

Commission of Audit

Dear Commissioners,

Submission

I have provided this submission to provide some background and advice which you may wish to consider.

Briefly I am a former Commonwealth Public Service, I have also worked briefly in the ACT Public Sector environment, and was also local government councillor. I have worked as an adviser in both Commonwealth and ACT spheres. I have worked in policy areas in Health and Ageing, and other agencies such as ATO, Defence, ANAO and TGA. I have been involved in human resources, external and internal audit, procurement, logistics, administration, etc. My advising experience was largely in health and social security issues. I have qualifications in health policy, accounting, economics (including labour markets, public finance) and as a company director.

I have presented my observations and suggestions in terms of the Commissions terms of reference. Commissions of Audit are opportunities to look at overall financial positions, but to be creative in terms of solutions. Government is a means of achieving change that benefits all of society, and thoughtful and long term perspectives yield better results than short term ones.

I am very interested in a sound financial base for the Government, but also mindful of getting the best social benefit from expenditure. Sometimes cost can be recovered by charging, sometimes it is easier to provide it free and fund it from taxation. Usually the average member of the public suffers from cognitive dissonance where they want more money spent on all manner of things but don't want to pay for them, or they really have no idea what it costs or what can be saved by discontinuing activities. Revenue is usually exaggerated and expenses under estimated. Having being involved in some advice briefs, I have seen some pretty rubbery costings, sometimes there is nothing to really base figures on.

On the other hand the estimates of revenue appear to not reflect any understanding of human behaviour (for example lower company tax rates encourage shifting of profits from the high tax year to the lower one, which is perfectly legal). Revenue estimates of late appear to little better than guesses, to illustrate the magnitude of the estimating error on the budget bottom line has been some \$20B pa on average over the last six years. This is 1.3-1.4% of GDP a huge error.

Commission Approach

The terms of reference appear to have a very conventional accountant approach to government, I am an accountant but you need to think a bit more broadly. In some portfolios some outlays generate considerable savings, this is particularly true in the health area.

Accountability

The accountability approach imposed in government actually impedes service provision. Many processes and levels of review are completely pointless and frustrate everyone. I have friends in the private and not for profit sectors and they have their own bureaucratic frustrations, but they are astonished how long and how much it costs to go through a standard government procurement approach process, or grant process.

ensure taxpayers are receiving value for money from each dollar spent;

Procurement

I have been involved in procurement activity in the Commonwealth, audit of it, and also in roles frustrated by timeframes and process involved in procurement and delivery of even basic requirements, with off the shelf products.

The existing and increasingly complex approach to procurement suffers the following flaws:

- Too many signatures
- Too much meddling, too many people involved.
- Disproportionate time and energy to buy even low value off the shelf items.

Defence may be worse than most but purchasing seems to require disproportionate numbers of signatures (Defence requires approvers to have 'competence' (i.e. qualifications) to approve things, or have someone 'advise' them so that they can approve the procurement).

A former military colleague illustrated her frustration by referring to the number of signatures she needed to obtain a business as usual (BAU) requirement that was purchased annually, but required a similar number of signatures (10 or 12) to that on the instruments of surrender from both theatres of the Second World War! The absurdity of this was memorable.

Silo thinking

Departments despite consultative processes with other departments can generate ideas which reflect silo thinking, such as savings measures in