outside of the Commonwealth’s core responsibilities, or where the States may be better placed to assess need, eligibility and outcomes of certain grant activities.

**Emerging approaches**

Governments here and around the world continually examine options to address these issues and new models are evolving to improve the outcomes and administration of grant programmes.

**A risk-based approach to grant making**

The *Commonwealth Grants Guidelines* advocate a risk-based approach to grant management:

> For low risk grants, where the likelihood of identified risks occurring is remote or the impact of the identified risk is minimal, the Guidelines stipulate that grant agreements should cover those risks that can be appropriately managed through the agreement and ensure that the grant recipient is not overburdened (Department of Finance and Deregulation, 2013).

**Improved whole-of-government reporting**

The Grants.gov.au initiative (Australian Government Grants System) announced in the 2013-14 Budget will provide whole-of-government data and can be expected to lead to efficiencies for agencies and recipients when it is operational in 2016. It is intended to provide a single point of reference for potential grant applicants to identify, register and apply for Commonwealth grants. It will also provide for consolidated reporting on granting activities and could encourage standardisation of application processes and forms.

**Broadbanding grant programmes**

There is potential to reduce administrative burden and compliance costs, by broadbanding grants programmes. The chief advantage of this approach is that it provides for greater flexibility to manage funding needs and priorities within the total pool of funds allocated (Box 10.17.2).
In practice, it takes time to bring grant programmes together because of, among other things, staggered grant terms and expectations regarding rollover of funding. Additional impetus, such as a requirement to address new priorities with fewer resources, may be needed to drive consolidation. Considerations when assessing the viability of consolidating grant programmes include:

- the nature of the client group (disparate groups with an interest in one grant programme would benefit less from broadbanding than groups which access a number of grant programmes);

- whether broadbanding is appropriate for grants which are routinely rolled over (and whether this is considered optimal); and

- the degree to which broadbanding pushes decision making down a level which may be further removed from the government of the day’s priorities.

Thoroughness is required upfront to address these issues and maximise the benefits of this approach. Additionally, while broadbanding of grants may be used to provide flexibility and efficiency, transparency and evaluation of grant programmes remains essential.

**Participatory models**

‘Participatory grant making’ provides a mechanism for engaging relatively small communities in deciding the allocation of grant funding. Under this model, public events are held to decide the criteria for choosing between applications, which applications should be funded and how much money they should receive. The Strategic Review found that successful models seem to work when programmes are located within geographically defined regions, where the programme aims to increase the involvement of either the local
community or sectors within the community, and when the process is transparent and seen to be fair to all (Australian Government, 2008).

The Strategic Review concluded that participatory models may be an option worth exploring if the Commonwealth intends to continue offering discretionary grant programmes, which provide small amounts of funding to encourage community engagement and capacity.

**Payment for results and social impact bonds**

‘Payment for results’ grants are a growing area of interest in Australia and overseas, particularly in the United Kingdom. This model is intuitively attractive because the government does not pay for interventions if results are not achieved. However, there are a number of practical considerations including:

- the difficulty of, and costs associated with, measuring outcomes;
- the difficulty of attributing causality, particularly for complex social problems and in the absence of benchmarking and control groups; and
- the capacity of organisations, particularly smaller not-for-profits, to cover the costs of delivering an intervention until they can demonstrate agreed outcomes have been achieved.

In both the United Kingdom and New South Wales, governments are trialing ‘social impact/benefit bonds’ as a means of addressing this last issue by providing up-front finance from a third party to service delivery organisations, on the basis of the government’s commitment to pay for the delivery of results. These ‘bonds’, however, come not only with their own opportunities, but also challenges. These challenges include measurement and causality issues (similar to those for payment for result models), as well as the need to consider a range of risks and regulatory arrangements.

**Potential areas for reform**

**Improving grant administration and reporting**

There are opportunities to improve grants administration by building on the work already underway to implement Grants.gov.au as the mandatory whole-of-Commonwealth-Government grant application lodgment system by complementing it with a mandatory register of grants programmes. This would significantly improve transparency and the information available to decision makers. It could also reduce administrative and search costs for both government and stakeholders.

This should be complemented by measures to move towards an underlying whole-of-government grants management system, including common application and
reporting templates and the promotion of the professionalisation of grant contract management. This would also help to reduce administrative costs and improve outcomes.

Reducing red tape

Red tape and other administrative costs could be further reduced by requiring the use of standard contracts, as far as is practicable. For projects or activities where longer-term grant funding is considered optimal, consideration should also be given to longer-term contracts which would reduce the number of times organisations are required to reapply for funding. It would also provide them with greater certainty. Where contract extension options exist, a minimum of six months’ notice to grant recipients should be provided about whether the grant will cease or be extended. There are currently examples of much shorter notice periods being given which can make it difficult for organisations to consider and adapt to changed funding circumstances.

Red tape could also be further reduced for grant recipients by applying contemporary risk-based approaches to grant management, particularly balancing the need for responsible financial reporting and accountability against reporting burdens placed on grant recipients.

Reduced grant expenditure

The Commission proposes the cessation or merging of the grant programmes at Attachment 10.17.2. Given the large number of grants programmes, a sample of grant programmes has been identified for cessation or streamlining. These proposals generally reflect the outcomes of sectoral analysis undertaken during the Commission’s Review, as departments submitted very few grant programmes for cessation, streamlining or review.

Streamlining grant programmes

Previous reviews of grant programmes and administration in the Commonwealth, Queensland and Western Australian Governments have a common theme of streamlining grant programmes to improve transparency, coherence and clarity of objectives, as well as reducing administrative costs.

The Queensland Government Commission of Audit recommended that grant programmes across government be rationalised and consolidated, with a view to:

- reducing the piecemeal and fragmented nature of current programmes;
- adopting a consistent definition and treatment of grants across government, separate from subsidies, service level agreements and other forms of payment for services rendered;
- ensuring the efficiency and effectiveness of grant programmes in achieving stated objectives;
providing a more informed basis for future decisions on the nature, range and scope of grants proposed to be made, and the organisations receiving these grants; and

achieving better value for money for the large expenditure made on grants (Queensland Government, 2013).

The Western Australian Government’s Economic Audit Committee recommended streamlining the administration of grants by replacing the existing range of grants and grant programmes with a smaller number of broadbanded grant programmes (Western Australian Government, 2009).

The Strategic Review recommended:

grant-administering agencies be encouraged to review the structure of their grant programmes with a view to reducing the overall number of programmes, achieving greater coherence and clarity of objectives, improving transparency, reducing but sharpening the range of performance indicators, and achieving administrative savings (Australian Government, 2008).

In the United Kingdom, grant consolidation was coupled with a reduction in funding to drive grant programme integration and the reallocation of funds to the highest priorities (United Kingdom Government, 2010). A similar model could be applied in Australia.

The Commission suggests that in the short term, all grant programmes that are less than $5 million over the forward estimates could be consolidated within portfolio departments with funding reduced by 15 per cent by 2015-16 to drive efficiencies.

The merits of a more comprehensive assessment of other grant programmes over $5 million could better ensure value for money and alignment with government priorities. Such an assessment could determine whether each grant programme should be:

- consolidated with other grants through broadbanding programmes;
- delivered through a more relevant mechanism (such as procurement);
- transferred to the States; or
- ceased.

A more comprehensive assessment could be based on consideration:

i. of the individual programmes against the Department of Finance’s Expenditure Review Principles (Department of Finance, 2013) (see Attachment 10.17.3);

ii. of opportunities to cluster and consolidate similar programmes (for example, research, Indigenous or family and community support programmes); and/or

iii. against portfolio or sector specific principles.
A comprehensive assessment of this type would provide the opportunity for systemic consideration of options to consolidate grants, both vertically (within portfolios) and horizontally (across government), with resultant reductions in administrative burdens and compliance costs.

The Australian National Audit Office’s submission to the Commission notes that:

> From a policy perspective, the increasing number, value and diversity of grants coupled with the cost of administration for both the Commonwealth and grant recipients, suggests there would be tangible benefits in a periodic assessment of the range of grants programs to provide confidence that they are consistent with the Government’s strategic objectives and being managed efficiently (Australian National Audit Office, 2013).

There may be opportunities to broadband a portion of the more than 80 grant programme activities administered by the Department of Social Services to deliver administrative savings, reduce red tape for providers and promote better outcomes. This could include, for example, the creation of an ‘early intervention family and community support’ broadband, with the flexibility to support communities to meet the changing needs of families and individuals. It could link with, but not duplicate, secondary and tertiary services managed by the States.

There may also be opportunities to consolidate a number of specialised grant programmes in the arts space into a single arts grants programme. This could help to minimise duplication and allow for a more strategic targeting of funding to particular individuals and organisations.

Care would need to be taken to ensure such consolidations bring together only those programmes where synergies can be found and that grants continue to be the most efficient and effective means of achieving the policy objective. Steps also would need to be taken to ensure transparency over the allocation of funds is not lost.

**Reducing the proliferation of new grant programmes**

To reduce the proliferation of grant programmes, the Commission recommends a more rigorous grant assessment process at the approval stage that requires the proposing minister to demonstrate:

i. the need for the new grant;

ii. that a grant is the most appropriate mechanism;

iii. its relationship with existing programmes;

iv. why it cannot be accommodated within existing programmes; and
v. whether a payment for results or participatory model is appropriate or could be trialled.

This would put the onus on ministers and departments to consider whether a grant programme is the most appropriate vehicle and, if so, whether an existing programme could be used or augmented in the first instance. This should help to ensure grant programmes are not established where another approach (e.g. procurement) is more appropriate. Box 10.17.5 provides further details on implementing the Commission’s recommendations on grants programmes.

**Box 10.17.5 Implementation notes**

To implement its recommendations on grants programmes, the Commission considers that the following actions should be implemented to deliver the desired outcomes.

In relation to transparency:

i. the central register of all grants programmes should be managed by the Department of Finance, with departments and agencies required to keep information up-to-date; and

ii. Grants.gov.au, which will publish Commonwealth grants awarded, should be implemented as soon as possible and, similar to AusTender (the Commonwealth’s procurement information system), should also provide the whole-of-government grant application lodgment system. Use of Grants.gov.au should be mandatory.

In relation to reducing red tape, departments and agencies should:

i. use standard contracts, as far as possible;

ii. provide greater certainty through longer-term funding for ongoing grant programmes (three to five years), where appropriate;

iii. where contract extension options exist, requiring a minimum of six months’ notice to grant recipients about whether the grant will cease or be extended;

iv. continue to move to a whole-of-government grants management system; and

v. promote professionalisation of grant contract management.

In relation to addressing the proliferation of new grant programmes, the Government should require, at the approval stage, that the proposing minister demonstrate that a grant programme is the most appropriate vehicle to achieve the objective by justifying:

i. the need for the new grant;

ii. that a grant is the most appropriate mechanism;
iii. its relationship with existing programmes;
iv. why it cannot be accommodated within existing programmes; and
v. whether a payment for results or participatory model is appropriate or could be trialed.

References


Western Australia Government 2009, *Putting the Public First Partnering with the Community and Business to Deliver Outcomes*, Economic Audit Committee, Perth.
Financial Management Act Regulations – definition of grants

Payments to the States and local governments, and scholarships or ‘grants’ made by Commonwealth Authorities and Companies Act 1997 entities which are funded by bequests, donations or commercial activities (rather than public funds) are not covered by the Commonwealth Grants Guidelines.

FMA Regulation 3A(1) defines a ‘grant’ as an arrangement for the provision of financial assistance by the Commonwealth:

(a) under which money is to be paid to a recipient other than the Commonwealth; and

(b) which is intended to assist the recipient to achieve its goals; and

(c) which is intended to promote one or more of the Commonwealth’s policy objectives; and

(d) under which the recipient is required to act in accordance with any terms or conditions specified in the agreement.

The FMA Regulation 3A(2) also provides that the following arrangements are taken not to be grants:

a) the procurement of property or services by an agency, including the procurement of the delivery of a service by a third party on behalf of an agency, these arrangements are covered by the Commonwealth Procurement Rules (CPRs);

b) an act of grace payment approved under section 33 of the FMA Act;

c) a payment of compensation made under:

a. an arrangement relating to defective administration; or

b. an arrangement relating to employment conditions; or

c. an arrangement established by legislation;

d) a payment to a person of a benefit or an entitlement established by legislation;

e) a tax concession or offset;

f) an investment or loan;

g) financial assistance provided to a State in accordance with section 96 of the Australian Constitution;
h) a payment to a State or a Territory that is made for the purposes of the Federal Financial Relations Act 2009, including the following:
   a. General Revenue Assistance; or
   b. Other General Revenue Assistance; or
   c. National Specific Purpose Payments; or
   d. National Partnership Payments;

i) a payment that is made for the purposes of the Local Government (Financial Assistance) Act 1995;

j) a payment that is made for the purposes of the Schools Assistance Act 2008;

k) a payment that is made for the purposes of the Higher Education Support Act 2003; and

l) a payment of assistance for the purposes of Australia’s international development assistance programme, which is treated by the Commonwealth as official development assistance.
## List of grants for abolition or merging

<table>
<thead>
<tr>
<th>Grant Programme</th>
<th>Recommendation</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export Market Development Grants</td>
<td>Abolish</td>
<td>Rationale provided in the Industry Assistance section of the Report and Appendix.</td>
</tr>
<tr>
<td>Asian Century Business Engagement Plan Grants</td>
<td>Abolish</td>
<td>Rationale provided in the Industry Assistance section of the Report and Appendix.</td>
</tr>
<tr>
<td>Rural Financial Counselling Service</td>
<td>Abolish</td>
<td>Rationale provided in the Industry Assistance section of the Report and Appendix.</td>
</tr>
<tr>
<td>Enterprise Connect Innovation Centres</td>
<td>Abolish</td>
<td>Rationale provided in the Industry Assistance section of the Report and Appendix.</td>
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<td>Industry Innovation Precincts</td>
<td>Abolish</td>
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<td>Collaborative Research</td>
<td>Abolish</td>
<td>Rationale provided in the Research and Development section of the Report and Appendix.</td>
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<td>Industry Collaboration Fund</td>
<td>Abolish</td>
<td>Rationale provided in the Research and Development section of the Report.</td>
</tr>
<tr>
<td>Innovation Investment Fund</td>
<td>Abolish</td>
<td>Rationale provided in the Research and Development section of the Report and Appendix.</td>
</tr>
<tr>
<td>Tourism Quality Grants</td>
<td>Abolish</td>
<td>Rationale provided in the Industry Assistance section of the Report and Appendix.</td>
</tr>
<tr>
<td>Small Business Advisory Services Programme</td>
<td>Abolish</td>
<td>Rationale provided in the Industry Assistance section of the Report and Appendix.</td>
</tr>
<tr>
<td>Commercialisation Australia</td>
<td>Abolish</td>
<td>Rationale provided in the Industry Assistance section of the Report and Appendix.</td>
</tr>
<tr>
<td>Enterprise Solutions Programme – Establishment</td>
<td>Abolish</td>
<td>Rationale provided in the Industry Assistance section of the Report and Appendix.</td>
</tr>
<tr>
<td>Voluntary Environment, Sustainability and Heritage Organisations</td>
<td>Abolish</td>
<td>The programme substantially overlaps with the objectives and outcomes of the National Landcare Programme. Duplication of programmes is an inefficient use of public funds.</td>
</tr>
<tr>
<td>National Environmental Research Programme</td>
<td>Merge</td>
<td>Merging the programme into the Australian Research Council would reduce duplication of administrative support and processes, reducing costs to both the Commonwealth and researchers applying for funds.</td>
</tr>
<tr>
<td>Suburban Jobs Programme</td>
<td>Abolish</td>
<td>Urban planning is the responsibility of state and local governments, which are better placed to respond to local conditions and pressures. There is little justification for Commonwealth intervention in this area.</td>
</tr>
<tr>
<td>ABRS National Taxonomy Research Grant</td>
<td>Merge</td>
<td>Merging the programme into the Australian Research Council would reduce duplication of administrative support and processes, reducing costs to both the Commonwealth and researchers applying for funds.</td>
</tr>
<tr>
<td>Grant Programme</td>
<td>Recommendation</td>
<td>Rationale</td>
</tr>
<tr>
<td>-----------------------------------------</td>
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<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Community Broadcasting programme</td>
<td>Abolish</td>
<td>The Commonwealth Government already provides over $1 billion per annum to the operation of the public broadcasters. There is a limited rationale for the Commonwealth to also subsidise community radio services. Continued government funding of this area does not meet the Report’s principles of good governance.</td>
</tr>
<tr>
<td>National School Chaplaincy and</td>
<td>Abolish</td>
<td>The States have Constitutional responsibility for schools and as operators of school systems have much greater influence over day-to-day schooling policy. Consistent with the Commission’s principles of good government and recommendations on reforming school funding, there is a weak rationale for the Commonwealth to be involved in such detailed programme provision in schools.</td>
</tr>
<tr>
<td>Student Welfare Programme</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parliament and Civics Education Rebate</td>
<td>Abolish</td>
<td>The States have Constitutional responsibility for schools and as operators of school systems have much greater influence over day-to-day schooling policy. Consistent with the Commission’s principles of good government and recommendations on reforming school funding, there is a weak rationale for the Commonwealth to be involved in such detailed programme provision in schools.</td>
</tr>
<tr>
<td>Creative Young Stars Programme</td>
<td>Abolish</td>
<td>The States have Constitutional responsibility for schools and as operators of school systems have much greater influence over day-to-day schooling policy. Consistent with the Commission’s principles of good government and recommendations on reforming school funding, there is a weak rationale for the Commonwealth to be involved in such detailed programme provision in schools.</td>
</tr>
</tbody>
</table>

Source: National Commission of Audit.
Expenditure Review Principles

1) Appropriateness

a. Activity is directed to areas where there is a role for government to fill a gap left by the market:

   i. social inclusion – government activity should address social inequity by redistributing resources in ways that improve opportunity and support for individuals, families and communities, allowing them to participate in the economy and society consistent with the government’s social inclusion agenda; or

   ii. market failure – government activity should address market failures by improving social and economic welfare through improved resource allocation, where the benefits of government intervention outweigh its cost (including in the provision of public goods, for example, in environmental sustainability, national security and defence); and

b. Activity is undertaken by the most appropriate level of Australian government – whether expenditure is better undertaken by the government or a lower level of government.

2) Effectiveness

a. Activities to have clear and consistent objectives and be effective in achieving their objectives and represent value for money for the expenditure of taxpayer funds; and

b. Activity involving tax expenditures or financial instruments (for example, guarantees, loans or investments) to demonstrate why an outlay programme is likely to be less effective in achieving the activity’s objective(s).

3) Efficiency

a. Government programmes to be administered and delivered in the most efficient way achievable, taking into account both short and long term economic and fiscal consequences;

b. Activity targeting market failure in one market to not unnecessarily reduce economic efficiency in other markets; and

c. Consideration to be given as to whether part or all of the cost of a Government activity should be recouped directly from the beneficiaries of that activity.

4) Integration
a. Government agencies to be able to work together effectively to consistently deliver the Government’s policy objectives within clearly defined lines of responsibility.

5) Performance assessment

a. Government activity to be subject to robust performance assessment and measurement.

6) Strategic Policy Alignment

a. Proposals to address whether the activity is consistent with the Government’s strategic long term policy priorities, in particular to areas that help sustain economic growth through improved productivity and participation.
10.18 Rationalising and streamlining agencies and boards

Background

Commonwealth bodies are those Commonwealth entities that draw on public funds and any subsidiary bodies. They include departments, agencies, boards, committees and councils. Commonwealth bodies generally span four functions: policy and research; service delivery; cross-jurisdictional or cross-sectoral consultation on policy or regulation; and expert advice to government.

In 2009, the Department of Finance and Deregulation identified 932 Commonwealth bodies and governance relationships (Department of Finance and Deregulation, 2009).

In November 2013, the Government announced that it would abolish 12 non-statutory bodies, amalgamate four bodies with other non-statutory bodies to simplify activities and absorb the core functions of five bodies within the relevant department to reduce duplication.

Current structure

There are currently 194 Commonwealth bodies operating under the Financial Management and Accountability Act 1997 (FMA Act) and the Commonwealth Authorities and Companies Act 1997 (CAC Act) (Department of Finance, 2014). This includes:

- 18 Departments of State;
- 87 prescribed agencies;
- four Departments of the Parliament;
- 65 authorities under the CAC Act; and
- 20 Commonwealth companies under the CAC Act.

This Report refers to these as ‘principal bodies’ and they are listed in Attachment 10.18.1.

In addition, there are a number of other Commonwealth bodies recognised in legislation, some of which exist within departments and agencies, as well as a large number of boards, councils and committees established on an administrative basis.

In the absence of an authoritative and up-to-date central repository of information on all Commonwealth bodies, the Commission Secretariat wrote to Commonwealth department heads requesting advice on bodies within their portfolios. Responses reported over 800 bodies, with the significant majority being either a board or committee in itself, or having one or more of its own boards or committees. In its deliberations, the Commission
has identified a number of additional bodies, taking the total number of Commonwealth bodies to around 900.

**Rationale for government intervention**

Commonwealth bodies play an important role in discharging Commonwealth responsibilities and bringing together expertise and resources to formulate and deliver policies and programmes.

Current arrangements reflect a range of historic conventions and decisions including: the division of powers between the Commonwealth and State governments; the separation of powers between the legislature, the executive and the judiciary under the Constitution; as well as the decisions and priorities of previous governments and ministers.

There are costs associated with complex and inefficient governance structures. Simplifying the organisation of government – at the whole-of-government level, within portfolios and within individual organisations – can significantly improve the efficiency and effectiveness of government.

**Trends**

The number of Commonwealth bodies has remained relatively constant over the last decade. However, apart from the 2003 *Review of the Corporate Governance of Statutory Authorities and Office Holders* and more recent decisions to abolish or rationalise a number of non-statutory bodies, there has been little systematic streamlining, scrutiny or review of Commonwealth bodies and their associated costs.

**Drivers**

Key drivers for the creation of Commonwealth bodies include:

- new government priorities – new priorities are often accompanied by new bodies, to provide profile and focus efforts;
- a perceived need for independence – including to distance the government from the perception of regulatory intrusion;
- a desire to bring resources, often across policy silos, together to tackle a particular issue; and
- a predilection for wide consultation, whether on specific issues or broader long-term issues, such as those related to public health.
In some cases a new body may be an effective governance structure at the time, but can have become ineffective or less efficient as government priorities, the machinery of government or stakeholder needs change.

**Issues**

The Commission considers that there are too many government bodies in Australia. This leads to duplication and overlap, unnecessary complexity, a lack of accountability, the potential for uncoordinated advice and avoidable costs.

The Commission is concerned that the large number of government bodies has the potential for the proper responsibilities, in relation to policy direction and decision-making, of not only ministers, but also their departments, to be diminished (whether real or perceived). This can result in divergences between the policy intent of the government and actual outcomes.

In addition, as the number of separate entities increases, the difficulty of monitoring and overseeing those entities increases, diminishing the ability to determine whether taxpayers are receiving value-for-money.

Lines of accountability for both ministers and departments are crucial to supporting responsible government and ensuring the implementation of government policy as conceived. Accountability can be expected to be much clearer if government bodies are rationalised and streamlined.

From the Commonwealth’s perspective, the costs associated with Commonwealth bodies are significant. These include governance and reporting costs (such as those associated with developing and maintaining business plans, human resource management systems, audit and risk arrangements, disaster recovery and business continuity plans), as well as accommodation costs. For example, the Commission is advised that governance and related costs for FMA and CAC Act bodies, while differing between bodies, can be as much as $1 million per year per body.

These costs are also likely to be disproportionately high for smaller Commonwealth bodies. For example, although based on a small sample, a recent report by PricewaterhouseCoopers Australia (PwC) found that corporate service and workforce costs represented almost double the percentage of costs for smaller than larger Commonwealth bodies (PwC Australia, 2013). Around one third of the 174 bodies listed in the ‘Estimates of average staffing level (ASL) in the Australian Government general government sector’ have fewer than 100 employees (Department of Finance, 2013). Given the large number of relatively small Commonwealth bodies, governance costs associated with Commonwealth bodies are likely to be unnecessarily high.
From a stakeholder perspective, citizens, businesses and community organisations can also incur substantial costs in dealing with multiple government bodies. For example, providing duplicate or slightly differentiated information to multiple bodies is significantly more costly than providing a single data set to a single Commonwealth body.

As noted above, a desire to establish ‘independence’ is a frequent driver for the creation of new Commonwealth bodies. Often, consideration of whether this provides reasonable grounds to justify a new body does not differentiate between independence of decision making, the provision of independent advice to government or administrative independence. Independent decision-making and advice responsibilities often do not justify the costs of the many governance and reporting responsibilities associated with administrative independence.

Writing with respect to the Attorney-General’s Portfolio, the Strategic Review of Small and Medium Agencies in the Attorney-General’s Portfolio – Report to the Australian Government (Department of Finance, 2012) noted that:

*While the Constitutional separation of powers is the only immutable requirement for independence, a prominent feature of the Attorney-General’s portfolio and many other Commonwealth portfolios is the proliferation of independent agencies outside the Executive arm and the portfolio Department of State. Given that there is no compelling legal necessity for this separation, it is pertinent to consider the various justifications that may exist for creating and maintaining each of these separate non-Court agencies.*

The Commission concurs and considers that there is a need to improve the balance between independence and the operational autonomy that the creation of a new body can create, with the associated costs and complexity.

Prima facie, it is the Commission’s view that departments of state, which are clearly accountable to ministers, should be the primary site of policy formulation, evaluation and analysis, with corporate services provided by the portfolio department to other bodies within the portfolio wherever practicable.

The United Kingdom has undertaken a process of reform of government bodies, which is summarised in Box 10.18.1.
The Commission has established six propositions, in addition to the Principles of Good Government outlined at the beginning of the Phase One Report, to guide the rationalisation of Commonwealth bodies:

- the Commonwealth should consider withdrawing from activities that are outside its areas of core responsibilities;

- portfolio departments should undertake policy work, while agencies should deliver programmes and services;

- as far as practicable, bodies should be incorporated into the portfolio department;

- organisations and bodies should capture economies of scale where possible;

- bodies should have clear accountability and focus, with defined roles and performance management measures; and

- the need for independence alone does not justify the establishment of a new operational body.

In addition to reducing costs, rationalising and streamlining government bodies, particularly through consolidation into departments, provides an opportunity to rebuild the lines of accountability to both departments and ministers. This is important in supporting responsible government and ensuring the successful implementation of government policy.

**Potential areas for reform**

**Reducing the number of Commonwealth bodies**

To reduce complexity and costs and improve the efficiency and effectiveness of government, the Commission recommends streamlining and reducing the number of existing principal bodies as set out in Table 10.18.1.
The 99 bodies identified as warranting action represent 51 per cent of the existing principal bodies. These recommendations are described in more detail below.

The Commission recognises that further investigation or consultation may be required regarding these suggested rationalisations. However, where rationalisations and consolidations are recommended, the Commission expects impacted bodies, as far as practicable, to actively identify and pursue opportunities to streamline operations and take advantage of economies of scale.

**Abolitions**

The Commission has identified one agency prescribed under the FMA Act and six CAC Act bodies that should be abolished.

- Australian Institute for Teaching and School Leadership Limited is responsible for enhancing the quality of teaching and school leadership through developing standards, recognising teacher excellence, providing professional development opportunities and supporting the teaching profession. Commonwealth involvement is not warranted as schools are primarily a responsibility of the States.

- The Australian Reinsurance Pool Corporation was established in response to the withdrawal of terrorism insurance cover by insurance companies and administers the terrorism reinsurance scheme. With continued recovery in the insurance markets, there is scope for a gradual Commonwealth exit over the coming years.

- The Clean Energy Finance Corporation is a legislated fund dedicated to investing in clean energy. Legislation is in the Parliament to abolish this corporation, as part of the carbon price repeal bills.

- The Climate Change Authority provides independent advice on the operation of the carbon tax, emissions reduction targets, caps and trajectories and other climate
change initiatives. Legislation is in the Parliament to abolish this authority as part of the carbon price repeal bills.

- The Export Finance and Insurance Corporation assists Australian businesses to secure finance in order to protect export trade or overseas investments when the private market lacks capacity or willingness, filling the ‘market gap’ on a commercial basis. With its activities largely directed to a small number of large firms and questions over the extent of market failure, it is not clear that the government needs to provide concessional loans and other financial assistance to firms (see Section 10.1 of the Appendix).

- Innovation Investment Funds Investments Pty Ltd provides direct subsidies to Australia’s venture capital industry. It co-invests with private sector investors in venture capital funds to grow early-stage companies to commercialise the outcomes of Australia’s research capability. In the same way other industry-specific assistance is recommended for abolition to avoid distorting resource decisions across the economy, so should this assistance to the venture capital sector (see Section 10.1 of the Appendix).

- Low Carbon Australia Limited is responsible for administration of the Energy Efficiency Program and the National Carbon Offset Standard Carbon Neutral Program. In May 2013, the activities of this body transferred to the Clean Energy Finance Corporation which is to be abolished as part of the carbon tax repeal bills.

**Large mergers**

A number of large mergers are recommended. These include a:

- new integrated border services agency, to be known as Border Control Australia;
- consolidated crime intelligence capability;
- new consolidated Civilian Tribunal;
- new National Health and Medical Research Institute
- new Health Productivity and Performance Commission;
- single Commonwealth Ombudsman; and
- single Arts Council.
Consolidation of border protection services

Border protection and security is integral to national security. The seamless flow of people and cargo across Australia’s borders is also critical to the country’s success as an open, trading nation.

Protecting and securing our borders requires a range of functions across the border continuum as well as international cooperation, intelligence gathering, maritime patrols and inspections and identity checks. Three principal agencies now perform these functions - the Department of Immigration and Border Protection, Australian Customs and Border Protection Service and biosecurity operations of the Department of Agriculture.

These agencies employ around 17,000 staff and cost around $7.8 billion to run (Department of Finance, 2013; Department of Agriculture, Fisheries and Forestry, 2013). The border agencies also collect in excess of $11 billion of revenue through visa application charges, the passenger movement charge and import processing charges (Attorney-General’s Department, 2013; Department of Immigration and Citizenship, 2013).

Australia’s border control arrangements should be highly effective and efficient. Yet authority and accountability for border control is fragmented across agencies, portfolios and ministers.

Given recent trends and developments (including in technology) a more effective approach to border management will require a series of integrated activities both beyond and within the border. A continued effort to improve intelligence-led, risk-based approaches will ensure better targeting of border management to deal with material threats while the vast majority of people and cargo, which are low risk, are easily moved.

Continued growth in electronic lodgement and on-line processing to reduce transaction costs and improve information capture is essential. More efficient collaboration, integration and communication between stakeholders along with early interventions upstream will enhance Australia’s capacity to manage its borders.

The existing multiple border agency and portfolio arrangements do not provide the optimal structure to pursue these objectives.

The Commission suggests a single, integrated border agency, to be known as Border Control Australia, be considered. This would combine border control functions of the Australian Customs and Border Protection Service and the Department of Immigration and Border Protection in a single agency.

Responsibility for all policy and regulatory functions relating to immigration and customs would be retained within the Department of Immigration and Border Protection. Border Control Australia would be responsible for cargo and services at the border as well as other
related functions, including processing visa applications and running the immigration
detention network.

The biosecurity functions of the Department of Agriculture would be retained separately for
now. This recognises the role of biosecurity is broader than enforcing quarantine law at the
border, with the Commonwealth having some 2,500 ‘post-entry’ quarantine facilities and
approved premises (Department of Agriculture, 2013b). It also works closely with the States,
industry, business and technical experts to monitor biosecurity risks, manage incursions and
ensure exports meet the quarantine standards required by export destination countries.

A consolidation of Australia’s border services has the potential to generate significant
savings by removing duplication, better integrating and improving operational systems and
practices, reducing staff, consolidating back office functions and rationalising property.
Savings could also come from greater efficiency in visa processing, as well as through more
efficient contracting and better targeting of the services provided to illegal maritime
arrivals.

**Consolidated crime intelligence capability**

Criminal law enforcement is increasingly dependent on strong intelligence collection and
analysis, including sophisticated financial intelligence and an ability to track the flow of
money. Intelligence enables law enforcement agencies to target areas of greatest risk and
cooperate with the private sector to identify and address vulnerabilities.

Over time, the Commonwealth has created a number of separate national criminal law
enforcement and intelligence agencies to serve different needs. The Australian Federal
Police is the Commonwealth’s primary criminal law enforcement body. A number of other
agencies have limited criminal law enforcement powers in specific areas, such as the
Australian Customs and Border Protection Service.

Various agencies are also responsible for crime intelligence and information matters,
including the Australian Crime Commission, CrimTrac, the Australian Transaction Reports
and Analysis Centre (AUSTRAC) and the Australian Institute of Criminology.

While these agencies are working effectively together, the Commission considers that
CrimTrac should be merged into the Australian Crime Commission to harness their collective
resources. A consolidated crime intelligence agency would also better support law
enforcement operations by the Australian Federal Police and other Commonwealth and
State agencies.

The Commission also considers that AUSTRAC should be reviewed to determine if it should
also form part of the Australian Crime Commission, while relocating the Australian Institute
of Criminology to a university should be considered.
The Australian Federal Police and the Australian Crime Commission should remain separate agencies, to ensure that the latter maintains its national criminal intelligence role, with a focus on strategic risks and the continued involvement of State and Territory law enforcement partners in its governance.

In addition, the Australian Crime Commission has the ability to use special intelligence gathering and coercive powers which should remain separate from the Australian Federal Police.

Implementation of this recommendation will require consultation with the States. It is critical their interests are reflected, including through the continued representation of State police commissioners on the Australian Crime Commission board.

**Consolidation of health bodies**

There are 22 bodies within the Health Portfolio, along with numerous associated boards, councils and committees (see Chart 10.18.1).

The Commission proposes three broad actions to address the number of bodies in the Health Portfolio.

- Establish a single National Health and Medical Research Institute.
- Establish a new Health Productivity and Performance Commission.
- Consolidate a number of remaining bodies into the Department of Health.
The Commission recognises that many elements of Australia’s health system are underpinned by cooperation between the Commonwealth and the States. As such some of the approaches recommended below may require consultation with the States (see also Sections 9.3 and 9.4 of the Appendix Volume 1 on healthcare and the Pharmaceutical Benefits Scheme respectively).

A new National Health and Medical Research Institute

The creation of a new national health institute flagship would bring together the National Health and Medical Research Council, Cancer Australia and the research budget of the Australian National Preventative Health Agency.

The National Health and Medical Research Council is Australia’s peak body for: supporting health and medical research; developing health advice for the Australian community, health professionals and governments; and providing advice on ethical behaviour in health care and in the conduct of health and medical research. It draws upon the resources of all components of the health system, including governments, medical practitioners, nurses and allied health professionals, researchers, teaching and research institutions, public and private programme managers, service administrators, community health organisations, social health researchers and consumers.

Cancer Australia was established in 2006 to benefit all Australians affected by cancer, as well as their families and carers. Cancer Australia works to reduce the impact of cancer and improve the well-being of those diagnosed by ensuring that a firm evidence base informs cancer prevention, screening, diagnosis, treatment and supportive care.

Cancer Australia works collaboratively and liaises with a wide range of groups, including those affected by cancer, key stakeholders and service providers with an interest in cancer control. The agency also focuses on populations who experience poorer health outcomes, including Aboriginal and Torres Strait Islander peoples and people living in rural and remote Australia. As the lead national cancer control agency, Cancer Australia also makes recommendations to the Commonwealth about cancer policy and priorities.

The Australian National Preventive Health Agency was established at the beginning of 2011 to strengthen Australia’s investment and infrastructure in preventive health. It provides policy leadership and establishes partnerships with Commonwealth and State governments, community health promotion organisations, industry and primary health care providers.

Establishing a new Health and Medical Research Institute would drive alignment across all research areas and fully embed health and medical research within the health system. This would improve patient outcomes and deliver efficiencies by improving the evidence base available to clinicians and patients.
A new Health Productivity and Performance Commission

Collecting data and reporting on health outcomes is undertaken by a range of bodies at present. The Commission considers that improved data collection, analysis and information can be generated by establishing a Health Productivity and Performance Commission to inform decisions on health-related measures.

The Australian Institute of Health and Welfare (AIHW) was set up to provide reliable, regular and relevant information and statistics on Australia's health and welfare. Its aim is to improve the health and wellbeing of Australians through better health and welfare information and statistics. AIHW collects and reports information on a wide range of topics and issues, ranging from health and welfare expenditure, hospitals, disease and injury and mental health, to ageing, homelessness, disability and child protection. Its reports inform government and community discussions and policy decisions on health, housing and community services matters.

The Australian National Preventive Health Agency is described above.

The Australian Commission on Safety and Quality in Health Care was created in 2006 to lead and coordinate health care safety and quality improvements in Australia. It is funded by all governments on a cost sharing basis.

The Independent Hospital Pricing Authority was established in 2011 as part of the National Health Reform Agreement, which sets out the intention of the Commonwealth and the States to work in partnership to improve health outcomes for all Australians. The authority is charged with determining the National Efficient Price for public hospital services, allowing for the national introduction of activity based funding.

The National Health Performance Authority contributes to transparent and accountable health care services in Australia, including through the provision of independent performance monitoring and reporting, the formulation of performance indicators and conducting and evaluating research.

The National Health Funding Body provides transparent and efficient administration of Commonwealth and State funding of the Australian public hospital system and supports the obligations and responsibilities of the Administrator of the National Health Funding Pool.

The National Mental Health Commission reports, advises and collaborates to help transform systems and promote change, so that all Australians achieve the best possible mental health and wellbeing. It produces an annual Report Card on Mental Health and Suicide Prevention that informs Australians of where we are doing well and where we need to do better in mental health. The objective of the report card is to give honest and independent advice on where and how Australia can better support people with experience of mental health difficulties, their families and support people.
The Private Health Insurance Administration Council (PHIAC) is the prudential regulator of Australia’s private health insurance industry. It is a statutory corporation of the Commonwealth, established in 1989. PHIAC’s central responsibility is to protect consumers of private health insurance by ensuring an industry which is competitive, efficient and financially sound.

A new Health Productivity and Performance Commission could be established and be responsible for coordinating, reporting and driving performance across Australia’s healthcare system. This would include identifying innovative options to increase efficiency across the sector and publicly reporting health performance statistics and outcomes.

The new Commission would be formed through a merger of the relevant functions of the bodies described above. Corporate functions should be supplied by the Department of Health.

**Other bodies in the Health Portfolio**

The Commission also recommends five bodies be considered for consolidation into the Department of Health. These are the:

- Australian Organ and Tissue Donation and Transplantation Authority and National Blood Authority, which could then be brought together within the Department to harness expertise.

- General Practice Education and Training Ltd and Health Workforce Australia, which could then be brought together within the Department as a clinical training unit.

- Professional Services Review scheme.

The Australian Organ and Tissue Donation and Transplantation Authority improves access to organ and tissue transplants, including through a nationally coordinated and consistent approach and system.

The National Blood Authority ensures access to a secure supply of safe and affordable blood products, including through national supply arrangements and coordination of best practice standards within agreed funding policies under the national blood arrangements.

The Commission recommends bringing together and consolidating within the Department the Australian Organ and Tissue Donation and Transplantation Authority and the National Blood Authority. This will bring together expertise and take advantage of economies of scale.

General Practice Education and Training Ltd provides improved quality and access to primary care across Australia, including through general practitioner vocational education and training for medical graduates.
Health Workforce Australia improves health workforce capacity, including through a national approach to workforce policy and planning across all health disciplines, which effectively integrates research, education and training.

The Commission recommends merging General Practice Education and Training Ltd and Health Workforce Australia and consolidating them into a new clinical training unit within the Department to bring together expertise and take advantage of economies of scale.

The Professional Services Review Scheme reduces risks to patients and costs to the Commonwealth of inappropriate clinical practice, including through investigating health services claimed under the Medicare and Pharmaceutical Benefits Schemes.

The Commission recommends consolidating the Scheme into the Department to provide opportunities for efficiencies and synergies.

In addition, the Private Health Insurance Ombudsman provides an independent service to help consumers with health insurance problems and enquiries. The Ombudsman deals with complaints from health fund members, health funds, private hospitals and medical practitioners.

The Commission recommends that the Ombudsman merge with other ombudsmen into a single Office of Commonwealth Ombudsmen, to deliver efficiencies, the sharing of expertise and more flexible case management approaches.

In addition, the Commission proposes that a new authority (the ‘PBS Entity’) be established in the Health Portfolio to manage the funding of new and currently listed medicines, negotiate prices for existing drugs and make decisions about de-listing drugs (see Section 9.4 of the Appendix Volume 1).

**Single civilian merits review tribunal**

The Commonwealth maintains four main bodies to review the merits of Commonwealth decisions: the Administrative Appeals Tribunal; the Social Security Appeals Tribunal; the Migration Review Tribunal and the Refugee Review Tribunal; and the Classification Review Board.

While these bodies have different responsibilities, funding models and structures, previous analysis points to the merits of a unified tribunal framework.

For example, the Administrative Appeals Tribunal’s submission to the Commission notes a 1995 report by the Administrative Review Council, *Better Decisions: Review of Commonwealth Merits Review Tribunals* (Administrative Review Council, 1995), which recommended ‘the establishment of a new tribunal... to replace the existing review tribunals’. The submission notes that the report in-principle concluded:
the preferable model is a unified tribunal framework which is able to address any need for special expertise or for arrangements to accommodate the requirements of particular types of party through: the use of well-considered and appropriate case management procedures; the appointment of appropriately qualified and experienced members by processes independent of the decision-makers subject to review; and where volume of cases or other factors warrant it, the establishment of divisions (including an appeals division if a second tier of merits review is considered appropriate).

Merging the resources of the Commonwealth’s civilian merits review tribunals can provide significant medium to long-term savings and better services. This is demonstrated by the successful establishment of amalgamated ‘super tribunals’ in State jurisdictions.

A single tribunal model would also provide the opportunity to reassess whether the cost of multiple layers of external merits review as a right is justified in a modern merits review framework, particularly given judicial review of all decisions is available in the courts.

The Commission proposes that Commonwealth civilian merits review tribunals should be amalgamated within the Administrative Appeals Tribunal.

The Commission does not propose the Veterans’ Review Board be included as it essentially operates as a division of the Department of Veterans’ Affairs and focuses on defence-related matters.

Given potential financial and cultural hurdles could impede the proposed consolidation of tribunals, amalgamation might be best undertaken incrementally.

**Other consolidations**

Using the propositions for government bodies as a reference, the Commission also recommends the following actions to reduce the number of government bodies.

**Ombudsman offices**

The Commonwealth has various ombudsman offices, including the: Commonwealth Ombudsman; Norfolk Island Ombudsman; Overseas Students Ombudsman; Immigration Ombudsman; Law Enforcement Ombudsman; Defence Force Ombudsman; Taxation Ombudsman; Postal Industry Ombudsman; Fair Work Ombudsman; and Private Health Insurance Ombudsman.

In addition, the Inspector-General of Taxation reports to government on the performance of Australian Taxation Office processes, identifying how to reduce the administrative burden for taxpayers.
A number of functions have already been consolidated into the Commonwealth Ombudsman’s office recognising the similarity of the underlying functions.

In light of this and in accordance with its propositions, the Commission considers the existing ombudsman offices and the Inspector General of Taxation should be amalgamated within the Office of the Commonwealth Ombudsman.

**Arts bodies**

Bringing together the Australia Council, Australian Business Arts Foundation Ltd, Screen Australia and Bundanon Trust into a single arts council will reduce administrative costs and support closer collaboration within the arts community. It will provide improved capacity for grant and procurement processes to be centrally and professionally managed. The Commission notes that the Bundanon Trust will likely need to be maintained within the new Arts Council to some degree, given the terms of a gift from the Boyd family.

The Australian Film, Television and Radio School could be transferred to a university or vocational education institution with an option for the Arts Council to fund scholarships. This is consistent with the principle that the Commonwealth should withdraw from activities outside its areas of core responsibility and which could be more efficiently and effectively undertaken by the private sector or another jurisdiction.

**Other consolidations by portfolio**

The Commission also recommends the following actions to reduce the number of government bodies.

**Agriculture**

The Grape and Wine Research and Development Corporation commissions and manages government and industry investment in research and development to improve the productivity, profitability, competitiveness and sustainability of their industries. The Wine Australia Corporation promotes the Australian wine industry through market development, knowledge development, compliance and trade.

The Commission notes and supports the recent passage of legislation to merge the Grape and Wine Research and Development Corporation and Wine Australia Corporation from 1 July 2014.

The Australian Pesticides and Veterinary Medicines Authority regulates the use of pesticides and veterinary medicines. The National Industrial Chemicals Notification and Assessment Scheme (in the Health Portfolio) aids in the protection of the Australian people and the environment by assessing the risks of industrial chemicals and providing information to promote their safe use.
The Commission recommends merging these two bodies to leverage synergies in the assessment and regulation of chemicals. The new body, Chemicals Australia, should sit in the Industry Portfolio.

**Attorney-General’s**

In addition to the proposals to create a single civilian merits review tribunal and a single Arts Council, the Commission proposes a number of actions in relation to bodies in the Attorney-General’s Portfolio.

The Australian Law Reform Commission undertakes inquiries on matters referred to it by the Attorney-General and reviews Commonwealth laws and legal processes relevant to those matters, for the purpose of systematically developing and reforming the law.

The Commission recommends consolidating the Australian Law Reform Commission into the Department, noting that it performs activities that could be undertaken in the Department and its statutory independence does not require the maintenance of a separate FMA Act body.

The Family Court and Federal Circuit Court of Australia are Australia’s superior courts in family law and assist Australians in resolving complex family disputes. In addition, the courts also deal with administrative law, bankruptcy, discrimination, migration, consumer matters, privacy and workplace relations.

The Federal Court of Australia has jurisdiction to hear and determine any civil matter arising under laws made by the Federal Parliament, as well as any matter arising under the Australian Constitution or involving its interpretation.

The Commission recommends merging the Family Court and Federal Circuit Court of Australia and the Federal Court of Australia to create a single FMA Act body. This would reduce administrative costs by providing additional opportunities to share facilities and streamline back-office functions, to achieve a more efficient administration of justice.

The Australian Transaction Reports and Analysis Centre (AUSTRAC) is Australia’s anti-money laundering and counter-terrorism financing regulator. The financial intelligence unit provides financial information to Commonwealth and State law enforcement, security, social justice and revenue agencies and certain international counterparts. AUSTRAC should be reviewed to determine if it should also form part of the stronger crime intelligence capability.

**Communications**

The Australian Postal Corporation (Australia Post) is responsible for postal and parcel delivery. It also acts as an agent for financial services (such as billing and banking), travel and
passport services. Shop outlets also offer office consumables, merchandise and additional services.

NBN Co is responsible for building and operating the National Broadband Network.

The Commission recommends that Australia Post and NBN Co be privatised in accordance with established practice (see Section 10.19 of the Appendix).

The Telecommunications Universal Services Management Agency (TUSMA) is responsible for entering into contracts and making grants to support the provision of public interest telecommunications services for all Australians, including standard telephone services, payphones, emergency call services and the National Relay Service.

The Commission recommends consolidating TUSMA into the Department, noting that it performs activities that could be undertaken in the Department, with overall reductions in administrative and governance costs. This would help streamline administration of the Universal Services Obligation.

**Defence**

The AAF Company provides discounted holiday accommodation to members of the Australian Army and other eligible members and funding for projects. The use of public funds for these purposes could be reassessed.

The Army and Air Force Canteen Service is responsible for the provision of goods, facilities and services for the entertainment and recreation of members of the Army, the Air Force and related persons.

The Australian Military Forces Relief Trust Fund provides benefits for members who have served in the Australian Army and their dependants.

The Royal Australian Air Force Veterans' Residences Trust Fund provides residences to eligible former members of the Air Force and their families.

The RAAF Welfare Recreational Company provides access to discounted recreational accommodation for Air Force members, their families and other eligible persons. It also provides financial support to, and assists in the provision of, recreational facilities and services to Air Force members.

The Royal Australian Air Force Welfare Trust Fund provides benefits to former members of the Air Force and their dependants.

The Royal Australian Navy Relief Trust Fund provides benevolent and financial assistance to members of the Royal Australian Navy.
The Royal Australian Navy Central Canteens Fund provides welfare and lifestyle related benefits and services to Royal Australian Navy members and their families.

The Commission recommends reviewing the AAF Company, Army and Air Force Canteen Service, Australian Military Forces Relief Trust Fund, Royal Australian Air Force Veterans’ Residences Trust Fund, RAAF Welfare Recreational Company, Royal Australian Air Force Welfare Trust Fund, Royal Australian Navy Relief Trust Fund and Royal Australian Navy Central Canteens Fund to reassess the ongoing need to retain these activities within the Commonwealth.

Defence Housing Australia (DHA) is a government business enterprise responsible for the provision of suitable accommodation to Australian Defence Force members and their families. The Commission recommends that DHA be privatised in accordance with established practice (see Section 10.19 of the Appendix).

The Defence Materiel Organisation (DMO) is a prescribed agency responsible for equipping and sustaining the ADF. The Commission recommends consolidating DMO into the Department of Defence (See Section 9.8 of the Appendix).

**Education**

The Australian Curriculum, Assessment and Reporting Authority is responsible for improving the quality and consistency of school education in Australia through a national curriculum, national assessment, data collection and a performance reporting system. The Commission recommends consolidating the authority into the Department to achieve efficiencies and synergies, together with overall reductions in administrative and governance costs.

The Tertiary Education Quality Standards Agency (TEQSA) is responsible for maintaining and enhancing quality, diversity and innovation in the Australian higher education sector through nationally consistent regulation and quality assurance. The Australian Skills Quality Authority (ASQA), in the Industry Portfolio, is the national regulator for Australia’s vocational education and training sector. ASQA regulates courses and training providers to ensure nationally approved quality standards are met.

The Commission recommends merging ASQA and TEQSA to create a single Commonwealth tertiary regulator, recognising that many tertiary institutions currently deal with both bodies. This should help to streamline regulation and reduce the duplicative reporting requirements of institutions, and administrative and governance costs.

The Australian Institute of Aboriginal and Torres Strait Islander Studies is responsible for promoting, facilitating and undertaking research in Aboriginal and Torres Strait Islander studies, including culture and lifestyle. The Commission considers that there is scope for efficiencies among Indigenous bodies and recommends that the Department of the Prime Minister and Cabinet review all Indigenous bodies.
Employment

The Asbestos Safety and Eradication Agency (ASEA) coordinates the implementation of a National Strategic Plan for Asbestos Awareness and Management in Australia.

The Commission recommends consolidating ASEA into the Department, noting that it performs activities that could be undertaken by the Department, with overall reductions in administrative and governance costs.

Comcare is responsible for cost effective and fair workplace health and safety, workers compensation and rehabilitation services for Commonwealth and national self-insurers.

The Commission recommends consolidating Comcare’s policy responsibility and functions into the Department, consistent with the propositions, while claims management could be outsourced if this were to deliver savings.

The Office of the Fair Work Ombudsman is responsible for compliance, education and advice associated with the Fair Work Act 2009.

The Commission recommends that the Fair Work Ombudsman merge with other Ombudsman offices into a single Office of Commonwealth Ombudsmen, to deliver efficiencies, the sharing of expertise and more flexible case management approaches.

Safe Work Australia (SWA) is an independent statutory agency with primary responsibility for improving workplace health and safety and workers’ compensation arrangements across Australia. SWA is jointly funded by the Commonwealth and the States.

The Commission recommends that SWA be consolidated into the Department, noting that independence can still be maintained at a reduced cost. Separate accounts and funding arrangements could be established to ensure financial independence.

The Seafarers’ Safety, Rehabilitation and Compensation Authority (Seacare Authority) assists the Australian maritime industry in minimising the human and financial costs of workplace injury by providing workers’ compensation, rehabilitation and occupational health and safety regimes for certain seafarers involved in the maritime industry.

The Commission recommends consolidating the Seacare Authority’s policy responsibility and functions into the Department, consistent with the propositions and the Comcare recommendation, while claims management could be outsourced if this were to deliver savings.

The Workplace Gender Equality Agency is a statutory agency charged with promoting and improving gender equality in Australian workplaces and is responsible for administering the Workplace Gender Equality Act 2012.
The Commission recommends consolidating the Workplace Gender Equality Agency’s activities into the Department, with overall reductions in administrative and governance costs.

**Environment**

The Climate Change Authority is responsible for providing independent advice on the operation of the carbon tax, emissions reduction targets, caps and trajectories and other climate change initiatives.

The Commission supports abolishing the Climate Change Authority, noting that the Government has introduced legislation to abolish it as part of the carbon tax repeal bills that have been introduced into the Parliament.

The Director of National Parks is responsible for the administration and management of Commonwealth reserves and conservation zones, including Booderee, Kakadu and Uluru-Kata Tjuta National Parks.

The Commission recommends that the Director of National Parks be consolidated into the Department as a division to provide access to synergies and economies of scale, with the position of Director being retained as a statutory position. There are existing models for such an arrangement within the Department.

Low Carbon Australia Limited (LCAL) is responsible for administration of the Energy Efficiency Programme and the National Carbon Offset Standard Carbon Neutral Programme. In May 2013, the activities of LCAL transferred to the Clean Energy Finance Corporation (CEFC).

The Commission considers that LCAL should be abolished, noting that it is now integrated into the CEFC. This is consistent with the recommendation to abolish the CEFC.

The Murray-Darling Basin Authority (MDBA) is responsible for planning the integrated management of the water resources of the Murray-Darling Basin, including through the implementation and enforcement of the Basin Plan.

The Commission recommends consolidating MDBA into the Department, noting that independence can still be maintained at a reduced cost. Separate accounts and funding arrangements could be established to ensure financial independence.

The National Water Commission provides independent assurance of the Council of Australian Governments (COAG) national water reform agenda and promotes the objectives of the National Water Initiative.

The National Water Commission could be consolidated into the Department, given its small size, which will provide administration cost savings. Alternatively, its monitoring, audit and assessment functions could be transferred to the Productivity Commission.
The Sydney Harbour Federation Trust is responsible for planning and management of a number of Commonwealth sites around Sydney Harbour.

The Commission recommends transferring the trust to the New South Wales Government given the location of the land, consistent with the subsidiarity principle. If this cannot be achieved, the Department of Environment should consider internal options, such as placing it under the Director of National Parks and reviewing to ensure that the land is not underutilised.

Finance

The Albury-Wodonga Development Corporation (AWDC) manages the sale of land in the Albury-Wodonga area following the Commonwealth’s significant purchase of land in the area in the 1970s.

The Commission recommends consolidating AWDC’s activities into the Department to achieve economies of scale and reduce administration costs, noting that it has successfully sold most of its landholdings.

ASC Pty Ltd is a defence shipbuilding and maintenance organisation, with naval design and engineering resources.

The Commission recommends that ASC be privatised in accordance with established practice (see Section 10.19 of the Appendix).

Comsuper provides access to Commonwealth Government superannuation benefits and information for current and former Australian Public Servants and members of the Australian Defence Force, on behalf of the Commonwealth Superannuation Corporation.

The Commission recommends consolidating Comsuper into the Commonwealth Superannuation Corporation, which is its only client.

Medibank Private is a provider of health solutions for private health insurance members, government and corporate clients.

The Commission notes that Medibank’s potential sale has already been announced and a scoping study commenced in October 2013.

Foreign Affairs and Trade

The Australian Trade Commission (Austrade) promotes exports, investment, international education and tourism.

The Commission notes the maturity of global markets and Australia’s export sector, the small proportion of Australia’s exporters that are assisted and the lack of market failure and spillover benefits. The Commission recommends that Austrade should significantly reduce
the activities of Austrade and incorporate any residual functions into a new commercial arm of the Department (see Section 10.1 of the Appendix).

The Export Finance and Insurance Corporation (EFIC) provides finance to Australian exporters when private markets are lacking.

The Commission recommends abolishing EFIC and transferring residual assets to the new commercial division of the Department, which should investigate options to on-sell or wind up EFIC’s existing loan book (see Section 10.1 of the Appendix).

Tourism Australia promotes awareness of Australian travel destinations to domestic and international travellers, conducts and reports on research into travel trends and communicates to the Australian community on the contribution of the tourism industry.

The Commission recommends halving funding for Tourism Australia. Residual activities should be consolidated into the Department of Foreign Affairs and Trade (see Section 10.1 of the Appendix).

**Industry**

The Australian Renewable Energy Agency (ARENA) provides financial assistance for research and development to accelerate market innovation aimed at improving the competitiveness of renewable energy technologies and increasing the supply of renewable energy in Australia.

The Commission recommends consolidating ARENA into the Department to provide opportunities for efficiencies and synergies, noting that its activities could be undertaken in the Department. This could be expected to deliver overall reductions in administrative and governance costs.

As noted above the Commission recommends merging the Australian Skills Quality Agency and Tertiary Education Quality Standards Agency to create a single Commonwealth tertiary regulator.

**Infrastructure and Regional Development**

The Australian Rail Track Corporation (ARTC) manages the National Interstate and Hunter Valley rail networks and sells network access to train operators.

The Moorebank Intermodal Company (MIC) manages the delivery of the Moorebank Intermodal Terminal, including seeking private sector participation for the development and operation of the intermodal terminal.

The Commission recommends that ARTC be privatised, either wholly or partially, and MIC be privatised, in accordance with established practice (see Section 10.19 of the Appendix).
The National Capital Authority (NCA) manages the continuing interests of the Commonwealth in the national capital, including the range of functions required to plan, promote, enhance and maintain the national characteristics and qualities of the capital.

The Australian Capital Territory’s submission to the Commission notes that:

> While the intended distinction between the NCA and the Territory planning authority appears clear, there are considerable areas of duplication in terms of planning delivery and policy roles, which are well documented in various submissions to Parliamentary Inquires and associated findings of review... In formulating its recommendations, the ACT calls upon the Commission to consider: Whether current responsibilities of the NCA overlap or intrude on ACT Government responsibilities; Whether the current planning controls, which overlay existing ACT planning controls, are appropriate to maintain in a self-governing jurisdiction; Possible steps to be taken to minimise overlap and deliver greater certainty for industry and government undertaking developments in the city (Australian Capital Territory Government, 2013)

The Commission recommends reviewing the NCA with a view to transferring some functions to the ACT Government to reduce duplication of effort, consistent with the subsidiarity principle and in recognition of the ACT as a self-governing jurisdiction. Any residual functions should be transferred to the Department of Finance to achieve reductions in administrative and governance costs.

The National Transport Commission (NTC) is an independent advisory body to Commonwealth and State governments' transport ministers. The NTC works in partnership with the road and rail transport sectors, governments, transport bodies, the Australian Local Government Association, regulators and police, to develop land transport reforms. It is jointly funded by the States.

The Commission recommends reviewing the NTC to determine if and when this body should cease operations, recognising that significant progress has been made with the establishment of the National Heavy Vehicle Regulator and Office of the National Rail Safety Regulator.

**Prime Minister and Cabinet**

The Office of the Commonwealth Ombudsman ensures that administrative action by Australian government bodies is fair and accountable.

The Commission recommends that the Commonwealth Ombudsman merge with other ombudsmen into a single Office of Commonwealth Ombudsmen, to deliver efficiencies, the sharing of expertise and more flexible case management approaches.
Aboriginal Hostels Limited (AHL) supports access to education, employment, health and other services for Aboriginal and Torres Strait Islander people travelling or relocating, through the operation of temporary hostel accommodation services.

The Commission recommends that the Department of the Prime Minister and Cabinet should undertake a review of AHL’s statutory model, including options to merge with other commercially focussed bodies within the portfolio.

Outback Stores Pty Ltd provides improved access to affordable, healthy food for Indigenous communities, particularly in remote areas, through providing food supply and store management and support services.

The Commission recommends that the Department of the Prime Minister and Cabinet should undertake a review of Outback Stores, including consideration of whether this should remain a responsibility of government and if so, options to merge with other commercially focussed bodies within the portfolio.

Indigenous Business Australia promotes improved wealth acquisition to support the economic independence of Aboriginal and Torres Strait Islander peoples through commercial enterprise, asset acquisition, construction and access to concessional home and business loans.

The Indigenous Land Corporation promotes enhanced socio-economic development, maintenance of cultural identity and protection of the environment by Indigenous Australians through land acquisition and management.

The Commission recommends merging Indigenous Business Australia and the Indigenous Land Corporation to achieve efficiencies, avoid duplication (these organisations already share a common chair) and improve convenience for clients.

The Northern Land Council, the Central Land Council, the Anindilyakwa Land Council and the Tiwi Land Council are the four Northern Territory Land Councils established under the Aboriginal Land Rights (Northern Territory) Act 1976 (ALRA Act). Each is an independent statutory body established to represent Aboriginal interests in a range of processes under the ALRA Act.

The Torres Strait Regional Authority promotes progress towards closing the gap for Torres Strait Islander and Aboriginal people living in the Torres Strait region through development planning, coordination, sustainable resource management, and preservation and promotion of Indigenous culture.

The Wreck Bay Aboriginal Community Council holds title to land and provides council services to the Aboriginal Community of Jervis Bay.

The Commission considers that there is scope for efficiencies among the Commonwealth’s various Indigenous bodies and recommends that the Department of the Prime Minister and
Cabinet review all Indigenous bodies, including the Anindilyakwa Land Council, Central Land Council, Tiwi Land Council, Torres Strait Regional Authority and Wreck Bay Aboriginal Community Council (see Section 10.3 of the Appendix).

The recent consolidation of Indigenous programmes into a single department provides an opportunity to improve cohesion and programme delivery. However, consistent with the above proposition that portfolio departments should undertake policy work and agencies should deliver programmes and services, the Commission sees merit in moving the programme and service delivery functions into a new body, the Indigenous Affairs Agency.

Social Services

Australian Hearing Services assists hearing impaired people by assessing hearing, fitting hearing devices and providing counselling and rehabilitative programmes for eligible clients.

The Commission recommends that Australian Hearing be privatised in accordance with established practice (see Section 10.19 of the Appendix).

Treasury

The Australian Reinsurance Pool Corporation was established in response to the withdrawal of terrorism insurance cover by insurance companies and administers the terrorism reinsurance scheme, providing primary insurers with reinsurance for commercial property and associated business interruption losses arising from a declared terrorist incident.

The Commission considers that there is now scope for a gradual Commonwealth exit from the terrorism reinsurance industry and suggests that the next review of the scheme will provide an appropriate vehicle for abolishing the Corporation.

The Australian Securities and Investments Commission (ASIC) is Australia's corporate, markets and financial services regulator.

The Commission recommends that ASIC’s registry functions transfer to the Australian Taxation Office, which already has registry responsibilities, to streamline business reporting requirements, while ASIC’s consumer protection functions should transfer to the Australian Competition and Consumer Commission, which already has related responsibilities. ASIC’s financial literacy functions should cease and the remainder of ASIC should be considered as part of the Government’s Financial System Inquiry.

The Corporations and Market Advisory Committee (CAMAC) undertakes research and provides discussion papers and reports to the responsible minister on the Corporations Act 2001.
The Commission considers that CAMAC’s functions could be undertaken by the Treasury. It has a small number of staff and maintenance of FMA status could impose a significant overhead.

The Inspector-General of Taxation identifies systemic issues in the administration of the tax laws and provides independent advice to government on these matters.

The Commission recommends merging the Inspector-General of Taxation into the new single Office of Commonwealth Ombudsmen, which would provide for efficiencies and the sharing of expertise.

The National Competition Council (NCC) produces independent advice to all Australian governments involved in implementing National Competition Policy. The NCC provides advice on third party access to infrastructure.

The Commission recommends merging the NCC into the Productivity Commission, noting the NCC has a small number of staff and its role is somewhat complementary to that of the Productivity Commission, in respect of carrying out research and providing advice on matters referred to it by government. The continuation of its regulatory functions on access issues will need careful handling.

The Office of the Auditing and Assurance Standards Board (AUASB) develops auditing and assurance standards and related guidance to enhance the relevance, reliability and timeliness of information provided to users of audit and assurance services.

The Office of the Australian Accounting Standards Board (AASB) develops and maintains financial reporting standards to assist all sectors of the Australian economy to prepare financial reports and enable users of these reports to make informed decisions. The Board contributes to the development of global financial reporting standards.

The Commission recommends merging the AUASB and AASB to deliver operational efficiencies in recognition of their complementary objective of producing standards under the Australian Securities and Investments Commission Act 2001, with oversight by the Financial Reporting Council.

The Royal Australian Mint produces minted coins to satisfy the Reserve Bank of Australia’s forecasts for circulating coin.

The Commission recommends that the Royal Australian Mint be privatised in accordance with established practice (see Section 10.19 of the Appendix).

A table summarising recommendations in relation to the 194 principal bodies is at Attachment 10.18.1.
Improving the information on existing bodies

As noted above, there is no central repository of information on Commonwealth bodies. This reduces government’s ability to ensure that existing Commonwealth structures align with government objectives and community/stakeholder needs.

A central register is recommended to bring together information on all Commonwealth bodies.

Reducing the proliferation of new bodies

The Commission proposes that the introduction of a central register of Commonwealth bodies be accompanied by a process to reduce the number of new bodies established, which places the onus on the proposing minister to demonstrate the need for a new body to the Cabinet. This should include:

- the case for a new body;
- compelling advice on why the function cannot be undertaken within the department or another existing body;
- advice on how the cost of corporate functions will be minimised, including whether they will be provided by the department or a shared service provider;
- advice on how the new body will interface with, but not duplicate, the activities of existing bodies; and
- a proposed termination date.

The Commission recognises that there will always be demands on governments to establish new bodies and this may be appropriate in some cases. However, adherence to this process should reduce the creation of unnecessary bodies.

This recommendation strengthens the existing guidance from the Department of Finance, which notes that:

*There is a policy preference to curb unnecessary proliferation of Government bodies. Consequently, a function, activity or power should, if possible, be conferred on an existing department, or another existing Australian Government body, rather than on a new body.*

*If there are persuasive policy reasons to form a new body, then its purpose — and its financial, legal and staffing status — will need careful consideration. ... The aim is to ensure that the governance arrangements promote the effective implementation of policy. Poor governance structures can threaten good policy outcomes* (Australian Government, 2005).
Reducing administrative and governance costs

As noted above, the administrative and governance costs of independent entities are significant. Even in relation to government committees with private sector representation, costs include secretariat support, sitting fees, travel and corporate overheads.

Integrating small bodies into portfolio departments would help to reduce corporate governance and administrative overheads and create closer links between policy and programme owners.

The Commission may examine options to reduce administrative and governance costs in Phase Two of its work.

Reducing costs for government and stakeholders by reducing the number of boards and committees

As well as the 194 principal bodies, the Commonwealth supports around 700 other bodies, including boards, committees and councils.

There is considerable scope to rationalise these bodies. The Commission has commenced a preliminary examination of some of these bodies and may recommend actions in its Phase Two Report.

As well, the Commission proposes each department reassess all bodies within its portfolio (including boards, committees and councils) with a view to reducing their number and associated overheads.

The following criteria will assist departments in this process and inform decisions on retaining or ceasing the operation of existing committees.

1. Bodies (including boards, committees and councils) involved in a single process should be consolidated.

   There are a number of cases where more than one body is involved in a single process. For example, the Pharmaceutical Benefits Advisory Committee plays a role in funding the drugs to be listed on the Pharmaceutical Benefits Scheme and the Pharmaceutical Benefits Pricing Authority determines the price of those drugs. Savings, both financial and with respect of timeliness, to government and stakeholders can be achieved by bringing these together, particularly if sequential decisions can be made more efficiently as a result.

2. Subcommittees should be integrated into the lead committee, where possible.

   A number of boards and committees have associated subcommittees, which may further contribute to complexity and costs. Where these are not efficiently assisting
with the lead committee’s work, they should be integrated into the lead committee or board. Where there are ongoing governance functions (such as Audit Committees), consideration should be given to whether these functions could be more efficiently undertaken by integrating them into the portfolio department’s governance framework. The Commission notes that the new Public Governance, Performance and Accountability Act 2013, which comes into effect on 1 July 2014, makes provision for this aggregation of governance arrangements.

3. Governance committees for boards, committees and councils should be part of the relevant department’s governance frameworks.

4. Bodies should be abolished if:
   a. functions are no longer required;
   b. functions could be more effectively or efficiently undertaken by the private or not-for-profit sector;
   c. functions are outside the Commonwealth’s core areas of responsibility; or
   d. the body exists solely to appoint members to another body.

A number of boards and committees appear to continue to exist almost solely because they are established in legislation. Where this is the case, consideration should be given to amending the relevant legislation and abolishing the board or committee.

Further reductions in coordination costs for government and stakeholders could be achieved by logically clustering similar bodies, including their associated boards and committees. For example, research and development bodies as well as workforce development bodies are currently spread out over a number of portfolios.

Improving the information on existing boards and committees

The Commonwealth Government website www.ausgovboards.gov.au seeks to bring together information on Commonwealth Government boards and committees. However, it is clear – based on information provided directly to the Commission by departments – that this data is incomplete. Mandating listing of all boards and committees on a central register of Commonwealth bodies will improve transparency and reduce coordination and search costs for stakeholders. It will also enable links to be drawn more readily between bodies, which will assist with logical clustering and further reduce coordination costs.
References


Australian Capital Territory Government 2013, Submission to the National Commission of Audit 2013, Canberra.


### Rationalisation of principal bodies

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<td>Grains Research and Development Corporation</td>
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<td>Wine Australia Corporation</td>
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**Total**  
7 35 22 9 26

Source: National Commission of Audit
10.19 Privatisations

Background

The Commonwealth holds around $386 billion in assets (Australian Government, 2013). It is appropriate to assess whether government should retain ownership of any of these assets that could otherwise be privatised.

Privatising assets frees capital that the Commonwealth can put towards its priorities, whether that may be paying down government debt, investing in new assets, or delivering services for the community. Privatisation allows governments to transfer ownership and its inherent risks to the private sector, which often leads to increased efficiency, productivity, competition and lower delivery costs.

Since the late 1980s, both Commonwealth and State governments have privatised a significant number of assets, recognising that their retention in government ownership is no longer necessary, effective or efficient. This resulted from a reconsideration of the role of government and a greater appreciation of the private sector’s capacity to deliver such services and to improve quality and choice. In addition, governments recognised that natural monopolies were now able to be managed through regulation, while equity considerations could be addressed through community service obligation arrangements.

After considerable privatisation activity from 1990 through to 2006, the issue of privatisation has been largely dormant at the federal level. There has, however, been an increase in privatisations at the State level including QR National, some electricity generators and retailers and port sales in New South Wales.

At the Commonwealth level, over $68 billion (Department of Finance, 2014) in capital has been released through a wide variety of asset privatisations, including: companies such as Telstra, the Commonwealth Bank, Commonwealth Serum Laboratories (CSL) and Qantas; property and infrastructure assets such as the commercial office estate and airports; and financial assets such as the Defence Service Homes Corporation Loan Portfolio.

Rationale for government intervention

In the case of public enterprises, governments have traditionally justified activities in particular markets based on equity concerns and market failure.

Where market failures exist there may be a case for government ownership of services, but only where it is the most efficient and effective response to this market failure. In practice, competition and monopoly issues are often better addressed through appropriate regulatory frameworks rather than through government ownership. Further, when the market failure has been remedied, there is a strong argument that government should
withdraw from the market. Privatisation is the process that allows this to happen, with a view to further strengthening competition to supply goods and services in Australia.

Equity concerns can generally be addressed more efficiently and transparently through community service obligation arrangements and direct Budget funding, rather than through government ownership.

**Current structure of the programme**

Given past asset sales processes at the Commonwealth level, the scope for further major privatisations is not substantial. However, there remains a reasonably large amount of capital locked up in Commonwealth commercial and semi-commercial entities.

**Trends**

While the Commonwealth has not had an active privatisation agenda in recent years, many States have continued to carry out privatisations, particularly of their energy and infrastructure assets. Internationally, there has also been privatisation activity in New Zealand with the sales of electricity generation businesses, and in Europe with the recent partial privatisation of the United Kingdom’s Royal Mail being the highest profile example.

Effectively communicating privatisation objectives and benefits early on in the process, particularly those related to freeing government capital for use on other priorities sought by the public, has assisted State governments to manage public perceptions of privatisations that would otherwise not receive wide support.

**Issues**

There is significant capital locked up in Commonwealth commercial or semi-commercial businesses and bodies that could be put to better use if private ownership is suitable.

Twenty years ago, the Hilmer Report highlighted significant gains to the community from opening up government enterprises and other areas of the economy to competition. The Commission considers that Commonwealth bodies that operate and compete in contestable markets should be considered for their privatisation potential.

The starting point of any programme would be those bodies, such as government business enterprises, that operate commercially and are ready for sale. Other bodies with potential for sale may first need to be put on a more commercial footing.

Planning should also consider whether a privatised entity should have ongoing community service obligations where businesses operate with cross subsidies, such as Australia Post and the Australian Rail Track Corporation.
Other Commonwealth assets, including land and buildings also have potential for sale. This issue is addressed in the next section.

In terms of a broader privatisation agenda, the minimum timeframe generally required to progress the sale of a major entity is 12 to 18 months, although for complex sales, particularly where legislation is required, the timeframe is likely to be longer.

The privatisation process should generally progress in two phases:

- Phase one: a scoping study to consider the objectives for a sale including any community service obligations, any regulatory or legislative requirements, actions required to prepare the business for sale, the industry in which the entity operates and preferred method of sale; and

- Phase two: subject to the findings of the scoping study, prevailing market conditions and obtaining policy approval, proceeding with implementing the sale.

In addition, establishing a set of principles on government ownership of commercial entities may assist in further identifying existing assets that should be considered for privatisation and where the business case for ownership of a new asset is being considered. Existing entities could be assessed against these principles on a case-by-case basis. The principles could be along the following lines:

*Government should only retain ownership of entities competing in a contestable market where there is a clear public interest case to do so. Government ownership is unlikely to be in the public interest unless:

- there is a market failure which prevents the private sector from adequately providing the good or service; and

- government ownership is a more efficient and effective response to this market failure than alternatives such as regulatory responses.*

In some cases, government ownership may be justified only for a limited period. In these cases, arrangements should be in place to transfer the asset to the private sector when appropriate.

**Potential areas for reform**

Medibank’s potential sale is already announced and a scoping study commenced in October 2013.

The Commission considers a modest privatisation agenda for Commonwealth assets (and interest in assets) should be pursued across the short, medium and longer term.
Short term (2014 to 2016)

**Australian Hearing**
As a regulator, funder and owner of Australian Hearing, the Commonwealth plays a significant role in the hearing services market. The Government could examine the potential to increase contestability in markets where Australian Hearing has a monopoly and allow, through privatisation, it to compete in markets where it is currently precluded.

In addition, a scoping study could examine the future of the National Acoustics Laboratory and the appropriate model of industry regulation to preserve the intent of existing community service obligations.

**Snowy Hydro**
Snowy Hydro operates in the highly contestable National Energy Market and is the third largest electricity generator by installed capacity. The public interest case for ongoing government ownership is weak. The Commonwealth is a minority shareholder in Snowy Hydro, with a 13 per cent share compared with the 58 per cent stake owned by New South Wales and Victoria’s 29 per cent.

The NSW Commission of Audit’s 2012 report also recommended considering Snowy Hydro’s divestment.

A scoping study could examine potential benefits of privatisation for the operation of the National Electricity Market and implications for the management of water resources.

**Defence Housing Australia**
Defence Housing Australia (DHA) is the primary supplier of off-base housing services to Australian Defence Force members.

Through a national network of Housing Management Centres, as at 30 June 2013, DHA manages a total portfolio of about 18,000 properties, including off-base accommodation, valued at around $10 billion. DHA employs approximately 600 staff Australia-wide (Defence Housing Australia 2013.)

DHA houses accommodate Defence personnel who are married with dependents. This role is now expanding to provide accommodation for singles.

The property ownership and management industry is a competitive and commercial market. It is highly likely the private sector can meet the housing needs of the Australian Defence Force and their families.

A scoping study could examine Defence housing policy and the ability of the private sector to meet the housing needs of Defence personnel while also meeting the Defence Force’s operational requirements.
ASC Pty Ltd
ASC Pty Ltd (ASC, formerly the Australian Submarine Corporation) was established in 1985 solely to build submarines for the Defence Materiel Organisation. Today, ASC maintains the Collins Class submarines and is building three Hobart Class Air Warfare Destroyers. ASC employs over 2,800 personnel across three sites at Osborne (Adelaide) and Henderson (Perth).

ASC is a supplier of naval combat vessels as well as being a specialist submarine provider. It competes against domestic and international shipbuilders and is currently involved in the Air Warfare Destroyer Alliance arrangement.

ASC’s recent financial returns have been poor and the company is heavily dependent on future submarine projects. Existing government policy is to ensure work on a replacement submarine fleet is centred on the South Australian shipyards. While ASC is the only South Australian based shipbuilder with experience in submarines this does not assure it of a leading role.

Notwithstanding the challenges facing the company, the Commission believes there would be merit in selling ASC as soon as is practicable.

Medium term (Post 2016)

Australia Post
Australia Post is likely to experience significant pressure on its profitability due to the ongoing decline in letter volumes. This presents a major risk to the Budget and a risk to the continued delivery of postal services to the public, without reform of Australia Post’s community service obligations and cost structure, and/or privatisation.

Australia Post has relied on stamp price increases, growth in its parcels business (to cross-subsidise losses in the letters business) and cost reduction initiatives to maintain its financial position. Due to the increased use of e-mail and other forms of electronic communication, Australia Post is facing a rapid decline in its letter volumes. The decline in letter volumes is likely to result in losses for the business, which may require supplementation from the Budget.

The scope for continuing to manage the decline of the business without significant reform or policy intervention is limited. Given the emerging Budget risk posed by Australia Post’s financial decline, there is a strong case for considering options for reforming Australia Post’s mandate and business operations.

The majority of Australia Post’s business is in the competitive retail, parcels and logistics markets. While this same trend has led to an increase in online shopping and growth in Australia Post’s parcels business, it only partlyoffsets the costs of the decline in letter volumes.
Australia Post has put forward a proposal (outlined in Section 10.22 of the Appendix) to take over and modernise the delivery of a range of government services, particularly those delivered by the Department of Human Services.

The scoping study would need to examine community service obligations in letter delivery and other ‘reserved’ services.

**Moorebank Intermodal Company**

The company’s role is to develop and operate an intermodal terminal as a flexible and commercially viable common user facility available to rail operators and other terminal users. Moorebank Intermodal Company aims to promote a shift from road freight to rail freight over the longer term and is an important part of the National Land Freight Strategy. It also aims to address a number of the key challenges facing the interstate freight and container markets.

Moorebank Intermodal Company intends to achieve this by leasing land that the Commonwealth owns and acquires for the intermodal terminal, gaining relevant environment and planning approvals, undertaking request for tender for the intermodal terminal’s development and operation, and then managing the funding required for its development.

The Commonwealth’s ongoing support of the Moorebank Intermodal Company will help the project to deliver on its objectives of improving national productivity through an efficient supply chain, increased freight capacity and better rail utilisation.

Subject to market conditions, the Commonwealth intends to privatise its interest in the project.

**Australian Rail Track Corporation**

The Australian Rail Track Corporation Limited (ARTC) was established following an agreement between the Commonwealth and State Governments, as a ‘one stop shop’ for rail operators seeking access to the interstate rail network. ARTC’s policy objective is to encourage modal shift of freight from road to rail.

ARTC manages two distinct operating businesses, the interstate network and the Hunter Valley network, which provide train operators with access to move passengers and a range of commodities including general freight, coal, iron ore, other bulk minerals and agricultural products. Train operators using ARTC tracks pay an access charge, which is governed by two separate undertakings that the Australian Competition and Consumer Commission regulates. ARTC derives over 55 per cent of its revenue from its Hunter Valley network.

The Commonwealth could privatise either all of ARTC, or just the Hunter Valley network. The monopoly characteristics of ARTC’s network can be adequately managed and regulated in the public interest, much the same as airport and electricity distribution monopolies.
A scoping study could examine an appropriate access regime, implications for ARTC’s leases and wider considerations stemming from the intergovernmental agreement that established ARTC.

**Royal Australian Mint**
The Royal Australian Mint manufactures Australia’s coins while Note Printing Australia, a subsidiary of the Reserve Bank of Australia, prints Australia’s notes and competes internationally for note printing contracts. As there is an international market for manufacturing currency, there is merit in considering the public interest case for retaining the Royal Australian Mint as a government body and its potential for privatisation.

**COMCAR**
The Department of Finance provides the Commonwealth’s car-with-driver service (COMCAR) to parliamentarians and other high-level officials and dignitaries. COMCAR also provides transportation services for guests of government and major events, such as the forthcoming G20 programme. Many of these services are provided in competition with the private sector and there is merit in considering privatisation options.

A scoping study could examine issues including legislative requirements relating to entitlement to the service and maintaining appropriate security arrangements.

**Long term**

**NBN Co**
Provisions for the eventual privatisation of NBN Co and the National Broadband Network are already in place. The existing legislation governing NBN Co requires the Commonwealth to maintain ownership of the company at least until the network is built and fully operational, which according to NBN Co’s recent strategic review will not be before the end of 2020.

The review outlines six possible network rollout scenarios. They range from continuing the 93 per cent fibre-to-the-premise rollout that NBN Co was originally tasked with, to instead using a range of mixed technology solutions to achieve lower deployment costs and timeframes. The review provides details on each scenario’s rollout methodology, estimated timeframes and possible upgrade paths to meet future broadband needs. The review also estimates the financial implications of pursuing different scenarios, both during and ultimately at the time of sale, as reflected in the internal rate of return.

In the Commission’s view, the long-term future of NBN Co should include an eventual privatisation.
References


10.20 Management of the Commonwealth property portfolio

Background

Management of the Commonwealth estate presents special challenges reflecting the nature of the property, legislative obligations and legacy issues, which include underinvestment in repairs and maintenance and contamination. Property ownership, development and management require highly experienced and skilled people.

Commonwealth legislation governing the acquisition, management and disposal of property interests includes the Financial Management and Accountability Act 1997, the Lands Acquisition Act 1989, the Native Title Act 1993, the Aboriginal Land Rights (Northern Territory) Act 1976 and the Environment Protection and Biodiversity Conservation Act 1999. In addition, the Work Health and Safety Act 2011 and the Public Works Committee Act 1969 apply directly to the management of Commonwealth property and construction projects.

Most commercially attractive Commonwealth properties have already been sold. Since 1996, the Commonwealth has considerably reduced its property ownership through large-scale divestments and outsourcing of services that are peripheral to the core responsibilities of government.

Commonwealth office accommodation and other infrastructure such as airports and related property services are now provided primarily by the private sector. Excluding Defence, the Commonwealth owns about 6 per cent of its total office space, compared with 60 per cent of property occupied by the British Government, 43.5 per cent of property space owned in Canada and 72.5 per cent owned in New Zealand (Harris, Schumann and Henry, 2012).

Commonwealth leases include office accommodation, border protection facilities within airports, the Australian Antarctic Division facilities, the Royal Australian Mint and the National Science and Technology Centre.

In September 2009, the Commonwealth Government held 613 office tenancies through 711 leases from the private sector and 11 leases from the Commonwealth (Department of Finance and Deregulation, 2011). Around 87 per cent of the leased area was office space; the rest was used for operational or other non-office purposes (Table 10.20.1).
Table 10.20.1: Leases as at September 2009 (office space more than 100 000 m²)

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Source: Department of Finance and Deregulation, 2011.

The Commonwealth owns 23 out of the 613 office tenancies referred to in Table 10.20.1.

The 23 owned properties comprise: Old Parliament House; eight Commonwealth Law Court buildings; four Defence properties; two properties held by the Official Secretary to the Governor-General; four other Commonwealth properties; and, one property held by each of the following agencies – the Australian Federal Police, Australian Radiation Protection and Nuclear Safety Agency, Department of Industry and Department of Social Services.

**Rationale for government intervention**

A central oversight of the Commonwealth’s strategic property needs is essential to foster competition, commercial tension and value for money in relation to the Commonwealth’s property requirements.

However, government core expertise does not, and should not, relate to the development, maintenance and leasing of office accommodation and other buildings that are commercially available. The Commission considers that these roles are best left to the private sector.

**Current structure of the Commonwealth estate**

The Commonwealth estate is quite diverse and comprises the following main elements.

- The Defence estate of about three million hectares, with some 400 owned properties including 72 significant bases, 25,000 buildings and 6,000 other structure assets. The Defence estate has an estimated value of about $20 billion.

- The Department of Foreign Affairs and Trade manages the Commonwealth Government’s overseas property interests valued at about $1.5 billion, through its Overseas Property Office.
The Commonwealth Scientific and Industrial Research Organisation (CSIRO) is also a significant holder of land and buildings. Its assets include some 1,000 buildings in 54 locations, with land valued at about $378 million and buildings valued at $1.1 billion.

Defence Housing Australia manages a total portfolio of around 18,000 properties, valued at around $10 billion.

The Department of Finance (Finance) estate comprises 106 properties including: key accommodation (such as the Treasury Building and John Gorton Building); special purpose properties (including the Commonwealth Law Courts and the Australian Security Intelligence Organisation headquarters); vacant land and other properties with unique features; and, remnants of an extensive residential portfolio acquired over 60 years ago. The Finance estate is valued at about $1.4 billion (Table 10.20.2).

<table>
<thead>
<tr>
<th>Property Category</th>
<th>Number of Properties</th>
<th>per cent of properties</th>
<th>2013-14 Valuation (Fair Value, $ million)</th>
<th>per cent of portfolio value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key accommodation</td>
<td>14</td>
<td>13.2%</td>
<td>424.8</td>
<td>30.3%</td>
</tr>
<tr>
<td>Land or Buildings - Planning, Environment &amp; Heritage Obligations</td>
<td>15</td>
<td>14.2%</td>
<td>80.7</td>
<td>5.7%</td>
</tr>
<tr>
<td>Special Purpose Property</td>
<td>10</td>
<td>9.4%</td>
<td>879.8</td>
<td>62.7%</td>
</tr>
<tr>
<td>Remaining Properties</td>
<td>67</td>
<td>63.2%</td>
<td>18.0</td>
<td>1.3%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>106</td>
<td>100.0%</td>
<td>1,403.3</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Department of Finance.

In general, the condition of the Commonwealth estate has deteriorated, which has resulted in the need for increased expenditure on maintenance and related functions to upgrade and maintain assets to minimum standards. Examples include the urgent repairs on the heritage-listed John Gorton Building facade to meet work health and safety requirements, the repair and maintenance of The Lodge and remediation projects on contaminated sites on the Cox Peninsula and Malabar Headland.

**Drivers**

The *Public Governance, Performance and Accountability Act 2013* (PGPA Act), the substantive provisions of which will enter into force on 1 July 2014, sets key parameters on the use and management of Commonwealth resources, including real property. Under the PGPA Act, Commonwealth bodies and their staff have a range of accountabilities and responsibilities and will be expected to set and report performance information on a systematic basis in a range of areas.
Non-Defence property management

Decisions in relation to government property involve a complex array of statutory and social obligations. To deal with this complexity, Finance has developed the Commonwealth Property Management Framework. This framework is intended to encourage value for money, better planning, more efficient design and appropriate accountability measures. Under the Framework, decisions on major property initiatives are subject to:

- agency cost-benefit analysis;
- endorsement by the Finance Secretary for lease proposals (mandated steps); and
- submission of proposals to the Expenditure Review Committee, Cabinet and scrutiny from the Public Works Committee for new building proposals.

Data management is a necessary element in managing the Commonwealth estate and in reducing liabilities and risks. Finance collects property data annually in the Commonwealth Land Audit and the Australian Government Property Data Collection Framework that reports leasing data on properties with 500m² or more of office space.

To assist in planning priorities and expenditure for capital works, scheduling, repairs and maintenance, Finance is collecting property capital data. This will lead to the establishment of a rolling ten-year projection on property capability – the Property Capability Plan.

In relation to office accommodation, the Property Framework includes an occupational density target, which is progressively being reduced to 14m² of usable office area per occupied workpoint. The Commission understands that in the private sector, many companies are achieving densities of 10.2m² per person. This target, together with associated efficiency measures and increased efficiencies in Commonwealth property management, are anticipated to achieve savings of approximately $1.2 billion between 2010-11 and 2030-2031.

Data collected in 2012-13 from 128 agencies shows that planned capital expenditure on property beyond 2015-16 is trending downwards, with the total reducing significantly when compared to 2015-16. Office fit-outs are one of the most significant cost components of capital expenditure.

Defence property management

Since 1997, over 280 Defence properties have been sold, returning about $1.5 billion to the Commonwealth. This programme of disposals is continuing with some 40 properties currently identified for disposal, with expected gross revenue estimates at around $370 million. These disposals represent nearly 25 per cent of the Defence estate by number, but are relatively minor in terms of their contribution to Defence capability.
The Defence estate is ageing and the cost of sustaining it is expensive and increasing. Defence has been considering options to better allocate its funding, including the option of consolidation of the Defence estate. Consolidation would enable Defence to allocate its funding to fewer sites and enable more funds to be directed to improving the condition of the estate. In addition, closure and divestment of Defence bases can have a considerable community benefit by enabling a more productive use of the land. For example, the Moorebank Units Relocation Project will release land for development of an intermodal freight terminal in western Sydney.

Defence has been developing a long-term strategic plan to adopt an estate profile that supports Defence capability, is more financially sustainable and will result in a more strategically and functionally aligned estate. The Commission understands that this may result in the rationalisation of some 19 bases over the period 2013 to 2031.

**Issues**

The disposal of properties that remain in Commonwealth ownership is often constrained by factors such as contamination, national security, parliamentary zoning, heritage and ecological values, and limited marketability.

**Managing contamination**

Contamination on Commonwealth land is an emerging issue with unforeseen costs and risks. These risks include site remediation costs, the potential for land value to decrease, legal risk and the injury, disease or death of Commonwealth employees, contractors, tenants and other land users. Of particular concern is the risk that remediation costs may exceed revenue generated from a market value sale.

Commonwealth property disposals are also constrained by obligations under various environmental legislation. Under the ‘polluter pays principle’, disposal of contaminated sites can generate significant ongoing liabilities for the Commonwealth unless:

- the site is properly assessed and then remediated; or
- the recipient makes an informed decision to accept transfer of the risks following full disclosure.

**Information on the Commonwealth estate**

There appears to be no complete whole-of-government public register of Defence and non-Defence Commonwealth-owned property. However, there is a Register of Surplus Commonwealth Land Potentially Suitable for Housing and Community Outcomes, which is published on the Finance website. Also, the Commission understands that the Departments of Defence and Finance each have records of the properties they own. Still, there is no central list of properties owned by other Commonwealth agencies.
A central register of the Commonwealth estate would benefit planning and strategies to improve the use of property, including identifying properties with potential for sale.

The Defence estate

The Department of Defence is in the process of planning a Defence estate profile that supports defence capability in a more affordable and efficient way. It proposes a newer, smaller estate with lower operating costs, with assessment supported by some broad principles, including:

- base locations should be aligned with strategic requirements and ensure critical capabilities are suitably dispersed for security reasons;
- units should be consolidated into fewer, larger and sustainable multi-user bases aimed at increasing the alignment of functions and capacity to support operations;
- aim to group bases near strategic infrastructure and industry to prompt knowledge sharing and innovation, and maximise the effectiveness of industry support to the Australian Defence Force;
- where possible, bases should be located in ‘family friendly’ areas that provide better employment and specialist medical and educational opportunities for families; and
- maintain an urban and regional disposition to enable the continued provision of part-time capability into the future.

The Non-Defence estate

The domestic non-Defence estate has continued to reduce in size following the divestment to the private sector of most of the commercial office buildings.

Through the Commonwealth Property Management Framework, Finance is progressing initiatives that contribute to efficiencies in property management and assist in reducing the costs of doing business with the Commonwealth.

Potential areas for reform

While there is a case for governments to own some specialised properties, there are opportunities for the Commonwealth estate to be used and managed more efficiently, effectively and at reduced cost to taxpayers. This includes considering options for the sale of Commonwealth property.

At a time of fiscal challenge, the Commonwealth can make better use of its scarce capital than property investment. In addition, property ownership, development and management require highly experienced and skilled people.
Notwithstanding recent divestments, scope exists for further property sales. Properties that might be considered for divestment fall into three broad categories:

- genuinely surplus properties that can be divested relatively easily. Simple and unoccupied properties are relatively scarce, as most have been divested in recent decades. The current register of surplus land contains only 16 properties;

- surplus unoccupied properties where the contamination remediation task is expected to be complex and expensive. Such properties normally require an up-front investment and ultimately may result in the cost of remediating contamination near to, or exceeding, the price that the Commonwealth can obtain; and

- properties that may not really be needed in an efficient estate, but are either costly or otherwise difficult to vacate and get ready for divestment. These properties include situations where existing functions may need to be moved somewhere else, necessitating a sometimes very large up front capital cost for new facilities elsewhere. They generally fall in the Defence estate.

The Commission notes that the divestment of surplus property will not lead to the sale of important national cultural institutions and monuments, such those in the Central National Area of Canberra.

**Property management skills in the Commonwealth**

Property ownership, development and management are highly contestable markets. The Commission believes that it is unlikely that all the experience and skills essential to optimise outcomes and deliver value for money can be acquired or retained in the Commonwealth. Market remuneration for these skills is relatively high compared to the public sector. As such, these capabilities are likely to be more appropriately obtained by contracting the private sector.

**Encouraging the disposal of Commonwealth property**

Under current policy, all net proceeds (the price paid less the sales costs) of property divestment are returned to the Budget. The owning agency undertakes the disposal process and bears the risk, but receives no benefit arising from the sale. This provides no incentive for the agencies to allocate personnel, financial, political, intellectual and other resources to divestment, especially when resources are tight.

Consideration could be given to allocating a portion of the proceeds of any property sale to the disposing agency. Consideration would need to be given to the appropriate share. Given the uncertainties associated with Commonwealth land sales, perhaps 25 per cent of the sales proceeds could be retained by disposing agencies. This would mean that, even where there is a net cost, the disposing agency is rewarded for its endeavour and the
Commonwealth will have disposed of both risk and any on-going future costs associated with the surplus property that has been sold.

The Commission considers that property disposal may be accelerated through the establishment of a small taskforce, chaired by an independent property disposal expert from the private sector, to establish a pipeline of properties for disposal. The taskforce would sit within Finance and establish, within 12 months, a list of properties for disposal, together with an order of priority, timeline and an indication of the risks associated with each property. The taskforce would include the Commonwealth’s major property owners – the Departments of Defence and Finance, together with two other permanent members and one or two co-opted members reflecting the nature of properties under consideration at the time.

Box 10.20.1 provides further details on implementing the Commission’s recommendations relating to management of the Commonwealth estate.

**Box 10.20.1: Implementation notes**

The Commission considers that the following actions should be taken to improve the Commonwealth estate:

a. the central whole-of-government register of Commonwealth estate properties should be publicly available, except where there are security reasons not to, and should be managed by the Department of Finance with departments and agencies responsible for ensuring information is current;

b. managers of Commonwealth estate properties should draw on greater private sector experience in property management, which will provide a catalyst to improve the property management skills base in the public service;

c. a further divestment process, oversighted by an independent property expert, should include:
   i. identifying a list of properties for disposal;
   ii. establishing indicative priorities and timelines;
   iii. providing an indication of the risks associated with each property and any strategies that may address those risks, in part or full; and
   iv. supervising the disposal of the identified properties;

d. in addition, the Government could consider providing an incentive for agencies to actively seek to dispose of surplus Commonwealth property by allocating a portion of the proceeds of the sale to disposing agencies; and

e. consistent with the Commission’s Principles of Good Government, and not addressed in
the Report, the Commission supports the Commonwealth’s existing policy to use commercially available office and other accommodation as far as possible, ensuring that there is competition, competitive tension and value for money.

i. The Commission suggests that, if Commonwealth agencies wish to purchase property, prior approval from the Minister for Finance should be required.

References

Australian National Audit Office 2001, Commonwealth Estate Property Sales, Audit Report no. 4, Canberra.


10.21 Outsourcing, competitive tendering and procurement

Background
The government operates in the Australian market alongside businesses and individuals trading goods and services and applying their capital, labour and ingenuity to secure favourable outcomes. This section addresses some aspects of how the government should participate in the market place: how it should go about the procurement of goods and services, how it can draw on business capability to deliver its services and how it should charge for the products it provides that are of economic value in the market.

For the past three decades, governments have recognised the value of adopting market based mechanisms for both the delivery and procurement of services. Competitive markets offer the well established benefits that come when firms compete on the price and quality of their services.

Market-based options for the delivery of government services include corporatisation, outsourcing and delivering services in a competitive or contestable environment with service charges as appropriate.

Government procurement also benefits from competitive processes. Options include competitive tendering and requesting quotes from multiple providers. The transaction costs associated with going to market for procurement decisions have been reduced through mechanisms such as provider panels (that are established through competitive processes).

These principles are now well established and ingrained in the day to day operations of the Commonwealth Government. However, their application across government is haphazard.

The processes, guidelines, reporting arrangements and skills within the Australian Public Service need to be improved to drive greater consistency and better outcomes – including value for money – from the use of market-based mechanisms in both the delivery and procurement of services.

Current structures

Procurement
At the Commonwealth level, the Department of Finance is responsible for the procurement policy framework. This framework is articulated in the Commonwealth Procurement Rules and supported by AusTender, the Commonwealth’s centralised procurement information system.

Most Commonwealth agencies are required to comply with Commonwealth Procurement Rules which set out requirements, including for government officials, and combine both
Australia’s international obligations and good practice. The core principle of the procurement rules is the achievement of value for money (Department of Finance and Deregulation, 2012).

In addition to the Commonwealth Procurement Rules, agencies must also comply with 24 Procurement Connected Policies which generally seek to deliver broader social and other non-procurement objectives through purchasing decisions. These policies range from industry participation arrangements and the Fair Work Principles through to energy efficiency, disability strategy and Indigenous opportunities policies. A full list of the Procurement Connected Policies is in Box 10.21.1 (Department of Finance, 2014a).

A key feature of the procurement system is the requirement for all government procurement contracts and agency agreements with a contract value of $10,000 or over to be published on AusTender by the agency awarding the contract.

Supporting this framework are whole-of-government coordinated procurement arrangements for goods and services commonly purchased by all government departments, such as computers, travel and paid advertising. These arrangements were introduced to deliver operational efficiencies and generate savings for the Commonwealth through aggregated demand. The use of these contracts is mandated for all Financial Management and Accountability Act 1997 agencies.

Whole-of-government procurement arrangements assist agencies when they procure commonly used goods and services as they establish the standard-form contract, standing offer or template documentation once, rather than many times. Whole-of-government arrangements are established from time to time through a tender process and may be led by an agency with policy responsibility or expertise in the particular goods or services.

Agencies also use panel arrangement to procure goods or services they regularly acquire. In a panel arrangement, a number of suppliers are selected, each of which are able to supply identified goods or services to an agency. For example, there is a whole-of-government panel for printing and publication services (Department of Finance, 2014c).

Assistance to the business community in relation to the Commonwealth’s procurement activities is provided by the Procurement Coordinator within the Department of Finance (Department of Finance, 2014b). The Coordinator is responsible for providing external parties with an understanding of the Commonwealth Procurement Framework, handling of certain complaints, monitoring issues related to Commonwealth Government procurement and reporting to the Minister for Finance on procurement matters.
Box 10.21.1: Procurement Connected Policies

Australian Industry Participation
- Australian Industry Participation Plans for Government Procurement

Coordinated Procurement
- Coordinated Procurement

Employment and Workplace Relations
- Fair Work Principles
- The National Code of Practice for the Construction Industry and Implementation Guidelines

Environment
- Energy Efficiency in Government Operations
- National Packaging Covenant
- National Waste Policy
- Australian Government ICT Sustainability Plan 2010-2015

Financial Framework
- Commonwealth Fraud Control Guidelines
- Issuing and Managing Indemnities, Guarantees, Warranties and Letters of Comfort
- Procurement On-Time Payment Policy for Small Business
- Australian Government Foreign Exchange Risk Management Guidelines and Finance Circular
- National Public Private Partnerships Policy Framework and Guidelines
- Competitive Neutrality Guidelines for Managers

Information, Communications and Technology
- Limited Liability in Information and Communications Technology Contracts
- ICT SME Participation Procurement Policy
Chief Executive’s Instructions provide a way for agency chief executives to apply any specific requirements beyond those contained in the financial management framework to the operations of their agency.

The Department of Finance provides Model Chief Executive’s Instructions that chief executives can choose to adopt, including a model for procurement processes. The degree to which Model Chief Executive’s Instructions are used is at the discretion of each chief executive (Department of Finance, 2014d).

The Department of Finance has recently developed a standard suite of contract documents for low risk procurements valued up to $200,000 for use across the Commonwealth (Department of Finance, 2014e). This builds on the previous standard suite of contract documents for low risk procurements under $80,000. Simplification of the liability, insurance and indemnity clauses is a key aspect of the suite (Department of Finance, 2013).

Bespoke requirements can often add significantly to contract costs while adding little to no benefit in achieving the outcomes sought.

A significant influence on Commonwealth Government procurement activity arises from international obligations. These are reflected in the Commonwealth Procurement Rules. The Free Trade Agreements and other international agreements also have the capacity to change procurement rules.
While the Commonwealth Procurement Framework and Rules provide a strong foundation, the Commission considers the procurement policies should be improved to provide a clearer focus on value for money and that a more professional approach to procurement and contract management should be promoted across all agencies.

**Service delivery**

In terms of service delivery, the government harnesses competition in a range of ways. At one end of the spectrum, some government functions have been fully corporatised – for example there are a number of Commonwealth companies operating as government business enterprises under the *Commonwealth Authorities and Companies Act 1997*.

However there is a range of other options. A recent report on diversity and contestability in the public service (Sturgess, G 2012) indentifies three principal alternatives:

a. choice-based markets, where service beneficiaries are free to select from a number of approved suppliers using funds that have been supplied by government;

b. commissioned markets, where providers tender their services to government through a competitive process and are contracted to deliver a public service as a monopoly for a term of years; and

c. contestability, where the performance of service providers is benchmarked and they face the threat of competition if there is persistent failure to deliver.

Choice-based markets are effectively voucher systems. The National Disability Insurance Scheme has been established using this model – individuals receive funds that can be used to purchase services from various providers in the market.

Outsourcing and competitive tendering are examples of commissioned markets. This is a common form of competition in the Commonwealth Government, as evidenced by the procurement arrangements discussed above.

Genuine contestability is less common. While user charging is widely employed, it is not often part of broader benchmarking and contestability arrangements.

**Outsourcing**

Large scale outsourcing of complex and sensitive services did not begin in Australia until the late 1980s when the Hawke Government called for an increased focus on regulation and competition consistent with broader microeconomic reform (MacDermott, K 2008). This was followed by mandating market testing for support functions through the Defence Commercial Support Program, and then the commercialisation of the Department of Administrative Services. The agenda was extended in 1995 to the market provision of services and choice for citizens with the National Competition Policy. The preference for
competitive contracting for the delivery of Commonwealth services became official policy in the first term of the Howard Government.

Since the mid-1990s, organisations have been contracted into areas of government activity characterised by risk, sensitivity and complexity. In some cases, new competitive markets have been created such as the Jobs Network (now Jobs Services Australia).

**User charging**
The Commonwealth Government sells a variety of goods and services (including charging for regulatory services) to the public and businesses ($20.3 billion) and to each other ($8.6 billion). Charging arrangements are thus an important source of revenue. They can also result in better resource allocation, as only those that use a government activity pay for it, rather than the broader public (that is, all taxpayers). Charges also provide price signals that deter over-use of government services.

The majority of charging ($12.2 billion) relates to the commercial operations of government business enterprises (GBEs), such as Australia Post and Medibank Private. Generally, the government expects these bodies to price efficiently and earn a commercial return.

Of the remaining $16.7 billion dollars in user charging activity in 2011-12, the Australian Government Cost Recovery Guidelines covered only $2.1 billion (Chart 10.21.1 refers). Generally, charging between government entities, industry levies, commercial charging by agencies which are not classified as GBEs and charges that rely on taxing powers fall outside the scope of the Guidelines.

**Chart 10.21.1: User charging, 2011-12**

Source: Commonwealth Consolidated Financial Statements 2011-12 and Department of Finance.
**Trends**

Procurement and outsourcing activity is captured in AusTender. During 2011–12, Commonwealth Government agencies reported 82,301 contracts through AusTender, with a total value of $41.8 billion. This was an increase since 2010-11, when there were 79,286 contracts reported with a total value of $32.6 billion (Department of Finance and Deregulation, 2013).

Services procurement accounted for 55.3 per cent of the total value of contracts and 59.2 per cent of the total number of contracts in 2011-12 (Department of Finance and Deregulation, 2013).

Defence sector procurement accounted for 47 per cent of the total number of recorded contracts and 55 per cent of the total value of recorded Commonwealth Government procurement in 2011-12 (Department of Finance and Deregulation, 2013).

Commonwealth agencies entered into $32.3 billion (78.0 per cent) of Australian supplied contracts and $9.1 billion (22.0 per cent) of overseas supplied contracts in 2011-12 (Department of Finance and Deregulation, 2013).

The largest three categories of procurement in 2011-12 were (Department of Finance and Deregulation, 2013):

- management and business professionals and administrative services (20.4 per cent);
- commercial and military and private vehicles and their accessories and components (18.7 per cent); and
- structures and building and construction and manufacturing components and supplies (11.0 per cent).

From 2005-06 to 2012-13, Commonwealth sales of goods and services grew on average by 4.7 per cent per year in real terms. As a result sales of goods and services increased from 5.0 per cent of all revenue to 5.9 per cent now (see Chart 10.21.2).
Issues

Procurement

Invariably, government procurement is guided by rules. The Commonwealth Procurement Rules focus primarily on value for money, however the simplicity of this focus is undermined by the accretion of additional requirements. The 24 Procurement Connected Policies represent a significant amount of red tape for business and government. Many of these duplicate existing legislation or other guidelines and they can also run counter to the core principle of value for money. Procurement policies and practices should not be used to progress broader social objectives.

There can also be overlap between agency Chief Executive’s Instructions and the Commonwealth Procurement Rules, adding to complexity. In some instances chief executives add requirements beyond the Model Chief Executive’s Instructions that are not necessary, possibly due to risk aversion.

While the Commonwealth Procurement Rules and their predecessors have specified that agencies should assess the risks affecting their procurements, cultural factors affect the approach to risk. It appears that agencies can be risk averse in their selection of bids, providing a systemic bias against small and medium enterprises. At the same time they can exhibit a preference for more technologically risky options, increasing the possibility of both cost and schedule over-runs.
Competitive tendering and outsourcing guidelines

The Commission understands that there is no existing formal, structured approach at the Commonwealth level for the consideration of what services should be contestable and, if warranted, outsourced.

Instead, directions are set by the Australian Government Procurement Statement, which require that ‘the Government will only contract out when it is in the public interest, having regard to such considerations as the quality and accessibility of services and the implications for affected public sector employees’ (Australian Government, 2009).

User charging framework

There is an assortment of fees, industry levies, monetary penalties and transfer pricing arrangements within government that lack an overarching policy framework.

While the cost recovery guidelines are currently being reviewed by Finance, these only cover a small part of Commonwealth charging. A policy framework that covers all forms of charging would be desirable. This could improve the transparency of government operations and help ensure that charges are being applied in a consistent and efficient way.

Potential areas for reform

Competitive tendering and outsourcing guidelines

The Commission considers that governments should actively harness the benefits of outsourcing and seek opportunities to pursue outsourcing within a framework of benefits and costs.

Taxpayers and the broader community would generally benefit from the establishment of a comprehensive framework for managing service delivery, which ensures that:

- decisions to outsource are made with reference to a broadly accepted set of principles;
- appropriate safeguards protect the rights of citizens and at least maintain the quality of service; and
- the public service demonstrated a high level of expertise in contract management.

Decisions on outsourcing should also take account of the interests of stakeholders, for example those in rural and remote communities who may be concerned about the effect of (or lack of) competition in the local community.

It is also important not to be limited by ‘convention’, but to look for where new and emerging capabilities and market changes may foster opportunities for outsourcing that
were previously unavailable. For example, traditional government monopoly service providers should be reassessed in the context of relevant industry developments with a view to encouraging contestability. This may lead to considerations of whether to privatise relevant entities that operate in a competitive or regulated market or partially privatise contestable elements of government activities.

Areas for early consideration in relation to contestability may include Airservices Australia, administration of parliamentarians’ entitlements, and payment services.

It will also be important to retain an open mind on the types of services, including services that are regulated by government, that have the potential to be delivered by the private or non-government organisations.

The emergence of cloud-based services is a market change that has created an opportunity to outsource an organisation’s needs — not just in terms of ICT systems but also in large-scale business process outsourcing. In many ways, this new model is challenging the existing outsourcing providers and allowing organisations to make more informed decisions about what functions can be undertaken by another party, or where they might leverage intellectual property or capability.

Importantly, the nature of the services that can be provided by the Cloud allow organisations to rapidly scale up (and down) based on demand, without needing to make long-term contractual commitments or investments. The model also provides much greater flexibility in terms of changing organisational structures and business mergers and acquisitions, such as machinery of government changes.

**Abolish Procurement Connected Policies**

The Commission considers that the Procurement Connected Policies should be abolished. These policies represent unnecessary red tape and can be an inefficient means of meeting broader policy objectives at high cost to business. Some merely duplicate the normal laws of Australia. In some cases, the underlying policy should also be reassessed, with a view to ceasing — in particular:

- Australian Industry Participation Plans for Government Procurement;
- Commonwealth Disability Strategy;
- Fair Work Principles;
- ICT SME Participation Procurement Policy;
- Indigenous Opportunities Policy;
- National Packaging Covenant;
• National Waste Policy;
• Procurement On-Time Payment Policy for Small Business; and
• Workplace Gender Equality Procurement Principles and User Guide.

Professionalise procurement and contract management

A successful approach to outsourcing requires a step-up improvement in the expertise of the public service in contract management.

Finance could develop panels of professional contract negotiators or managers that other agencies could draw upon, as well as agencies ensuring that officers involved in large or complex procurements and contracts are accredited procurement or contract management professionals. This would be through attainment of relevant Certificates or equivalent recognised prior learning. ‘Large or complex’ could be defined the same way as for the establishment of a review process, discussed above.

The Commission considers that a more strategic approach to procurement could be fostered through enhancing the role of the Australian Government Procurement Coordinator in the Department of Finance.

Such an enhanced role could see the establishment of a process for Finance – or other designated bodies – to assess evaluation reports for large and complex procurements – typically those with a contract value over $10 million.

This threshold would strike an appropriate balance between addressing procurement risks and adding cost burden to agencies. For example, in 2011-12 there were 432 procurement contracts worth more than $10 million. This represents just 0.5 per cent of the number of procurements but 66.9 per cent of the overall value (Department of Finance and Deregulation, 2013).

Similarly, proposals to change an existing procurement contract for such procurements with an aggregate value over $10 million could also be included in this assessment process, to prevent agencies from submitting multiple changes under $10 million.

This oversight function could continue until the agency has met requirements for ‘earned autonomy’. Autonomy could be earned by having a certain number of evaluation reports agreed by the Department of Finance in a set time period.

This enhanced approach would not replace the accountability of chief executives of departments and agencies being required to promote the proper use of Commonwealth resources. The Department of Finance — or another independent party where appropriate — would validate the report. Agencies could be exempted from this process through earning autonomy — for example through receiving a certain number of positive evaluation reports agreed by the Department of Finance (Finance) in a set time period.
Taking a more strategic approach should also provide the opportunity to strike the right balance between risk management and the effectiveness and efficiency of procurements.

Standardisation

There should be greater use of standardisation and reduced use of bespoke requirements. Use of the standard suite of contract documents developed by Finance for low risk procurements valued up to $200,000 should be made mandatory for all agencies.

There are important preconditions for effective outsourcing, which include reaching agreement on standardising, consolidating and streamlining systems and processes. As such, to inform the viability of the outsourcing option, the Government should move to introduce:

- a clear expectation that all support services (such as human resources and IT) be provided in the most efficient and effective manner;
- a requirement that all new policy proposals, including for the delivery of services or regulation, and capital replacement to assess whether these may be contested and the viability of the outsourcing option (and if not, explain why not);
- greater standardisation in administrative processes (particularly common processes such as finance, payroll and registry-like functions), the level of service provided and the extent to which ‘self-service’ can be available; and
- development of a roadmap of potential outsourcing opportunities across the Commonwealth, including in the context of shared-services.

Box 10.21.2 provides further details on implementing a more strategic and professional approach to project and contract management.

Box 10.21.2: Procurement and contract management implementation notes

The Department of Finance could promote a more professional and strategic approach to procurement and contract management in agencies, including through:

- enhancing the role of the Australian Government Procurement Coordinator in the Department of Finance to assess evaluation reports for large and complex procurements (typically those with a contract value over $10 million) as well as proposals to change an existing procurement contract for such procurements (with an aggregate value of contract changes over $10 million)
- developing panels of professional contract negotiators or managers, including from the private sector, which agencies could draw upon; and
- requirements for officers involved in large or complex procurements and contracts to be accredited procurement or contract management professionals.
In implementing the Commission’s recommendation in relation to abolishing the abolition of the Procurement Connected Policies, there would be a need to consider:

- the abolition of policies that impose an unreasonable burden on business for little or no policy outcome, such as the Australian Industry Participation Plans for Government Procurement; and

- where the Procurement Connected Policies are of only a routine nature relating to procurement processes – such as fraud control guidelines – these should also be removed from the procurement rules and managed in policy guidance provided by the responsible agencies.

Greater use of contract standardisation could include ensuring that Chief Executive’s Instructions are not used to add unnecessary complexity, with procurement guidelines to include appropriate probity rules that strike a balance between risk management and procurement efficiency. Wherever possible, specification for goods and services should be fit for purpose, without bespoke requirements unless absolutely essential.

Increased use of standardisation could also be undertaken through mandatory use of the standard suite of contract documents developed by Finance for low risk procurements valued up to $200,000.

**User charging framework**

An overall user-charging framework would ensure government charges are appropriately set and consistent. This would include consideration of the overall efficiency and economic impact of charges and better transparency and consultation in planning and implementing charges.
References


10.22 Outsourcing of the Government payments system

Background

The Department of Human Services (DHS) delivers more than 200 different services for more than 20 Commonwealth and State government bodies and is responsible for the Government Payment System for those services. The Income Security Integrated System (ISIS) transfers these payments, but is at the end of its life. A replacement system could be expected to cost around $1.2 billion to $1.5 billion.

Each working day DHS approves more than $400 million in payments though transfers to the individual bank accounts of eligible recipients via the ISIS system. DHS has advised that ISIS is a complex transfer system, into which the payments system is embedded. ISIS provides not only the payments system, but also customer management capability – that is, the records and history of recipients of Commonwealth Government social services and payments.

ISIS was developed to calculate and administer social welfare payments nearly 30 years ago and has been adapted as government policies and programmes have changed. It is written in now defunct computer language, is inflexible and expensive.

DHS spends more than $830 million on information and communication technology (ICT) in a year, which represents 19 per cent of its total departmental appropriation. DHS’s ten-year, $98.5 million licensing deal with vendor Computer Corporation of America expires in June 2014.

DHS shares data on its customers with a range of other Commonwealth Government agencies to prevent fraud and improve outcomes for individuals. It provides a whole-of-government view of recipients of Commonwealth benefits.

What is a payment system?

A payment system arrangement allows funds usually held in one account at a financial institution to be transferred to another account. It includes payment instruments (cash, cheques and electronic funds transfers) and the arrangements that ensure that funds move from accounts at one financial institution to another. The Government payment system requires a capacity to:

- assess eligibility for entitlements or grants, in respect of relevant laws, rules and standards;
- review eligibility when the circumstances of the recipient change;
- maintain records of recipients and make them available to appropriate agencies as required;
• approve payments from the government account to individual clients; and
• report outcomes to the Commonwealth.

The DHS payments system is governed by laws, rules, procedures and standards that inform assessments of eligibility for welfare, study, aged pension and other payments. Once eligibility for the entitlement is established, the Government Payment System enables the funding to be transferred electronically, by cash or by cheque to the recipient.

Current DHS services

High-level indicators about the workloads and activities of DHS, in 2009, include:

• DHS delivers more than 200 different services for more than 20 Commonwealth and State agencies, through a network of over 1,000 outlets Australia-wide.

• There are also 25 Centrelink call centres, six Medicare Australia call centres and 45 Child Support Agency sites that take calls.

• Each year, DHS receives at least 65 million items of inbound mail and processes nearly 280 million health services transactions through Medicare Australia and 6.6 billion transactions against customer records through Centrelink.

• Each year working day the portfolio approves about $400 million in payments through transfers to the individual bank accounts of eligible recipients.

• Each working day 400,000 letters are sent out, 361,000 face-to-face services are provided, 222,000 phone calls are answered and at least 70,000 online transactions by customers are supported.

While the payment cycle now is relatively smooth, with little fluctuation on traditional ‘paydays’, the DHS information and communications technology system that electronically processes those payments is complex.

Drivers

The complexity of the current system arises from a multitude of policy decisions about the structure and goals of the welfare system and the various changes to payments over decades. Many of these payments are enshrined in legislation. According to DHS, the largest driver of complexity in technology and cost is the system’s magnitude, which has 34 payments and 38 add-on payment types.

The complexity of the payments architecture and interactions between payments creates customer confusion, errors and rework, and requires a highly knowledgeable workforce to provide support.
For example, 60 per cent of all Centrelink claims submitted to the Department need follow up activities to correct information. Some 20 per cent of all claims submitted never reach completion or are rejected due to the ineligibility of the potential claimant.

Because of its age and complexity ISIS adds significant costs to processing payments, maintaining the ICT system, producing letters and responding to appeals and reviews, and it increases the need for debt recovery. A replacement strategy is needed. The timeframe for initiation of the development of a new system could be expected to be 18 to 24 months.

DHS was given authority in the 2013-14 Budget to determine a replacement strategy for its ISIS. It is expected that a replacement system will cost around $1.2 billion to $1.5 billion. The Commission sees little option but to make this kind of investment for such an important and complex ICT infrastructure project.

At the same time, the replacement strategy should identify significant ongoing operational efficiencies from the introduction of a new system which should enable greater self-service and online delivery while reducing the need for manual re-working and regular ICT fixes.

**Issues**

The development of a new ICT system must consider:

1. the complexity of welfare payment arrangements; and
2. the extent and nature of private sector involvement in the new system.

**Complexity of welfare payments**

A fundamental question for government is whether the complicated web of government payments can be simplified in parallel with the introduction of a new ICT system – this is a question of both policy and administration.

In addition, the design of the ICT system must allow future welfare policy changes to be incorporated into the payments system more easily and without the risks that come with the existing ISIS.

Some degree of simplification may be possible by simply changing guidelines and legislation that were developed in an era where advanced technology was not available. For example, policy guidelines frequently mandate that compliance or information provision needs to be completed by the citizen in face-to-face channels at specific locations, such as the Personal Contact Interviews required for Newstart customers. Much of this could be done either online or via video conferencing.

Other areas for potential simplification include:
• standardising definitions for customers, for example, income and asset definitions. Different laws have different definitions for information that customers are required to provide, making it more difficult for customers to understand their obligations and requiring increased customer contact and re-work; and

• removing discretion in decision making — current social security laws contain decision-making points that are subject to considerable discretion on the part of the decision-maker. There is potential for legislative reform to remove discretion at various points in the decision-making process for assessing payments, which currently require human intervention and cannot be completely automated.

More fundamental changes to the welfare system that could be considered (noting they would require careful policy deliberation) include:

• simplifying and standardising the income test across payments;
• reducing the number of primary payments;
• simplifying grandfathering entitlements, some of which go back 20 years; and
• consolidating or rationalising add-on payments where appropriate.

Private sector involvement

There is a range of issues to be considered in determining the best blend of private and public sector expertise in the development and management of a very complex ICT system.

Specialist outsourcing providers prefer high volume, low complexity activities that are stand alone because they are generally low risk and can be managed relatively easily. Experience indicates that outsourcing works best where the required service can be easily specified and monitored and where a competitive market of potential suppliers exists independent of government patronage.

Other factors that influence the success or failure of outsourcing arrangements include: the need for appropriate safeguards to protect the rights of citizens; the quality of the scoping of the requirement being outsourced; and the management of the contract and contract variations.

The key consideration in outsourcing the government payment system is the potential for services to be delivered more efficiently and effectively and at a lesser cost.

The immediate driver for considering the option of outsourcing the government payment system is the significant investment required to replace the ISIS. It is important to consider all options for the replacement of the system early in the scoping of the requirement.
Further, an outsourced arrangement has the potential benefit of avoiding major capital outlays for the Commonwealth.

The Commonwealth Government has a long history of outsourcing activities that can be delivered more effectively, efficiently and cheaply by other parties. Examples include the outsourcing of the Commonwealth Employment Service to Job Services Australia, outsourcing of ICT services and the sale of assets that are better positioned in the private sector, such as Commonwealth Serum Laboratories, Qantas, Commonwealth Bank and Telstra.

There are several models for engaging the private sector in the delivery of a new payment system, ranging from fully outsourcing the development of the new system to outsourcing specific functions once a more modern ICT system is in place (including processing and customer management).

Key questions include:

- Is there a market appetite to take on the task, noting that Australia Post has already put forward a proposal in the public domain?

- Can outsourcing be done without undue risk to a core government activity, such as the assessment of entitlements?

**Australia Post proposal**

Australia Post has put forward a proposal to take over delivery of a range of government services, particularly those delivered by DHS.

- The principle focus of the proposal is the physical integration of service points for DHS within Australia Post’s network of over 4,400 retail outlets and its role as a trusted provider of third party services.

- All DHS functions, other than strategic policy development, would be integrated into Australia Post.

- Australia Post would bring improved convenience for clients by developing digital alternatives – initially through acquiring the myGov platform operated by DHS – and capabilities to verify digital identities, improve fraud detection capabilities and the supply of direct communication through the Australia Post Digital Mailbox.

- The proposal would see the 334 Centrelink service centres, as well as 126 rehabilitation centres and 139 standalone Medicare offices amalgamated into Australia Post’s network. In addition, 334 new ‘Supercentres’ would be established to offer DHS and Australia Post services.
• The proposal is predicated on a one-off investment cost of $1.5 billion to $2 billion and Australia Post has projected it to deliver net benefits of $1 billion to $1.2 billion annually.

• The proposal claims to deliver total staffing reductions of about 9,000 people, with 5,000 from DHS and 4,000 from Australia Post, resulting in some $700 million of lower costs.

• The Australia Post proposal would be rolled out over five years from 2015.

At this time, the Commission has not had an opportunity to undertake a detailed verification of the estimates of costs and benefits of the proposal provided by Australia Post.

Assessment of entitlements

Where the service is complex and requires constant quality control, savings achievable through outsourcing can be eaten-up by monitoring costs. In addition, if the supplier market is narrow, with few competitors, governments can become captive to monopolistic exploitation in outsourced arrangements.

Outsourcing arrangements have typically encountered difficulties when the business model changes through deliberate strategic policy decisions by government, rather than improved processes and approaches initiated by the supplier. For the supplier of outsourced services, such decisions can undermine the revenue base on which the contract for the arrangement was entered into. For government, contract changes can lead to very high costs, particularly when the timing of the change is critical.

In relation to this, it is not uncommon for Governments to announce emergency assistance programmes, for example in times of natural disaster, which require new or revised payments to be made urgently. Such events usually require assessment officers to be on-site to provide information and advice on entitlements, as well as to approve payments or provide cash to those affected. Outsourced arrangements often experience difficulties in accommodating emergent needs.

In view of the above, keeping the entitlement assessment function inside government appears to reflect outsourcing experiences, which suggest that outsourcing is not effective in respect of strategic development, or where subjectivity and judgement is required of the outsource service provider. Outsourcing these functions can lead to outcomes that are inconsistent with government policy intent and even legislative requirements.

Assessment processes and the payment of pensions and other welfare entitlements are different for each nation. However, assessment of entitlements largely remains an in-house function of government. For example:

• The UK Treasury is responsible for disbursements associated with public spending, including departmental spending, public sector pay and pension, annually managed
expenditure and welfare policy. The Pension Service helps with State Pension eligibility, claims and payments.

- Service Canada provides access to programmes, services and benefits for citizens, including pensions. Almost all individuals who work in Canada contribute to the Canada Pension Plan (CPP). The CPP provides pensions and benefits when contributors retire, become disabled, or die.

**Potential areas for reform**

The Commission supports the view of DHS that welfare payments should be simplified, recognising the challenge this poses for targeting of assistance.

Outsourcing of the payment system should be considered on the basis of prospects for the services to be delivered more efficiently and effectively and at a lesser cost than is the case now. The ongoing management of the system is also a candidate for outsourcing, to drive efficiency and effectiveness.

However, outsourcing does not exempt government and ministers from responsibility for failures.

Even with a simplified payment structure, redesigning the ICT system is a significant undertaking that will require expertise from across the public and private sectors. In addition, the need to re-design such a complex ICT system in parallel with the simplification of welfare policy may complicate any decision about outsourcing.

The Commission considers that, in the first instance, the Government should appoint a highly credentialed business technology expert to oversee the new system design, working with experts from DHS. This person should report directly to the Minister for Human Services and the Secretary of DHS.

The Commission recognises outsourcing of the payments system arrangements would be a substantial and potentially high risk undertaking. It requires very careful consideration.

This would include a judgement on whether the assessment of entitlements is an appropriate activity for outsourcing; whether outsourcing should be confined to the development and maintenance of the replacement for the ISIS, or whether the payment mechanism only should be outsourced.

The Commission does not support the outsourcing of assessment of entitlements.

However, there may be merit in testing the market for the delivery of other aspects of the payments system. A scoping study should be developed, informed by the advice of a business technology expert.
10.23 Technology

Background

Information and Communication Technology (ICT) plays a critical enabling role in delivering and transforming the operations of government. In October 2012, the *Australian Public Service Information and Communications Technology Strategy 2012-2015* was launched with an aim for the Australian Public Service to:

> use ICT to increase public sector and national productivity by enabling the delivery of better government services for the Australian people, communities and business, improving the efficiency of APS operations and supporting open engagement to better inform decisions (Department of Finance and Deregulation, 2012).

The Commonwealth Government has indicated its intention to accelerate the digital economy and online engagement. There is a range of areas where there is scope for improved use of technology by the Commonwealth Government, drawing on international experience.

Improved collaboration among government agencies on data and infrastructure can facilitate innovation and increased productivity. Shared service platforms can reduce duplication, achieve economies of scale and reduce support and maintenance overheads.

Government collects and holds a large amount of data for administrative purposes. Greater use could be made of this data to inform policy and decision-making and improve the efficiency and effectiveness of programme and service delivery.

Emerging digital technology, including cloud-based services, offers great potential for the government to improve online service delivery and public interaction. E-Government also has the potential to deliver significant efficiencies in service delivery.

Rationale for government intervention

Rapid advances in technology offer governments the ability to re-shape their services and information management to achieve greater operational efficiency and deliver higher quality services (OECD, 2005). Continuous improvement of government ICT allows for the delivery of more efficient, cost-effective public services that are more responsive to the needs of citizens and businesses.
Drivers

Key drivers for improved and more effective whole-of-government ICT include:

- **changes in community expectations** about the availability and timeliness of government services given the trend to ubiquitous online and mobile technology;
  
  - Australians have changed the way they use government services. According to the *Nielsen Australian Online Consumer Report 2012* (Nielsen Company, 2012), for the first time in 2011, accessing government services or information was among the 10 most popular online activities for Australians. Seventy-eight per cent of Australian internet users accessed government services or information online;

- the emergence of **cloud computing** as a viable and cost effective means of leasing ICT requirements:
  
  - advantages of cloud computing include speed, flexibility and economies of scale can that reduce cost;

- **data analytics** and advances in computing power (supported by cloud computing) offer the capacity for real-time analysis of large datasets:
  
  - sometimes referred to as ‘big data’, data analytics involves analysing very large datasets in real time. It is increasingly being used by the private sector to analyse consumption patterns to inform business strategies; and

- the international trend towards **e-Government**, with associated cost savings from conducting transactions online:
  
  - online service delivery has been increasing for over a decade, given the convenience for citizens and the efficiencies for government. It is now at a point where some governments are mandating digital channels as the default form of communication.

Issues

**Big data**

Data analytics is becoming a core business strategy in the private sector, as companies look to utilise the public’s increasing digital footprint to segment the market and tailor their services.

In recent years, the Commonwealth Government has also put effort into developing big data initiatives. The *Australian Public Service Information and Communications Technology Strategy 2012-2015* recognised the need for a whole-of-government big data strategy (Department of Finance and Deregulation, 2012). The *Australian Public Service Big Data...*
Strategy was released in August 2013 outlining a plan to improve the use of agencies’ data assets whilst protecting individual privacy (Department of Finance, 2013a).

A whole-of-government Data Analytics Centre of Excellence has also been established to build analytics capability across government through a common capability framework and collaboration with tertiary institutions.

Internationally, Sweden and the United Kingdom offer good examples of governments looking to harness data analytics.

The Swedish Government has developed the Swedish Big Data Analytics Network which involves a number of organisations including different sized companies, universities and public sector stakeholders (Swedish Government, 2013).

The United Kingdom Government (2013a) announced funding of £189 million for big data in 2012, recognising the potential impact on business and science transformation. This will be invested over the next two years in key areas such as: bioinformatics and environmental monitoring. A further £23.5 million has been invested in the Economic and Social Research Council to support an ambitious birth cohort study to track 100,000 children from birth, with an objective to link genetic, environmental and educational outcome data.

The Centre for Economics and Business Research (2012) estimates that the big data marketplace could generate approximately 58,000 jobs in the United Kingdom from 2012 to 2017. Deloitte (2013) also reports that ‘the direct value of public sector information alone to the UK economy is around £1.8 billion per year, with wider social and economic benefits bringing this up to around £6.8 billion’.

Open government data

In 2011 a global initiative called the Open Government Partnership (OGP) was launched, to provide an international platform for participating governments to support more open, accountable and responsive government. Since then, the number of participating countries has increased from eight to 63.

In May 2013, in line with its response to the Gov 2.0 Taskforce, the previous Government announced Australia’s participation in the OGP (Department of Finance and Deregulation, 2013). The Gov 2.0 initiative promoted openness and transparency and encouraged government to make non-sensitive public sector information available to society to maximise the benefit of public datasets.

The key measures introduced in response to the Gov 2.0 initiative are the establishment of data.gov.au as the government’s central public dataset repository and guidance for making public sector information accessible and reusable.
The establishment of the Australian Governments Open Access and Licensing Framework provides guidance to governments and society on publishing information and data in line with the Australian Information Commissioner’s Open Access Principles.

Despite these developments, the Productivity Commission’s 2012-13 Annual Report was critical of the lack of access provided by the Commonwealth to its administrative data sets – see the chapter from the report reproduced at Attachment 10.23.1.

In October 2013 a joint project of the World Wide Web Foundation and the Open Data Institute studied 77 countries’ open government data practices at the national level (Davis, 2013). This study included peer-reviewed expert survey data and secondary indicators to assess open data readiness, implementation and emerging impacts.

The key findings of the project, as outlined in its Open Data Barometer 2013 Global Report (Davies, 2013), are that:

- there has been rapid adoption of open government data policies. Over 55 per cent of the countries surveyed in various forms had policies ranging from isolated open data portals within an e-Government framework to government-wide approaches.

- availability of open data remains low. Only 7 per cent of the datasets surveyed are published. This creates difficulty and legal uncertainty for users to access and work with government datasets.

- leading countries with strong open data policies are investing in national infrastructure to promote public and private innovation and efficiency. Mid-ranking countries have some initiatives such as open data portals but often lack the availability of key datasets. Low-ranking countries have not begun to take on open data due to a lack of well-managed government datasets.

- Australia ranked seventh in the list of countries most advanced in open data readiness, implementation and impact. The United Kingdom was ranked first, followed by the United States of America, Sweden, New Zealand, Norway and Denmark.

- No country can yet claim to have fully open government data by default.

Since the United Kingdom Government launched its Open Government Data initiative in 2009, it has placed a high policy priority on open data. Over 10,000 datasets have been published on data.gov.uk to support innovation and economic growth and the Open Data Institute was established to assist business in utilising data.

Each UK government department contributes to data.gov.uk through its own open data strategy and regular reporting via ministerial statements. Many departments have
established Sector Transparency Boards with representatives from business and civil society to act as conduits for user data requests and advising government on data release.

The quality and ‘linkability’ of government data are also important considerations when publishing data. The United Kingdom is developing a National Information Infrastructure of core datasets to be improved as open data. A number of departments are building platforms for their public data and bringing transparency of data across government departments.

The world’s first national open government data initiative was established by the United States in 2009 (United States Government, 2010). It promoted economic value from data and encouraged departments to open data with high value. The availability of open data in the United States is high given copyright laws do not apply to federal data. The Presidential Innovation Fellows programme has private sector experts engaged in government departments on a short-term basis to support open data work. Entrepreneurs are also engaged through Datapalooza events to assist government in social policy making by using government data.

The Open Data Barometer 2013 Global Report (Davis, 2013) also finds that open data supports transparency and accountability, entrepreneurial activity and government efficiency.

ICT infrastructure

Duplication of expenditure on ICT systems not only exists across Commonwealth Government agencies but also within them. As an example, the Department of Defence has a number of individual stand-alone ICT systems which do not directly communicate with each other.

The Coalition’s Policy for e-Government and the Digital Economy states that:

...the Government will eliminate duplicated, fragmented and sub-scale activities across agencies by requiring use of shared or cloud services where minimum efficient scale hurdles are not met. There is a default expectation that private or public cloud solution will be used whenever efficient scale is not achieved at agency level.

Of the total Commonwealth Government ICT spend, $250 million (4 per cent) was expended by 72 small and micro agencies. These agencies cover over 11,000 staff, including 746 ICT staff, who make up 6.6 per cent of total agency staffing. Average ICT cost per Full Time Equivalent (FTE) staff member for these agencies is over $22,000. There may be scope for rationalising these costs through shared ICT services or centralised procurement arrangements.

By comparison, Gartner’s 2014 international ICT benchmarks indicate that the average percentage of ICT staff to overall FTE is currently 5.0 per cent. The cost benchmark is
US$12,700 per FTE. These benchmarks should be viewed cautiously given the relatively high cost of wages, broadband connectivity and software in Australia. Nonetheless, there would appear to be some scope to reduce ICT costs in small agencies.

**e-Government**

The Secure Identity Alliance and the Boston Consulting Group (2013) estimate that, globally, e-Government has the potential to yield savings of up to $50 billion per year by 2020.

The *Coalition’s Policy for e-Government and the Digital Economy* commits to better use of technology in government and the promotion of innovation to improve Australia’s productivity and economy.

In 2011, the use of digital channels for accessing government services appeared to plateau at between 30 and 40 per cent across all levels of government in Australia. However, a 2012 survey by the Department of Finance found that there were more than 1,000 government services available online with a further 320 enhanced or new services planned for introduction (Department of Finance and Deregulation, 2012). High-transaction agencies including the Australian Taxation Office, the Department of Human Services and the Department of Immigration and Citizenship are leading the way.

The Department of Human Services has recently introduced the myGov service, which allows people to access government services from Medicare, Centrelink, Child Support, the Department of Health, the Department of Veterans’ Affairs and the National Disability Insurance Agency using one user name and password online and via mobile apps.

The Australian Taxation Office is scheduled to join myGov in March 2014 through its e-tax product and new web and mobile services. MyGov recently added a digital mailbox service to provide a secure electronic mail delivery channel for official correspondence. This service links with the Australia Post Digital Mailbox facility and also has potential to link with commercial providers.

The Commission understands that the myGov service has just over two million registered members and is accessed by over 150,000 users each week. A further two million users are anticipated to register by mid 2014, with the service further expanding to link with State, Territory and local government services.

In addition to myGov, a range of other government services available online.

- The Australian Taxation Office has offered online tax returns for individuals for many years. It has also introduced Standard Business Reporting that allows firms to lodge tax returns and other financial information with government agencies directly from the software they use for financial reporting, reducing the reporting burden on business. The recent introduction of the SuperTICK service for superannuation funds to check client identity is another example.
• The Department of Immigration and Border Protection has processed visas electronically since the 1990s through the Electronic Travel Authority, which links into airline booking systems.

• The Australia Customs and Border Protection Service uses electronic cargo manifests to risk assess imported goods and is increasingly giving eligible travellers the option to self-process through passport control using SmartGate, the ePassport and face recognition technology that performs customs and immigration checks usually conducted by an officer.

However, there is still a long way to go to realise the potential benefits of online service delivery in Australia.

In 2012, 50 per cent of services provided by the Department of Human Services were not conducted online. The ATO reports it is required by legislation to send over 10 million notices of assessment in hard copy. A further 17 million letters are sent by the ATO on activity statement material.

Take up rates for Standard Business Reporting are also substantially below original targets and the Department of Immigration and Border Protection maintains a significant proportion of visa categories which are not electronic.

At the State government level, the Queensland Government (2012) has become the first jurisdiction in Australia to have a formal e-Government ministerial position – the Assistant Minister to the Premier on e-Government.

The eGovernment Directorate of South Australia (2014) is designed to manage government online service to societies. Through enterprise solutions, innovation platforms and strong links to partner organisations and government departments, the South Australian Government is developing online citizen services aligned with the Ask Just Once Strategy and South Australia’s Strategic Plan.

Internationally, the Republic of Korea is ranked as the world leader in e-Government (United Nations, 2012). Other high performing countries include the Netherlands, the United Kingdom, Denmark, the United States, Canada, France, Norway, Singapore and Sweden. The survey also states that Australia continues to be the leader in the Oceania region.

In the Republic of Korea, the Government has developed an integrated portal where the public can access almost every government service on both a national and local level. The integration across many departments offers a powerful search engine allowing search lists by websites, services, and news. Provision of downloadable mobile applications for citizens to access services easily is a key reason for the Republic of Korea’s continued leadership in e-Government.
The United Kingdom Government Digital Strategy 2012 outlines that from April 2014 all services brought online will comply with the ‘digital by default’ standard. The strategy estimates savings of £1.7 billion to £1.8 billion each year through delivering services digitally.

Since the introduction of a single government website, GOV.UK, in October 2012, user satisfaction has been increasing as more government department activities are moved onto the site. As at October 2013, GOV.UK was receiving 9 million visits per week by 6 million unique visitors (United Kingdom Government, 2013c).

Denmark has established a national services portal as the gateway to the entire public sector. Through this website, citizens can report changes in address, income or marital status, apply for student loans or a state pension and modify tax issues. A mail box called E-Box is designed to collect mail from government or private companies for the citizen.

Under its eGOVERNMENT strategy 2011-2015, the Danish Government expects to save DKK800 million (approximately A$166 million) by using a digital post solution. By 2015, it will be mandatory for citizens to use digital solutions to communicate in writing with the public sector. All citizens will also be required to use online self-service once printed forms and letters have been phased out.

**Cloud computing**

Cloud computing is a way of leasing computing services over a network. It allows costs to be shared across users, with rapid scalability on demand and fast access to new computing applications and systems as they become available.

Public cloud computing offers the greatest savings by amortising costs over millions of users globally. It can produce significant savings in the total cost of ownership, of infrastructure costs. Private cloud facilities are more expensive but offer benefits such as increased security.

IBM (2012) has estimated that reducing ICT ownership in favour of leasing arrangements can produce savings of between 20 and 30 per cent of infrastructure costs, including by eliminating redundant networks, server consolidation, standardising applications and consolidating data and data storage.

A KPMG (2012) study on Modelling the Economic Impact of Cloud Computing reported that significant operational and capital savings can be made by governments and firms adopting cloud technologies. Savings are available across all three typical cloud service offerings: software, platform and infrastructure.

The same study also estimates that Australian GDP could grow by $3.3 billion by 2020 if the adoption of cloud services across the Australian economy rises.
The emergence of cloud-based technology offers the potential for better efficiency and service standards across government. Savings are available across all three typical cloud service offerings: software, platform and infrastructure.

In May 2013, the Department of Finance and Deregulation released the *Australian Government Cloud Computing Policy* (Australian Government, 2013) to assist government agencies in their use of cloud computing services. In line with this policy, Finance has also developed guidance for government agencies on the adoption of cloud computing, including advice on implementation, privacy and security.

However, the Commonwealth Government has been slow to adopt cloud computing. A reliance on bespoke, legacy systems, concerns about the security and privacy of placing public data in the cloud, and general risk aversion all impede progress.

By contrast the private sector has embraced the new technology. In 2012, the Commonwealth Bank of Australia reported saving tens of millions of dollars through the use of cloud computing. The bank reported reducing its infrastructure spending from 75 per cent of its ICT budget to 26 per cent (Foo, 2012).

Under its Cloud First policy, the United States Government (2010) mandates that agencies take full advantage of cloud computing benefits to maximise capacity utilisation, improve ICT flexibility and responsiveness and minimise cost. Government agencies are required to consider cloud options before making new ICT investment.

The *United Nations E-Government Survey* (2012) reports that cloud computing has enabled the Municipality of Copenhagen in Denmark to cut the number of servers it uses from 638 to just 32. It not only reduced the cost of maintaining infrastructure for holding data, but also lowered carbon emissions by 77 per cent.
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Using administrative data to achieve better policy outcomes

All levels of government hold data for administrative purposes. These data sets cover large parts of the population, offering a largely untapped opportunity to evaluate policies and programs and develop more effective and efficient ones. Unlike many other countries, Australia makes relatively little use of its public data resources even though the initial costs of making data available would be low relative to the future flow of benefits. International experience shows that confidentiality can be protected, and domestically, researchers have used de-identified Western Australian data for over 30 years without any breaches of privacy.

Academics, researchers, data custodian agencies, consumers and some Ministers are eager to harness the evidentiary power of administrative data, but this enthusiasm generally is not matched by policy departments. Despite tentative steps, overall progress has been inadequate. Leadership and commitment is required to promote the evidence-based policies needed to meet Australia’s economic and social objectives within budget constraints that will become more acute given the demographic outlook.

Effective policy making rests on evidence

Systematic evidence-based analysis is an essential element of all good policy. It is particularly important for social services with such a major share of Budget outlays. For 2013-14, Australian Government spending is expected to be $398 billion with social security and welfare, $138 billion (35 per cent); health, $65 billion (16 per cent) and education, $30 billion (7 per cent) (Australian Government 2013). Australia-wide, expenditure on health alone was around $130 billion in 2010-11 of which the Australian and State and Territory governments funded 69 per cent (AIHW 2012). Significantly, the costs of health and aged care are expected to rise sharply with Australia’s ageing population and advances in medical treatments.

The Commission has previously addressed the need to strengthen evidence-based policy development (PC 2010b). It postulated that community expectations of what governments can do about policy problems often run ahead of reality or are influenced unduly by sectional interests. In Australia, this can be compounded by failure to draw on information that would elucidate understanding of problems and proposed solutions. The Commission identified several contributing factors:

- a diminution, over many years, of specialist public sector research bureaux
in-house evaluations, to the extent they are done, being conducted by policy departments that are constrained in the frankness of their (public) evaluations

- relatively little experience of public agencies sharing data with academics and other external specialists (PC 2010b).

A rich vein of information is held by governments in the form of ‘administrative data’ collected for regulatory requirements (e.g. vehicle registrations and taxation declarations), program administration (e.g. Centrelink and Medicare payments, school, university and vocational enrolments and completions, and hospital admissions) or as a by-product of transactions (e.g. fines and fees) (ABS 2011, p. vi).

The Commission concluded that access to de-identified data for government users, academics and other researchers should be pursued as a priority (PC 2010b). But its recent work is testimony that gaining access to administrative data remains difficult. In Caring for Older Australians, the Commission noted that:

... given that the Government already collects and maintains detailed data sets relating to aged care, the provision of better public access to this data is likely to generate sizable net benefits... the default presumption should be that data be transparent and automatically released in a timely manner. (PC 2011a, pp. 462-3)

Similarly, in Disability Care and Support it considered:

Data are a key aspect of the evidence base of a good insurance scheme (and badly lacking in the current disability system) ... (PC 2011b, p. 564)

A Commission staff paper on Deep and Persistent Disadvantage found:

Administrative data has the potential to provide new knowledge to inform researchers and policy makers about ... disadvantage. (McLachlan et al., 2013, p. 2).

Administrative data (and data matching) is commonly used to detect undeclared income by welfare recipients (McLucas 2013) or over-claiming by service providers. While these initiatives reduce waste of scarce resources and reinforce public confidence, the savings from improved program integrity are likely to pale in comparison to the costs that can arise if the underlying programs themselves are poorly designed and therefore less effective. Used for comprehensive policy analysis, data matching could identify programs that do not work and for whom and where enhancements could be made to programs that do. Making these data available would enable independent verification of official evaluations, as well as providing insights of relevance to governments at low cost.
Administrative data are sources of evidence

Australia is well positioned to take advantage of its administrative data resources:

- all Australian governments hold extensive longitudinal administrative databases containing high quality information about large populations
- increases in computing power, data storage and data capture and matching technologies mean that analysis of very large databases is increasingly feasible
- advances in analytical techniques allow investigation in ways that can isolate policy impacts from other influences (Leigh 2010, Smith and Sweetman 2010)
- the Objects of the Freedom of Information Act 1982 declare that information held by the government is a national resource to be managed for public purposes.¹

Yet, Australia’s experience remains one of untapped potential. In 2008, Australian Government Treasury officials reported:

_Having clearly defined administrative data is all very well, but it’s next to useless if these data are not shared with those best able to build the evidence base. Our universities and research institutes are teeming with people wanting to draw lessons from agencies’ statistics... Researchers are often forced to fumble around like the drunk that searches for his keys under a street light — not because his keys are likely to be there, but because it’s the only spot where he can see._ (Gruen and Goldbloom 2008)

Five years on, Professor Gregory lamented the:

... long standing government institutional failures to make the necessary data available to allow Australians to understand how their IS [income support] system interacts with the labour market .... Independent researchers have not been given sufficient access to administrative longitudinal IS data from Centrelink, any access to administrative data on job finding services and implementation of job seeker activation from DEEWR and any access to unit record ABS time series data ...

(Gregory 2013, p. 6)

Australian researchers have often had to look elsewhere to obtain the data necessary to investigate public policy matters. The Australian Government has funded research organisations and the Australian Bureau of Statistics (ABS) to develop longitudinal databases — in areas as diverse as children, migrants, youth, ageing, and families — and make

¹ The Office of the Australian Information Commissioner’s Principles on Open Public Sector Information states that open access to information should be the default position (OAIC 2012).
confidential unit record data available to registered users. The most significant broad longitudinal survey in recent years is the Household, Income and Labour Dynamics (HILDA) survey at the Melbourne Institute. Gregory (2013, p. 6) considered HILDA to be the ‘the most important data innovation of the last decade’. Similarly, the Commission has noted that, by giving researchers access to longitudinal data, HILDA has stimulated substantial important policy relevant research (PC 2010b). The same can be said for the longitudinal surveys of Australian Children and of Australian Youth.

Are longitudinal surveys a substitute for administrative data?

While necessity has driven Australian researchers to develop different sources of evidence, surveys and administrative data are not necessarily substitutes — each has strengths and weaknesses. An advantage of surveys is the control researchers have over content at the specification stage. This is conducive to survey questions being built around soundly constructed theories and methods.

On the other hand, surveys are less likely to include sufficient numbers of particular groups, such as the most disadvantaged (e.g. homeless people or those with substance abuse problems) who are by nature difficult to contact and who may not give consent to participate. For example, when the Commission surveyed people receiving counselling for gambling problems, the majority indicated that prior to seeking counselling they would not have answered a population survey about gambling (PC 1999). And, even if surveys could initially capture a reasonable cohort of such households, this group is more likely to drop out, so apparent trends can be confounded by attrition. Apart from selection bias, survey responses may be influenced by behavioural changes that arise from the act of participation itself. Conducting surveys and seeking participants’ consent can be very expensive compared to analysing existing data.

Administrative data encompass longitudinal structures that enable analysis of outcomes over time; large samples, sometimes full populations, that allow rarer events or smaller groups to be studied; and high quality information that does not suffer from rising non-response rates, attrition and under reporting. All of this adds to greater statistical power for robust policy analysis. Of course, ‘raw’ administrative data have characteristics that may need to be addressed if the information is to be used for policy analysis (Table 1.1).

Data linkage can consolidate administrative data with information held elsewhere, such as surveys. Administrative data can indicate what happened to whom in terms of pathways and outcomes benchmarked against policy variations. Surveys can elicit more targeted information on why people behaved as they did. A further benefit of data matching would be to enable surveys to omit sensitive questions, such as income levels, substance abuse or other factors that typically get a low response. This would reduce costs and respondent burden.
Table 1.1: Advantages and disadvantages of using administrative data

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collected for operational purposes, so no additional collection costs, but will incur extraction and cleaning costs</td>
<td>Information collected is restricted to data for administrative purposes and limited to users of services and administrative decisions</td>
</tr>
<tr>
<td>Collection not additionally intrusive to target population</td>
<td>Lack of researcher control over content</td>
</tr>
<tr>
<td>Regularly, sometimes continuously, updated</td>
<td>Proxy indicators sometimes have to be used</td>
</tr>
<tr>
<td>Can provide historical information and allow consistent time-series to be built up</td>
<td>May lack contextual/background information</td>
</tr>
<tr>
<td>Collected in a consistent manner, if part of a national system</td>
<td>Changes to administrative procedures can change definitions and make comparisons over time problematic</td>
</tr>
<tr>
<td>Subject to rigorous quality checks</td>
<td>Missing or erroneous data. Possible incentive to fabricate responses to access benefits.</td>
</tr>
<tr>
<td>Near full coverage of population of interest</td>
<td>Quality issues with variables may be less important (e.g. address details not updated)</td>
</tr>
<tr>
<td>Reliable at the small area level</td>
<td>Metadata — lacking or of poor quality</td>
</tr>
<tr>
<td>Counterfactuals / controls can be selected post hoc</td>
<td>Data protection issues</td>
</tr>
<tr>
<td>Captures those who may not respond to surveys</td>
<td>Access by researchers dependent on support of data providers.</td>
</tr>
<tr>
<td>Potential for data sets to be linked to produce powerful research resources</td>
<td>Underdeveloped theory and methods</td>
</tr>
</tbody>
</table>


What could be done with greater access to data?

Administrative datasets could be instrumental in gaining insights into whether government programs:

- meet their stated objectives — do they work or are other influences at play?
- operate as intended — do recipients respond to (dis)incentives and are there unanticipated (good or bad) effects on recipients or the community?
• are delivered effectively — are there queuing or discouragement effects?
• deliver services in the right places — are services located near people in need?

Such information is fundamental to deeper questions about whether the policy mix is coherent or whether other policy initiatives work to hinder desired outcomes. There may be interactions between disparate factors that impinge on outcomes which can only be detected using large data sets. Administrative data could also be used proactively to instigate debate on matters of public importance that would otherwise fail to gain traction without corroborating evidence. These benefits are increasingly recognised. The Australian Government’s ‘big data’ Issues Paper identified that processing and integrating administrative data has the:

… potential to transform service design and delivery so that personalised and streamlined services, that accurately and specifically meet individual’s needs, can be delivered to them in a timely manner. (Commonwealth of Australia 2013, p. 4)

In a similar vein, this year the (former) Minister for Human Services championed the cause of better use of administrative data resources:

… if you start from the premise that you are serious about evidence-based policies you realise you can actually develop them by using the data you’ve already got. We know where people live, we know when they’ve worked and how they’ve responded to major shocks. We know what illnesses they have suffered, and how they were treated. We can follow a family’s journey right down the generations. I want to open up that information to researchers … For example I would like to know what type of medical admissions take place ahead of applications for child support. If we knew that, we would know where to best direct resources before they were needed. (Carr 2013)

De-identified administrative data collections could be made available to researchers, to encourage examination of policies. Robust evidence of policy efficacy need not be the sole province of sophisticated techniques like randomised control trials (RCTs) — the so-called ‘gold standard’ of evidence, used extensively in the United States for policy evaluation. Because RCTs can be costly, difficult to design well, and can raise ethical issues about risks for the ‘treatment’ or ‘control’ groups, they have rarely been used in Australia. If administrative data were disclosed, analysis using alternative methodologies could shed light on policy performance.

We could better understand disadvantage

Access to administrative data would provide much needed insights of the paths into, through, and out of, disadvantage. McLachlan et al. observed that:

Government agencies, at all three levels of government, hold very large
administrative data sets which may assist in unlocking a deeper understanding of the factors influencing disadvantage, the government programs that are accessed by those experiencing disadvantage, and how those programs assist (or hinder) those who are the most vulnerable. (McLachlan et al. 2013, p. 196)

Using administrative data, researchers could derive evidence on people’s lifecycle use of income support (Newstart, disability or other benefit), the duration(s) of use and their parents’ benefit history. By linking data on other factors — such as location, educational attainment, mental health, hospitalisations and incarceration — it would be possible to analyse the pathways for individuals and families with characteristics that make them vulnerable to persistent or intergenerational disadvantage. Administrative data could identify events such as job loss, incapacity and family breakdown that contribute to individuals’ transition to social exclusion. Absent this information, policy must rely on partial analyses and intuition.

**We could connect more dots in health**

Australia has population-based data on Medicare services, dispensing of subsidised pharmaceuticals, emergency department presentations, hospital admissions, aged care and deaths. Linked, these data have huge potential for policy-relevant research. Professor Stanley has claimed that access to real-time prescription and birth data could have detected the connection between the morning sickness drug thalidomide and thousands of birth defects much earlier.

*The whole reason we set up birth defects registries across Australia was to pick up the next thalidomide. But until now we haven’t been able to link those registries to the Pharmaceutical Benefits Scheme. It’s insane.* (Stanley 2012)

Stanley’s research also established that a maternal diet rich in folic acid can prevent spina bifida in babies. Integrating administrative data was pivotal for this work.

One study that linked MBS, PBS and Western Australian hospital morbidity data examined the scope to achieve better integrated services (DHAC 2000). The study recommended using unique patient records to automate data collection for health care monitoring. There appear to have been few subsequent studies that have been able to access and link MBS and PBS data for research.

Greater linking of health and non-health data sets could save lives and deliver more efficient and better targeted services. In 2009, the National Health and Hospitals Reform Commission recommended that:

*To better understand people’s use of health services and health outcomes across different care settings, we recommend that public and private hospital episode data should be collected nationally and linked to MBS and PBS data using a patient’s Medicare card number.* (NHHRC 2009, p. 21)
However, current privacy guidelines mean that MBS and PBS information may be disclosed for medical research, but not statistical research. Medical research can result in more effective treatments, whereas ‘statistical’ research may result in programs that reduce the likelihood of conditions developing, and more efficient targeting of resources where treatments are necessary. Protecting confidentiality is warranted but the current approach is too cautious and complex with the restrictions creating unnecessary downsides and delays for evidence-based policy formulation.

**We could analyse the interactions between welfare and work**

The pathways between welfare and work are complex. There are poverty traps arising from the effective marginal tax rates confronting those deciding to transition from welfare to work. There are also interactions with minimum wages, educational attainment, skills, location and labour mobility. There is also debate about how the level of income support affects incentives to seek work.

On the latter question, Professor Gregory sought to evaluate Australia’s ‘make work pay’ approach by asking whether increasing the relative poverty of income support recipients leads them to increase their employment sufficiently to offset the poverty-creating element of the policy. Gregory concluded that independent research has not been able to address such questions, citing the inability to access administrative data and observing that:

> ... good researchers have directed their attention elsewhere, perhaps to other countries’ data and other countries’ problems. As a result, not a great deal is known about the effectiveness of our ‘make work pay’ policy. (Gregory 2013, p. 3)

The OECD has similarly drawn attention to a failure to provide data or conduct external evaluations of Job Services Australia (formerly the Job Network), casting Australia ‘as secretive, relative to other countries’ (OECD 2012, p. 225).

Sometimes government departments draw on administrative data but keep the evaluations in-house (McLachlan et al., 2013). Sometimes they will use outside researchers. The Department of Education, Employment and Workplace Relations has made unit record data available to the Melbourne Institute of Applied Economic and Social Research under a research agreement. This enabled analysis of the behavioural responses of income support recipients to a tightening in eligibility requirements in 2007 (Fok and McVicar 2011) and of

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2 Legislation outlining how and when Medicare Benefits scheme (MBS) and Pharmaceutical Benefits scheme (PBS) data can be linked is contained in the *National Health Act 1953* (s. 135AA and 135AB). It prohibits the storage of MBS and PBS data in the same data base and any linkage unless the linkage is specified in privacy guidelines. The Privacy Guidelines for the MBS and PBS were last issued in 2008. MBS and PBS information may be disclosed for medical research, but not statistical research, either with consent from the individuals involved or in accordance with guidelines issued by the National Health and Medical Research Council.
their participation in training and education (Cai, Kuehnle and Tseng 2010). Arrangements such as this, while positive, are not broad enough and tend to be driven by the needs of government agencies, rather than releasing data per se for wider evaluation and analysis.

And we could do much more

At the state level, Western Australia (WA) has been an early adopter of making its state-based administrative data available. WA now has significant capability with data linkage and periodically has been able to access and link to Commonwealth data — typically for medical research — on a one-off basis after a protracted process. The statistical power of data linkage exercises and the consequent information made available for policy purposes are substantial (Box 1.1).

Box 1.1 The power of data linkage

Medicines and birth defects
WA researchers linked PBS data with population-based data for over 100 000 pregnant women in WA from 2002 to 2005. Records of births to women who were dispensed medicines were linked to the Birth Defects Registry of WA. There were 47 medicines dispensed at least once during pregnancy with 23 associated with a registered birth defect to a woman dispensed the medicine. The study concluded that linked administrative data could be an important means of pharmacovigilance in pregnancy in Australia (Colvin et al., 2010).

Cancer risk from exposure to computed tomography (CT) scans
This study, funded by the Australian Government via the National Health and Medical Research Council, sought to assess the cancer risk in children and adolescents after exposure to CT scans. It covered 10.9 million people from Medicare records, aged 0-19 years in January 1985 and all Medicare-funded CT scans during 1985-2005 were identified. Diagnosed cancers were obtained from national cancer records. 60 674 cancers were recorded, including 3150 in 680 211 people exposed to a CT scan at least one year before any cancer diagnosis. Overall cancer incidence was 24 per cent greater than for unexposed people. The study concluded that future CT scans should be limited to situations where there is a definite clinical indication, with scans optimised to provide an image at the lowest possible radiation dose. (Mathews et al., 2013)

High care costs for mature aged Australians
A study undertaken by the University of Technology in Sydney examined health care costs for mature aged Australians by isolating expenditures due to health ‘shocks’ from those that are intrinsic to individuals. 267 000 survey responses obtained from the ‘45 and Up’ study by the Sax Institute were linked to records from NSW Admitted Patient Data, NSW Emergency Department Data, the MBS and PBS. The NSW data linking was
performed by the Centre for Health Record Linkage (CHeReL). The study found:

- high health expenditures that are intrinsic to individuals (or high fixed effects) tend to be associated with people who are old, sick and engage in unhealthy lifestyles.
- little evidence of high fixed effects being related to a relationship driven by a general practitioner nor by fee setting behaviour (Ellis et al., 2012).

**Characteristics of children and families with child maltreatment**

WA researchers investigated specific child and parental factors associated with increased vulnerability to substantiated child maltreatment. The study of all children born in WA during 1990–2005 used de-identified record linked data for child protection, disability services and health. The strongest factors found to increase the risk of child maltreatment included: children with an intellectual disability; parental socioeconomic status; parental age; and parental hospital admissions related to mental health, substance abuse and assault (O’Donnell et al., 2010).

### Why isn't more happening?

Australia lacks a culture of information sharing and proactive data release. It appears that the main barriers to changing this culture are: protection of privacy; the resources needed to ensure that data are of sufficient quality for policy evaluation; and concerns by governments about unfavourable findings on policy effectiveness.

### Privacy and confidentiality

Government agencies must ensure that personal information is not released publicly, is only available to authorised people on a need to know basis, cannot be derived from disseminated data, and is maintained securely. Linking administrative data or allowing access to third parties opens up further layers of risk, including attacks on data systems, either from within organisations, data laboratories, or through the internet (if accessible in this way).

Protocols for managing risks ex ante coupled with sanctions for researchers and data processors who breach privacy legislation are critical to assuage privacy concerns. Processes and systems can be implemented throughout data acquisition, storage and transformation to ensure data are secure, anonymous and accessed only by authorised individuals. Apart from standard de-identification protocols — regularly used by the ABS for example — more stringent safeguards can be implemented (box 1.2). Although some of these measures can reduce data quality somewhat, this is preferable to not releasing data at all.

De-identification of data, including setting up unique identifiers for matching, and storing these separately and securely, is feasible and commonplace. In relation to the WA data
linkage system, Professor Stanley reported:

*We’ve got registers of birth defects, of cancer ... of autism and mental health problems. We’ve got all the hospitalisations and all the deaths, and we collect these and link them together anonymously so that we actually only ever see the linked data. We’re not interested in individual people; we’re interested in large numbers ...* (Stanley 2013)

In over 30 years of data linkage, the WA arrangements have not had one breach of any identifiable information (Stanley 2010, p. 75).

It is also notable that clients of services become frustrated when they have to submit the same information to different agencies because of privacy restrictions. Indeed, it appears that consumers in WA have lobbied for data linkage so as to improve services provision. A balance needs to be struck between information sharing and privacy by making clear that the purpose of using administrative data for research purposes is to benefit people, not to penalise them — fraud detection aside.

**Box 1.2 Techniques to protect confidentiality**

1. Suppression — not release parts of data that consist of too few observations.
2. Aggregation — make the data less precise by changing the level of detail.
3. Top/bottom-coding — limit the largest or smallest values possible of given variables.
4. Swapping — switch data values between records to make matching more difficult.
5. Random noise — add random amounts to numerical data, to mask the true amount.
6. Synthesising — replace data with values generated from probability distributions. Synthetic data can replace some variables or the whole data set (fully synthetic).

*Sources: McCallister et al. (2010), Matthews and Harel (2011).*

**Resource implications and data quality**

For administrative data to be useful for research it generally must first be manipulated (table 1.1). Data linking and matching can be complex especially where there are no unique identifiers. Automated matching and processing techniques can make linking data easier but these processes still require verification.
Researchers will want administrative data that is well specified, uses consistent definitions, and has ‘health warnings’ about pitfalls that might be known only to data owners. Even within series, discernible trends or deviations may simply reflect changes in definition. Databases need to be maintained and policy changes mapped. Clearly, there are non-trivial costs associated with maintaining, (dis)aggregating, linking, storing and supplying data. All of this requires specialist expertise, infrastructure and management time. Efficient user charges may be appropriate.

It would also be possible to reduce costs by anticipating data sharing. Greater prior consideration of the potential usefulness of data for research and evaluation could encourage more focused data collection, improving the quality of information for governments and reducing the reporting burden on providers. In its review into the Contribution of the Not-for-Profit Sector, the Commission found that agencies collected huge amounts of data from service providers, much of which was not used (PC 2010c). More useful data for providers would help them assess their own programs’ effectiveness, including through benchmarking against other providers. As observed by the Director of the Australian Institute of Health and Welfare (AIHW) in relation to ensuring the value of data sourced administratively:

One approach is to deliver some benefits to the provider of the information, so they not only incur the cost and inconvenience of the data supply, but also get some meaningful information back that helps them or their organisation to better carry out their required activities. (Kalisch, 2011, p. 7)

Greater use of data matching should encourage agencies to collect information in standard formats (e.g. the ranges used to collect income) which would increase the value of all existing data sets. Data matching could also reduce respondent burden by avoiding the need for repeated provision of the same information. The national information agreements signed up to by all governments and certain data providers, including the AIHW and ABS, should assist to improve the quality of administrative data for health, community services and housing. While these principle-based agreements are not binding, they can encourage better practice.

**Political resolve**

There is genuine appreciation by some data custodian officials of the power of administrative data. However, experience to date suggests that this appreciation has not been matched by improved access to that data for independent analysis. It appears that the blockages occur within policy departments, reflecting sensitivities that providing data for independent research could yield unfavourable public findings about policy effectiveness. Related to this is trepidation about releasing unrefined data and the misinterpretation or misuse of these data that could arise.
However, this short-term wariness comes at the cost of long-term gains for the Australian community. As noted, some Ministers have been more willing to allow researchers access to data, including the former Federal Minister for Human Services, who ‘swiftly approved data requests from RMIT University, the Australian National University and the University of Queensland’ (Martin 2012).

Other countries have shown resolve

Australia can look overseas to judge the feasibility and value of granting access to administrative data. In Denmark, Sweden, Finland and the Netherlands, linked administrative data are accessible for research purposes (Administrative Data Taskforce 2012). Statistics Finland considers that statistics should be compiled from administrative records whenever possible — around 96 per cent of its data come from these sources (Statistics Finland 2004). This openness promotes research — ‘microsimulation specialists pour into Nordic countries because of their liberal approach towards sharing statistics’ (Gruen and Goldbloom 2008).

In New Zealand education, migration, participation, social benefits and longitudinal business databases have been linked enabling research into areas such as: immigrant outcomes; employment assistance effectiveness; effects of wage subsidies on individuals and firms; and intellectual property and productivity (Statistics New Zealand 2012, 2013). The New Zealand Government recently launched a system to give approved researchers remote access to de-identified microdata about people, households and businesses from their own desktops. The Minister for Statistics stated that the initiative was part of a ‘Government objective to have all public sector agencies releasing high value public data for re-use’ (Williamson 2013).

In Canada, administrative data on hospital discharges, prescription drug usage and ambulatory care is linked to population health survey data, birth and death databases and cancer registries (Statistics Canada 2010).

Australia — limited progress from sporadic starts

Western Australia’s Data Linkage System is seen by international peers as a leader in the field. Over 700 studies have drawn on the linked data in areas including health and aged care (formerly with the Commonwealth Department of Health and Ageing), development pathways for children, family connections, Indigenous identification, and road safety (DLWA 2013).

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3 Records include population, tax, trade, employment, labour market training, income support, conscription, student enrolments and business registrations.
Progress in other Australian jurisdictions has been patchy. The Centre for Health Record Linkage, established in 2006, enables access to health data in New South Wales and the ACT (see box 1.1). It is one of the largest linked, health-related databases in Australia (CHeReL 2013). Queensland has recently made some databases available online and some other jurisdictions are making progress. The Queensland Premier stated that:

As a government, we collect, generate and use a lot of data. This data can deliver real benefits to the Queensland community and economy—if it is used in clever ways ... we will be releasing as much of it as possible ... (Queensland Government 2013)

Nationally, in 2008, Australian governments (through CoAG) agreed to make more administrative data available for performance reporting on health and education systems; disability, community and housing services; and the ‘Closing the Gap’ targets for Aboriginal and Torres Strait Islander Australians.

The Australian Government is in the early stages of developing a big data strategy to ‘enhance cross-agency data analytic capability for improved policy and service delivery’ (Commonwealth of Australia 2013, p. 4). Its issues paper highlighted the opportunities and challenges (e.g. privacy, data management and skills).

Drawing on the data linkage experience of WA, the Population Health Research Network (PHRN) is an Australian Government initiative to build a nationwide data linkage infrastructure and enhance the way health and health related data are made available to approved researchers. It is a collaboration between the WA Centre for Data Linkage, Telethon Institute for Child Health Research WA, AIHW, the Sax Institute and the States data collation units. The PHRN Proof of Concept Collaboration #1 project aims to link hospital admission data with hospital-related deaths across different states. The project will test data transfer and linkage processes. While most states have made progress developing linkage capabilities, lengthy delays occur with access to data owing to protracted approvals processes.

A Statistical Data Integration Involving Commonwealth Data (SDIICD) initiative was established in 2009 to ‘create an Australian Government approach to facilitate linkage of social, economic and environmental data for statistical and research purposes’ (CPSIC 2010, p. 2). A cross portfolio board oversees the data integration environment. All data integration projects under the SDIICD require an ‘Integrating Authority’ to be accountable for the project and projects considered high risk must use an ‘Accredited Integrating Authority’. The ABS and the AIHW are currently the only two accredited authorities (NSS 2011).4

4 There are four projects on the Public Register of Data Integration Projects: ABS Census Data Enhancement Indigenous Mortality Project; ABS Migrant Personal Income Tax Data Integration Project –
While these institutional arrangements now in place could facilitate data linkage and access for research, it is important that they do not become too onerous and ‘chill’, rather than encourage, collaboration. For example, through its National Performance Reporting role, the Commission has found the SDIICD initiative requirements — such as the need to use a registered integrating authority rather than allowing work to be done in-house — to be unduly burdensome. In addition, while Ministers agree to the contents of National Minimum Data Set collections, which are managed by the AIHW, they insist on signing off any release of that data. The Commission has also asked the ABS to release non-contentious data under embargo for National Performance Reporting — as other data providers do routinely — but no action has occurred to date.

**A sustained and concerted effort is needed**

Policy-making based on good evidence is central to improving community living standards. Tackling community concerns about policy problems with expenditure announcements is not, of itself, sufficient. For expenditures to be effective and efficient they need to be based on analysis using the best information available. A rich vein of evidence resides within administrative databases. A failure to exploit this evidence would be a missed opportunity given Australia’s demographic and structural budget challenges.

The Australian Government has made statements recognising the benefits from better use of administrative data and introduced strategies and integration initiatives with new administrative architecture. All of this seems positive, but it has not yet been matched by open access to data for independent policy research. The frustrations here are eerily similar to those in the United Kingdom.

> ... there are examples in the UK of administrative data being linked between government departments and used for research purposes. However, the number of examples is too few, the time taken to get agreement to use such data is too long, inconsistent decisions are being taken within government departments concerning rules of access and, most frustratingly, the legislative framework provided to allow for linkages to be made across departments is cumbersome and inefficient. (Boyle 2012, p. ii)

There appears to be a similar lack of durable commitment by the Australian Government and most State and Territory governments to make better use of data. On occasion, ‘reform champions’ within government have sought to release data in order to improve outcomes for the community, but sustaining momentum with changing personnel and shifting priorities is challenging.
Other nations and Western Australia — especially where it has been able to link to Commonwealth health data — have shown that harnessing administrative data can deliver substantial benefits with low risks, manageable costs and in ways that protect people’s privacy. Given the magnitude of current (and projected) expenditures in social programs, the relatively small costs of establishing systems for greater access to public data would be worthwhile.

Australia has an opportunity to support more open government, improve policy evaluation and strengthen public research. Realising these goals requires political will, articulated at the highest levels, to persevere with a concerted strategy with clear timeframes based on the principle that open access to de-identified information should be a default position. Realistically, it could take 5-10 years to rollout and embed systems before the ‘holy grail’ of relatively unimpeded remote access to high quality, de-identified and linked administrative data is achievable.

While there have been announcements and initiatives in the past and more recently, the lack of sustained tangible progress means that it is important that the 5-10 year timeframe does not become a motivation for more ‘false starts’, deferrals or eventual reprioritisation and non-delivery. International practices and over thirty years of experience in Western Australia suggest that the capabilities necessary to achieve a more open data culture could be developed by all Australian governments.

*For references in this section please refer to the Productivity Commission Annual Report 2012-13.*
10.24 Shared services

The shared corporate services model (merging different organisations’ business support functions, such as human resources, financial services or information and communications technology (ICT), to achieve efficiencies of scale) has been adopted to varying degrees by governments in each Australian jurisdiction, but only in an ad hoc fashion at Commonwealth level. Shared services has significant potential to offer efficiency and staffing benefits; however, experiences in other jurisdictions show that there are challenges in implementation that must not be discounted.

Given all Commonwealth agencies perform common corporate functions, such as paying employees and providing common ICT services, shared services provide an opportunity to achieve economies of scale by standardising business processes and merging the corporate business areas of different departments and agencies. Shared services can avoid duplication of business functions, reduce costs, and generate efficiencies for the Commonwealth. The Commission considers such it worthwhile revisiting such potential consistent with the principle that government should ensure value for taxpayers’ money.

The current array of corporate systems in the Commonwealth is costly to maintain. This is particularly apparent when changes to the ministry result in machinery of government changes, where functions are moved from one department to another and, as a general rule, staff follow the functions. Disparate financial, personnel and other corporate management information need to be extracted from one department’s system and integrated into another, requiring significant time, effort and cost.

An overview of relevant shared services experiences in other jurisdictions included later in this appendix lists several examples of poor implementation, unrealised benefits and, in some cases, abandonment of the shared services concept. The upfront and ongoing investment to implement shared services bears risk, along with cultural barriers, leadership issues and uncertainties with implementation timeframes. Tailoring the approach is more likely to result in more sustainable outcomes and reduced risk.

In the Commission’s view, the top three lessons from these experiences are:

- Undertake a thorough and realistic business case to avoid overly optimistic savings expectations and unrealistic timeframes.

- Standardise systems and processes before consolidation. This is a challenging task made more difficult by the differing taxonomies and processes in place for each system. Where agencies use different versions of a single enterprise management system, there is potential to standardise to a point that a single version covers the core business requirements of every agency where it is rolled out. This would be a
step towards a clustering arrangement and potential improvements in public sector ICT procurement.

- Put in place an effective communications and change management strategy to demonstrate impetus, leadership and the path to success. Maintaining confidence in the project is important for keeping momentum and discouraging agencies from retaining duplicate capacity on the pretext of ‘assurance’. This requires adequate capability in the shared services teams and visible and regular support from the highest levels of the bureaucracy and government.

Any move to greater usage of shared services should be carefully sequenced. For example:

- conduct a thorough audit of existing Commonwealth public sector corporate support services
- investigate opportunities within the Commonwealth to expand existing shared services arrangements
- evaluate options to standardise business processes across the Commonwealth;
- consolidate industrial agreements between departments;
- undertake a cost-benefit analysis to establish a whole-of-government arrangement; and
- develop a roadmap to implement shared services across all Commonwealth agencies that:
  - evaluates upfront and ongoing costs for a whole-of-government shared services arrangement;
  - investigates when systems contracts for agencies expire (e.g. HR and financial systems); and
  - establishes realistic timeframes to achieve outcomes and generate efficiencies.

The Commission considers the best approach to shared services would be to group agencies into clusters and standardise corporate functions within them. The grouping method could be within existing portfolios, grouping ‘like’ agencies (such as economic agencies, national security agencies), or simply according to the corporate systems that are currently in place, that is grouping all agencies currently using one type of enterprise resource planning system and moving them all to a common version.

The Commission is aware that Department of Finance is undertaking a number of activities that would be useful preparation for such a move, including examining ICT and enterprise
resource planning systems that are in use or could be introduced across the public service, as well as examination of the potential of other, non-ICT shared services.

Moving to a clustering arrangement would make it easier and more practical to benchmark agencies’ performance and place pressure on poor performers to adopt best practice. As well as increasing the overall performance of public sector corporate services, this would also deliver much of the information required to build a business case for further consolidation, or whole of government shared services. This activity would also see the government well placed to consider future outsourcing if it saw fit, in keeping with the principle that government should not deliver services where others are better placed to do so.

The Commonwealth shared services environment

There are scattered examples at the Commonwealth level, including:

- the Department of Defence, following some initial setbacks and revisions to expected savings, is proceeding with shared services arrangements;

- the Department of Human Services provides support services to agencies within the portfolio (almost one quarter of the Australian Public Service) as well as ICT services to a number of other agencies such as the Department of Veterans’ Affairs and the Australian Electoral Commission. There is potential to expand this service.

- the Department of the House of Representatives manages the payroll of the Department of Parliamentary Services; and

- the Department of Finance provides whole of government online services and a number of network services.
The Review of the Australian Government’s Use of Information and Communication Technology in 2008 received a number of insights from industry indicating the significant benefit to be obtained from shared services. In respect of back office applications, the review considered the mixed experiences reported by a number of the States, together with the experience of the United Kingdom Government (United Kingdom National Audit Office, 2008). In light of this, the review concluded that moves towards shared back office services between agencies should only be undertaken on a very carefully selected and controlled basis. The Gershon review also recommended that savings made from efficiencies found in government should be, at least in part, reinvested in improving ICT across the public service. However, this reinvestment fund was not implemented in full and ICT investment throughout the Commonwealth suffered significantly as a result.

In 2012, Finance undertook a Strategic Review of Small and Medium Agencies in the Attorney-General’s Portfolio. The final report notes that, while shared services is intuitively attractive:

- there currently appears to be little probative evidence that would support any general proposition that provision of corporate support to small to medium (or indeed any) agencies by their portfolio department (or by another portfolio agency) would necessarily be more (or less) economical than self-provision by those agencies, let alone more (or less) efficient; and

- to now mandate the general implementation of shared services across all or part of the Attorney-General’s (or any other) portfolio on the current levels of information would therefore present a significant risk, given that the ‘critical mass’ of staff is relatively low, there are significant implementation costs and risks due to differing systems, and the case for likely efficiencies is unknown.

<table>
<thead>
<tr>
<th>Type of service</th>
<th>per cent of agencies</th>
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<tbody>
<tr>
<td>Payroll</td>
<td>29</td>
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<tr>
<td>Security</td>
<td>27</td>
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<td>Property</td>
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<td>Other</td>
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<td>Communications</td>
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<td>Administration</td>
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<td>Legal</td>
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Source: Australian Public Service Commission, 2013.
A Review of the Measures of Agency Efficiency in 2011 recommended that actions to address efficiency and reduce cost structures into the medium term include the development of a road-map for standardising common processes and making greater use of shared services models across the APS, taking advantage of scale, and focusing on business processes and systems, rather than organisational structures.

In 2010, a shared services feasibility study (referred to in Australian Government, 2011) considered potential shared services delivery models for the three central Commonwealth agencies (Prime Minister and Cabinet, Treasury, and Finance and Deregulation) against the existing delivery approach. The models were status quo, minimal changes to systems and processes, a new system-based approach and a fully integrated shared services arrangement.

The study found that the status quo was the preferred delivery model and that shared services was not viable. The identified savings of the most advanced service delivery model represented a 5 per cent saving over an eight-year period. Major factors contributing to this outcome were the lack of scalability for the three agencies (approximately 4,500 staff in total) and the divergent systems and business processes that increased costs moving to a shared services arrangement.

One objective of the Liberal and Nationals Coalition’s E-Government and Digital Economy Policy for the 2013 federal election is the digitisation of all transactions between citizens and government that happen more than 50,000 times per year, to occur within existing budgets and resourcing. To be implemented in government, this will require a strategic approach to consolidating existing services, deploying resources to solving new problems, careful consideration of ICT investment across government and improved collaboration with industry and community.

Shared services experiences in other jurisdictions

The Queensland Government established the Shared Services Initiative in 2002, based on the Shared Services Model, an organisational approach from the United States. While the initiative continues, some lessons learned include:

- initial capital expenditure costs were significantly underestimated. The Queensland Auditor-General noted the system went live 20 months late and was 300 per cent over budget (Queensland Auditor-General, 2010);

- the complexity of industrial agreements resulted in significant issues for the government; and

- more publicly, a new payroll system implemented in 2010 left thousands of government employees with incorrect payments (or unpaid) (Australian Institute of Management, 2012).
More recently, the Queensland Commission of Audit recommended a ‘contestable market for the delivery of corporate services, ICT and other back-office administrative support functions should be utilised more extensively to encourage greater efficiencies and minimise costs’ (Queensland Government, 2013c). The Queensland Government accepted the Audit’s recommendation but highlighted the importance of developing a detailed implementation plan for the implications of the recommendations. It also accepted the Audit’s recommendation to adopt an ‘ICT as a service’ strategy, and source ICT services from private providers in a contestable market where appropriate (Queensland Government, 2013c).

In 1996 the **New South Wales Government** sought to reduce costs and improve productivity in public sector corporate services by establishing the Central Corporate Services unit from the merger of corporate services staff and assets in 11 agencies. In 2002, the Government released a shared corporate services strategy to have agencies further reduce costs and improve services.

A 2004 report by the NSW Auditor-General found that benefits realised in NSW from shared services were significantly below expectations. At June 2003 general government agencies had achieved savings of $13.6 million, or 5 per cent, of projected accumulated savings of $297 million to be achieved by 2006. Implementation costs were estimated to be $79.4 million. Large agencies had been slow to implement changes and the diversity and incompatibility of existing systems had significantly impeded process.

A major reform programme to consolidate and improve corporate and shared services commenced in 2006, and in 2010 the Corporate and Shared Services Reform Programme commenced – a five year project to benchmark the efficiency of departments’ corporate operations, develop standard administrative processes to reduce the cost and complexity of back office functions and oversee the delivery of the programme. The initial business case proposed efficiency savings of $750 million to $895 million over five years, against a programme budget of $112 million (Audit Office of New South Wales, 2013).

Machinery of government changes in 2011 impeded progress and the New South Wales Commission of Audit found that a number of concerns still existed, systems and processes remained fragmented and there were doubts that projects savings would be achieved.

A review of the programme in mid-2012 refined the scope to focus on assisting departments to implement their corporate and shared services initiatives and the programme budget was revised to $89.4 million (referred to in Audit Office of NSW, 2013).

In 2013 the NSW Auditor-General found that $70 million of the revised budget had been spent but the Department of Finance and Services had not quantified savings from the programme. The Auditor-General recommended that the department and central agencies
develop key performance indicators to measure efficiencies derived from shared services initiatives.

The **Victorian Government** launched its *Efficient Government* policy in 2006, part of which was the adoption of a whole of government approach to shared services. Shared services are delivered by the Department of Treasury and Finance (facility, accommodation, car pooling and library) and CenITex, an ICT shared services agency created in 2008 to centralise services across 12 departments and agencies. A review of CenITex was conducted in 2011; the report was not published but in September 2013 the Victorian Government sought expressions of interest from the private sector to deliver ICT services, with CenITex becoming a broker and manager of these services (Rich-Phillips, 2013).

**Western Australia** introduced a shared services model in 2003. The initiative faced significant implementation issues, and an inquiry suggested that the original 2003 business case was fundamentally flawed, with benefits overly optimistic, costs underestimated and timeframes unrealistic (Economic Regulation Authority of WA, 2011). Agencies are now returning to their own arrangements for corporate services. Lessons learned from the experience include:

- shared services arrangements require detailed, sensible and realistic objectives, timeframes and allocation of resources;
- there are major upfront costs for shared services arrangements with agencies rolling into a shared services arrangement facing considerable costs in the first and subsequent years before savings are realised;
- assumptions and forecasts may turn out to be incorrect, therefore developing options that provide flexibility at a future date allow decisions to be made when more information is available; and
- an incremental approach is likely to be less risky than a ‘big-bang’ approach.

The **South Australian** Government adopted a shared services initiative in 2006, with a principal agency in the Department of Treasury and Finance Portfolio to provide finance, HR, ICT and procurement services to government agencies. A number of reviews by the state Auditor-General found costs were underestimated and savings overestimated. Further implementation of shared services was deferred in 2011; the services agency was moved to the Premier’s Portfolio and in 2012 merged with Services SA, a one-stop shop for government information and services on behalf of government agencies. In 2010 the South Australian Auditor-General found that the delays faced by the project saw greater costs and reduced savings than projected, and unclear timeframes (South Australian Government, 2009, 2010, 2013)
The **Australian Capital Territory** has a shared services arrangement for a range of corporate services for all ACT Government agencies. These include records management, financial services, human resource management, ICT and procurement. This process has been seen as successful, with support and leadership from the top, a change leader and a high level of commitment with clear boundaries (Australian Institute of Management, 2012).

The ACT Government’s success with shared services can be attributed to existing common systems, business processes, already centralised ICT and procurement activities, strong leadership and support of the Ministers with multiple portfolios, the geography and small size of the ACT public service, strong existing relationships and the readily available opportunities to meet face to face. Importantly, the ACT Government had a consistent approach across its agencies to Financial and HR practices which significantly simplified the challenge of having a common ICT platform. This example also highlights the importance of standardisation and consolidation of processes as initial steps before the implementation of a shared services model.

The **United Kingdom** Government’s 2012 Strategic Plan for Next Generation Shared Services aims to transform government back office operations and consolidate transactional functions, which it expects could help deliver between £400 million and £600 million a year in savings for the taxpayer through reduced duplication, shared expertise and larger economies of scale. The number of human resource and financial management information system service centres across the civil service has been reduced from eight to five and competition for these services introduced (two centres are run by private sector partners).

Key components of the strategy are:

- Creation and operation of a central oversight function
- Creation of two independent shared services centres (ISSCs), divestments of two centres that had been established by a government department. Each ISSC operates in a contractual relationship with each of its customer agencies.
- Large departments are able to make a case to continue to use their own standalone corporate services, but their performance is monitored against agreed benchmarks.
  - If they are able to demonstrate better performance than the ISSCs over time, they may offer services to other agencies.
  - If ISSCs demonstrate better performance, standalone departments may be compelled to become their customers.

The majority of the project is due to be complete at the end of 2014.

In **Canada**, the Auditor-General in 2010 recommended that a whole of government approach be formed to dealing with the risk of ageing ICT systems across all departments
and agencies. As part of its response, the Canadian Government consolidated ICT-related resources and assets of 43 federal departments and agencies to create Shared Services Canada. The agency delivers email, data centre and telecommunication services to 43 federal departments and agencies, as well as other optional services on a cost-recovery basis. The Canadian Government expects that by 2014-15, SSC will be generating savings of $150 million per year and, by 2015-16, an additional $50 million in savings through migration to a single government outsourced email service (Shared Services Canada, 2013).

Shared Services Integration, a part of Public Works and Government Services Canada, provides programme support and management to clusters of departments and agencies that use shared corporate and administrative systems, and human resources services to various small departments and agencies. All services are fully cost recovered. The agency is also developing shared services offerings in case management and financial systems and services.
References


Economic Regulation Authority of Western Australia 2011, *Inquiry Into The Benefits And Costs Associated With The Provision Of Shared Corporate Services In The Public Sector*, Perth.


11 – Annexes

A  The size and complexity of the Commonwealth

B  List of public submissions
Annex A: The size and complexity of the Commonwealth

(as seen in the Administrative Arrangements Order)

The Administrative Arrangements Order (AAO) forms the legal basis for the organisation of the public service into separate departments of state. The AAO specifies the matters dealt with by each department of state and the legislation administered by each minister of state administering a department.

One way the size and pervasiveness of the Commonwealth can be judged is through the evolution of the AAO. This is, of course, an imperfect measure but an illuminating one.

The very first AAO, under Prime Minister Barton, could fit on one page and described the roles of seven departments of state.

The current AAO, under Prime Minister Abbott, runs to 45 pages and describes 18 departments (a fraction less than that of his predecessor).

About halfway between Prime Ministers Barton and Abbott, the 1958 AAO under Prime Minister Menzies described 24 departments over eight pages.

Some of this variation in page length can be attributed to different fonts, layout and use of white space. More directly, the growing body of legislation administered by each department and listed in the AAO adds bulk. To provide a more direct comparison, these AAOs for each Prime Minister are reproduced below without the lists of legislation.

The change in the AAOs reflects growing Commonwealth powers, combined with significant consolidation of the departments of state in the 1980s. Although it should be noted that there have also been different preferences for drafting and a legalistic desire to provide a comprehensive description of the functions (compare the Menzies era Department of Primary Industries with the Department of Agriculture now).
**Barton (1901)**

**Portfolios and Responsibilities**

**The Department of External Affairs**
- Fisheries extra-territorial
- Naturalisation of Aliens
- Immigration and Emigration
- Influx of Criminals
- External Affairs
- Pacific Islands
- High Commissioner
- Communications with States
- Governor-General and Executive Council Offices
- Officers of Parliament

**The Attorney-General's Department**
- Bills of Exchange
- Bankruptcy
- Foreign Corporations
- Marriage
- Divorce
- Service of Process
- Recognition of Laws
- Judiciary and Courts
- Crown Law Offices
- Parliamentary Draftsmen

**The Department of Home Affairs**
- Old-age Pensions
- People of Special Races
- Acquisition of Property
- Acquisition of Railways with State Consent
- Control of Railways with State Consent
- Astronomical
- Census and Statistics
- Public Works
- Federal Capital
- Inter-State Commission
- Elections
- Public Service

**Portfolios and Responsibilities**

**The Department of the Treasury**
- Taxation exclusive of Customs and Excise
- Public Loans and taking over of State Loans Insurance
- Currency
- Banking
- Insurance

**The Department of Trade and Customs**
- Trade and Commerce (including Navigation, Shipping and Customs)
- Commonwealth bounties
- Patents
- Conciliation and Arbitration
- Lighthouses
- Quarantine
- Weights and Measures

**The Department of Defence**
- Naval and Military Defence
- Control of Railway Transport for Defence

**The Postmaster-General's Department**
- Posts, Telegraphs, and Telephones

Source: National Commission of Audit.
Menzies (1958)

Portfolios and Responsibilities

The Prime Minister's Department
- Secretariat to Cabinet
- Secretariat to Executive Council
- Government hospitality and State ceremonial
- Benefits to Students; Commonwealth Office of Education
- Commonwealth Scientific and Industrial Research Organization
- National Archives
- High Commissioners Office, London
- Weights and Measures

The Department of the Treasury
- Commonwealth finances, including taxation and borrowing money on the public credit of the Commonwealth
- Banking
- Census and statistics
- Currency, coinage and legal tender
- Foreign exchange
- Government printing
- Insurance

The Attorney-General's Department
- Law and Justice, including Parliamentary and legal drafting
- Bankruptcy and insolvency
- Bills of exchange and promissory notes
- Copyrights, patents of inventions and designs, and trade marks
- Divorce and matrimonial causes; and in relation thereto, parental rights, and the custody and guardianship of infants
- Foreign corporations, and trading and financial corporations formed within the limits of the Commonwealth
- Marriage
- Recognition throughout the Commonwealth of the laws, the public Acts and records, and the judicial proceedings of the States
- Service and execution throughout the Commonwealth of the civil and criminal process and the judgments of the courts of the States

The Department of External Affairs
- External Affairs

Department of Defence
- General defence policy

The Department of the Navy
- Naval defence

The Department of the Army
- Military Defence

The Department of Air
- Air Defence

Portfolios and Responsibilities

The Department of Customs and Excise
- Duties of Customs and Excise
- Bounties on the production or export of goods

The Department of Trade
- Trade and Commerce with other countries
- Industrial Development

The Department of Primary Industry
- Agricultural and pastoral industries
- Fisheries

The Postmaster-General's Department
- Postal, telegraphic, telephonic and other like services

The Department of the Interior
- Administration of Australian Capital Territory and Jervis Bay Territory
- Acquisition of property
- Astronomical meteorological observations
- Civil defence
- Commonwealth property, land and buildings
- Parliamentary elections and referendums
- Places acquired by the Commonwealth for public purposes
- Publicity and information
- War graves

The Department of Labour and National Service
- Industrial relations, including conciliation and arbitration in relation to industrial disputes
- Commonwealth Employment Service
- Provision of hostel accommodation for immigrants
- National Service other than the rendering of Service

The Department of Shipping and Transport
- Navigation and shipping, including Shipbuilding
- Lighthouses, lightships, beacons and buoys
- Land transport

The Department of Works
- Planning and execution of Commonwealth Works

The Department of Civil Aviation
- Civil Aviation

The Department of Social Services
- Social services including-
  - Invalid and old age pensions, Maternity allowances, widows' pensions, child endowment, unemployment and sickness benefits and family allowances

The Repatriation Department
- Repatriation and other benefits for members of the Forces and their dependants

Continued next page.
Menzies (1958) continued

Portfolios and Responsibilities

The Department of Immigration
Immigration and emigration
Nationality
Naturalization and aliens

The Department of Health
Public health, including:
Medical and dental services, pharmaceutical benefits and hospital benefits
Quarantine

The Department of Territories
Territories under the authority of the Commonwealth, other than the Australian Antarctic Territory, the Territory of Heard Island and McDonald Islands, the Australian Capital Territory and the Jervis Bay Territory

The Department of Supply
Supply, manufacture and overhaul of services and goods including munitions
Government transport and storage facilities outside the Australian Capital Territory
Defence research and development
Disposal of surplus goods

The Department of National Development
Development of National Resources Housing, including war service homes

Source: National Commission of Audit.
## Portfolios and Responsibilities

### The Department of Agriculture
Agricultural, pastoral, fishing, food and forest industries
Soils and other natural resources
Rural adjustment and drought issues
Primary industries research including economic research
Commodity marketing, including export promotion and agribusiness
Commodity-specific international organisations and activities
Administration of international commodity agreements
Food security policy and programmes

### The Attorney-General's Department
Law and justice including -
Administrative law
Alternative dispute resolution
Bankruptcy
Censorship
Constitutional law
Copyright
Courts and tribunals
Human rights
International law
Law reform
Legal assistance
Legislative drafting
Marriage and family law
Personal property securities
Legal services to the Commonwealth
Criminal law and law enforcement
National security, protective security policy and coordination
Protective services at Commonwealth establishments and diplomatic and consular premises in Australia
Commonwealth emergency management
Natural disaster relief, recovery and mitigation policy and financial assistance including payments to the States and Territories and the Australian Government Disaster Recovery Payment
Administrative support for Royal Commissions and certain other inquiries
Critical infrastructure protection co-ordination
Privacy
Freedom of Information
Cultural affairs, including movable cultural heritage and support for the arts
Management of government records
Native title

### The Department of Communications
Broadband policy and programmes
Postal and telecommunications policies and programmes
Spectrum policy management
Broadcasting policy
National policy issues relating to the digital economy
Content policy relating to the information economy

### The Department of Defence
Defence, including -
international defence relations and defence co-operation
defence scientific research and development
defence procurement and purchasing
defence industry development and co-operation

### The Department of Education
Schools education policy and programmes, including vocational education and training in schools, but excluding migrant adult education
Schooling transitions policy and programmes including career pathways
Education and training transitions policy and programmes
Youth affairs and programmes, including youth transitions
Early childhood and childcare policy and programmes
Co-ordination of early childhood development policy and responsibilities
Higher education policy, regulation and programmes
Co-ordination of research policy in relation to universities
Creation and development of research infrastructure
Research grants and fellowships
Policy, coordination and support for international education and research engagement

### The Department of Employment
Employment policy, including employment services
Job Services Australia
Labour market programmes for people of working age
Workplace relations policy development, advocacy and implementation
Promotion of flexible workplace relations policies and practices, including workplace productivity
Co-ordination of labour market research
Occupational health and safety, rehabilitation and compensation
Equal employment opportunity
Work and family programmes

### The Department of the Environment
Environment protection and conservation of biodiversity
Air quality
National fuel quality standards
Land contamination
Meteorology
Administration of the Australian Antarctic Territory, and the Territory of Heard Island and McDonald Islands
Natural, built and cultural heritage
Environmental information and research
Ionospheric prediction
Co-ordination of sustainable communities policy
Population policy
Urban environment
Development and co-ordination of domestic climate change policy

*Continued over page.*
Abbott (2013) continued

Portfolios and Responsibilities

The Department of the Environment (continued)
Climate change adaptation strategy and co-ordination
Co-ordination of climate change science activities
Renewable energy
Greenhouse gas abatement programmes
Community and household climate action
Water policy and resources

The Department of Finance
Budget policy advice and process, and review of
governmental programmes
Government financial accountability, governance and
financial management frameworks, including grants and
procurement policy and services
Shareholder advice on Government Business Enterprises
and commercial entities treated as GBEs
General policy guidelines for Commonwealth statutory
authorities
Superannuation arrangements for Australian Government
civilian employees and members of parliament and
retirement benefits for Federal Judges and Governors
General
Asset sales
Commonwealth property policy framework, legislation
and policy for the management of property leased or
owned by the Commonwealth, including acquisition,
disposal and management of property interests
Management of non-Defence Commonwealth property in
Australia, including construction, major refurbishment,
sustainability, acquisition, ownership and disposal of
real property
Electoral matters
Administration of Parliamentarians’ entitlements
Administration of the Australian Government’s self-
managed general insurance fund (Comcover)
Government on-line delivery and information technology
and communications management
Policy advice on the Future Fund and Nation-building
Funds and authorisation of payments from the Nation-
building Funds to Agencies
Co-ordination of Government Advertising
Official Establishments, ownership and property
management of the Prime Minister’s official residences

The Department of Foreign Affairs and Trade
External Affairs, including -
relations and communications with overseas
governments and United Nations agencies
treaties, including trade agreements
bilateral, regional and multilateral trade policy
international trade and commodity negotiations
market development, including market access
trade and international business development
investment promotion
international development co-operation
diplomatic and consular missions
international security issues, including disarmament,
arms control and nuclear non-proliferation

Portfolios and Responsibilities
public diplomacy, including information and cultural
programmes
International expositions
Provision to Australian citizens of secure travel
identification
Provision of consular services to Australian citizens abroad
Overseas property management, including acquisition,
ownership and disposal of real property
Tourism industry
International development and aid
Development and co-ordination of international climate
change policy
International climate change negotiations

The Department of Health
Public health, including health protection, and medical
research
Health promotion and disease prevention
Primary health care
Hospitals funding and policy, including relationships and
linkages within the continuum of health care
Implementation of the National Health and Hospitals
Network
Health research
Pharmaceutical benefits
Health benefits schemes
Hearing services policy and funding
Specific health services, including human quarantine
Sport and recreation
National drug strategy
Regulation of therapeutic goods
Notification and assessment of industrial chemicals
Gene technology regulation
Medical indemnity insurance issues
Private health insurance
Blood and organ policy and funding
Health workforce capacity
Mental health policy and primary mental health care

The Department of Human Services
Development, delivery and co-ordination of government
services, and development of policy on service delivery
Monitoring and management of service delivery
arrangements involving social security, child support,
students, families, aged care, health programmes,
disability employment services, superannuation release
and Australian Hearing Services

The Department of Immigration and Border Protection
Entry, stay and departure arrangements for non-citizens
Border immigration control
Citizenship
Ethnic affairs
Customs and border control other than quarantine and
inspection

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Abbott (2013) continued

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<td>Administration of export controls on rough diamonds, uranium and thorium</td>
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<td>Minerals and energy resources research, science and technology</td>
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<td>Geoscience research and information services including geodesy, mapping, remote sensing, groundwater and spatial data co-ordination</td>
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<td>Transport safety, including investigations</td>
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<tr>
<td>Land transport</td>
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<tr>
<td>Civil aviation and airports</td>
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<tr>
<td>Transport security</td>
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<tr>
<td>Maritime transport including shipping</td>
</tr>
<tr>
<td>Major projects office, including facilitation and implementation of all non Defence development projects</td>
</tr>
<tr>
<td>Administration of the Jervis Bay Territory, the Territory of Cocos (Keeling) Islands, the Territory of Christmas Island, the Coral Sea Islands Territory, the Territory of Ashmore and Cartier Islands, and of Commonwealth responsibilities on Norfolk Island</td>
</tr>
<tr>
<td>Constitutional development of the Northern Territory</td>
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<tr>
<td>Constitutional development of the Australian Capital Territory</td>
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<tr>
<td>Delivery of regional and territory specific services and programmes</td>
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<tr>
<td>Planning and land management in the Australian Capital Territory</td>
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<tr>
<td>Regional development</td>
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<tr>
<td>Matters relating to local government</td>
</tr>
<tr>
<td>Regional policy and co-ordination</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Portfolios and Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Department of the Prime Minister and Cabinet</strong></td>
</tr>
<tr>
<td>Advice to the Prime Minister across Government on policy and implementation</td>
</tr>
<tr>
<td>Assistance to the Prime Minister in managing the Cabinet programme</td>
</tr>
<tr>
<td>National security policy co-ordination</td>
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<tr>
<td>Counter terrorism policy co-ordination</td>
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<td>Cyber policy co-ordination</td>
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<tr>
<td>Intergovernmental relations and communications with State and Territory Governments</td>
</tr>
<tr>
<td>Co-ordination of Government administration</td>
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<tr>
<td>Australian Government employment workplace relations policy, including equal employment opportunity and administration of the framework for agreement making and remuneration and conditions</td>
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<tr>
<td>Australian honours and symbols policy</td>
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<tr>
<td>Government ceremonial and hospitality</td>
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<tr>
<td>Commonwealth Aboriginal and Torres Strait Islander policy, programmes and service delivery</td>
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<tr>
<td>Promotion of reconciliation</td>
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<tr>
<td>Community development employment projects</td>
</tr>
<tr>
<td>Reducing the burden of government regulation</td>
</tr>
<tr>
<td>Women’s policies and programmes</td>
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</tbody>
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<thead>
<tr>
<th>Portfolios and Responsibilities</th>
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</thead>
<tbody>
<tr>
<td><strong>The Department of Social Services</strong></td>
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<tr>
<td>Ageing research</td>
</tr>
<tr>
<td>Income security and support policies and programmes for families with children, carers, the aged, people with disabilities and people in hardship</td>
</tr>
<tr>
<td>Income support policies for students and apprentices</td>
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</tbody>
</table>

Continued over page.
## Abbott (2013) continued

### Portfolios and Responsibilities

**The Department of Social Services (continued)**

- Services for families with children, people with disabilities and carers
- Services for older people, including their carers
- Policy for and promotion of active ageing, other than employment policy
- Community mental health
- Community support services
- Family relationship, Family and Children’s Support Services
- Social housing, rent assistance and homelessness
- Child support policy
- Housing affordability
- Services to help people with disabilities obtain employment
- Arrangements for the settlement of migrants and humanitarian entrants, other than migrant child and migrant adult education
- Non-profit sector and volunteering
- Multicultural affairs

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**The Department of the Treasury**

- Economic, fiscal and monetary policy
- Taxation
- Borrowing money on the public credit of the Commonwealth
- International finance
- Foreign exchange
- Financial sector policy
- Currency and legal tender
- Foreign investment in Australia
- Superannuation and retirement savings policy
- Business law and practice
- Corporate, financial services and securities law
- Corporate insolvency
- Competition and consumer policy
- Prices surveillance
- Excise
- Census and statistics
- Valuation services
- Commonwealth-State financial relations
- Consumer credit
- Housing supply policy
- Small business policy

**The Department of Veterans’ Affairs**

- Repatriation income support, compensation and health programmes for veterans, members of the Defence Force, certain mariners and their dependants
- Commemorations
- War graves
- Defence Service Homes

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Source: National Commission of Audit.
Annex B: List of public submissions

The Commission called for public submissions in the week of 4 November 2013 via advertisements in national, metropolitan and regional newspapers and the Commission’s web site.

The Commission received 288 submissions from individuals, organisations and businesses as part of this process. A small number of those making submissions chose to make follow up submissions. These are counted in the total.

The Commission also received submissions from the governments of each State and Territory and from a number of Australian Public Service departments and other entities.

A list of public submissions follows.

**Individuals**

Glenn Appleyard  
Chris Baulman  
Bob Beadman  
William Boyd  
Neil Brown QC  
Valmai Burnett  
Jane Carrigan  
Barry Catchlove  
Richard Court AC  
Paddy Dewan  
Paul Dibb  
Bob Dollery  
James Eagles  
Glen Eaves  
David Eccles  
Christina Faulk  
Leon Francis  
Brijesh Ghodasara  
Rona Goold  
Martin Gordon  
Graham Gourlay  
Eric Gribble  
Loris Hemlof  
Geoff Henkel  
Neil Hermes  
Tim Holland  
Roger Jennings  
Eva Johansson  
Peter Katsambanis MLC  
Stuart Kelly  
Robert Ludlow  
John McAuley  
Dean McCrae  
James McGrory  
Bernie McKay  
David Norman  
Frank Ondrus  
Grace Oryem  
Ben Pook  
Julian Rait  
Leonie Ramsay  
Gavin Scrimgeour  
Rose Spear  
Wilson Tuckey  
John Wayland  
Garry White  
Mark White
### Organisations and businesses

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<tr>
<th>Organisation</th>
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<tr>
<td>Abbott Australasia</td>
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<td>Accenture Australia</td>
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<td>Accord Australasia</td>
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<tr>
<td>ADJ Consultancy Services</td>
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<td>Aged and Community Services Australia</td>
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<td>AgriFood Skills Australia</td>
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<td>Allygroup</td>
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<td>Alzheimer’s Australia</td>
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<td>AMES</td>
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<td>Anglicare Australia</td>
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<td>Argos Consulting</td>
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<tr>
<td>Asciano, Aurizon, Australian Rail Track Corporation, Australasian Railway Association (joint submission)</td>
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<tr>
<td>Association of Australian Medical Research Institutes</td>
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<tr>
<td>Association of Independent Retirees</td>
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<tr>
<td>Australian Academy of Science</td>
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<td>Australian Business Roundtable for Disaster Resilience and Safer Communities</td>
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<tr>
<td>Australian Chamber of Commerce and Industry</td>
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<td>Australian Conservation foundation</td>
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<tr>
<td>Australian Council for International Development</td>
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<td>Australian Council for Private Education and Training</td>
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<td>Australian Council of Social Service</td>
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<td>Australian Council of Trade Unions</td>
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<td>Australian Diagnostic Imaging Association</td>
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<td>Australian Food and Grocery Council</td>
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<td>Australian Healthcare and Hospitals Association</td>
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<td>Australian Hearing</td>
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<td>Australian Hotels Association</td>
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<td>Australian Industry Group</td>
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<td>Australian Industry Group Defence Council</td>
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<td>Australian Information Industry Association</td>
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<td>Australian Local Government Association</td>
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<td>Australian Logistics Council</td>
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<td>Australian Major Performing Arts Group</td>
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<td>Australian Medical Association</td>
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<td>Australian Medicare Local Alliance</td>
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<td>Australian Osteopathic Association</td>
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<td>Australian Parents Council</td>
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<td>Australian Petroleum Production and Exploration Association</td>
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<td>Australian Private Equity and Venture Capital Association</td>
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<td>Australian Private Hospitals Association</td>
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<td>Australian Psychological Society</td>
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<td>Australian Renewable Fuels</td>
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<td>Australian Self-Medication Industry</td>
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<td>Australian Services Union</td>
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<td>Australian Strategic Policy Institute</td>
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<td>Australian Subscription Television and Radio Association</td>
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<td>Australian Technology Network of Universities</td>
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<td>Banyer and Associates</td>
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<td>Benetas</td>
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<td>Bond University</td>
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<td>Brewers Association</td>
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<td>Bupa Australia</td>
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<td>Business Council of Australia</td>
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<td>Business Council of Co-operatives and Mutuals</td>
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<td>BusinessSA</td>
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<tr>
<td>Butterfly Foundation</td>
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</tbody>
</table>
CA Technologies
Canberra Airport
Capital Markets and Cooperative Research Centre
Carers Australia
Carlton and United Breweries
Catholic Health Australia
Catholic Social Services Australia
Central Australian Aboriginal Legal Aid Service
Centre for Independent Studies
Certain Planning
CGI Australia
Challenger Limited
Christian Education Ministries
Citizens Against Fluoridation
City of Sydney
Civil Contractors Federation
Clarius Group
CollabIT ACT
Commonwealth and Public Sector Union
Communication Workers Union
Community Broadcasting Association of Australia
Community Council for Australia
Community Employers WA
Community Services and Health Industry Skills Council
Concerned Citizens of Geelong Society
Consult Australia
Consumers Health Forum of Australia
COTA Australia
Council of Capital City Lord Mayors
Council of Small Business Australia
CPA Australia
CropLife Australia
DataFlex
Dietitians Association of Australia
Distilled Spirits Industry Council of Australia
Early Childhood Australia
EARtrak
Electrical Trades Union of Australia
Emantra
Energy Australia
Engineers Australia
Exercise and Sports Science Australia
Families Australia
Family and Relationship Services Australia
Financial Counsellors’ Association of Queensland
Financial Services Council
First Peoples Disability Network
ForestWorks Industry Skills Council
Free TV Australia
Friendly Societies of Australia
Future Asset Services
Generic Medicines Industry Association
Good Technology
Google Australia, PwC and Cisco Australia (joint submission)
Governance Institute of Australia
Grattan Institute
Grattan Institute Health Program
Grattan Institute Higher Education Program
Griffith University
Harness Racing Australia
hirmaa
Homelessness Australia
Housing Industry Association
IBM Australia and New Zealand
Imperial Tobacco Australia
Independent Schools Council of Australia
Indue Limited
Industry Skills Councils
Industry Super Australia
Innovative Research Universities
Inspire Foundation / ReachOut.com
Institute of Chartered Accountants Australia
Institute of Internal Auditors - Australia
Insurance Australia Group
International Education Peak Bodies
iWebGate technology
Jobs Australia
Kidney Health Australia
La Trobe University
Large Law Firm Group
Leading Age Services Australia
Leukaemia Foundation of Australia
Lion Pty Ltd
Logan: City of Choice Leadership Team
Macular Disease Foundation Australia
Master Builders Australia
McMillan Shakespeare
Medibank
Medicines Australia
Mental Health Council of Australia
Merck Sharp and Dohme
MIG Group
Migration Council
Minerals Council of Australia
Mission Australia
Moorebank Intermodal Company
Murdoch University
National Alcohol Beverage Industries Council
National Catholic Education Commission
National Congress of Australia’s First Peoples
National Council of Single Mothers and Their Children
National Employment Services Association
National English Language Training Accreditation Scheme
National Famers’ Federation
National Heart Foundation
National Industry Skills Council
National Retail Association
National Rural Health Alliance
National Tertiary Education Union
National Tourism Alliance
National Welfare Rights Network
Navitas
NEXA
nib Health Funds
NPS MedicineWise
NRAS Providers
NRMA Insurance Group
NSW Secondary Principals’ Council
Oakton Services
Organic Waste Management
Our HR Company
Palliative Care Australia
PC JAK Consulting
Pernod Ricard Winemakers
Pharmaceutical Society of Australia
Pharmacy Guild of Australia
Plastics and Chemicals Industries Association
Post Office Agents Association
Private Healthcare Australia
Productivity Now
Professionals Australia
Property Council of Australia
PSInnovation
Public Health Association of Australia
Qube Holdings
Queensland Youth Housing Coalition
Random Computing Services
Real Estate Institute of Australia
Real Health Care Reform
Recoveries Corporation Group
Regional Australia Institute
Regional Development Australia Hunter
Regional Universities Network
Research Australia
Richmond Fellowship of Western Australia
Royal Society for the Blind
Rural Health Workforce Australia
Salini Australia
SAP Australia
Service Skills Australia
Service to Youth Council Inc.
Services for Australian Rural and Remote Allied Health
SmarterKnowledge
Society of Hospital Pharmacists of Australia
St Vincent de Paul Society
Standards Australia
Suicide Prevention Australia
Suncorp
Sydney Airport Corporation
TAFE Directors Australia
Telstra
Tenants’ Union of Queensland
The Services Union

The Smith Family
Toll Group
Tomorrow’s Agenda Research Institute
Tourism Shopping Reform Group
Transport and Logistics Industry Skills Council
United Voice
UnitingCare Australia
Universities Australia
Universities Australia - Health Professions Education Standing Group
University of Adelaide
University of Melbourne
University of New South Wales
University of Sydney
Urban Development Institute of Australia
Urbis
Veda
Vedelem
Victorian Healthcare Association
Vision Australia
Volunteering Australia
Yarris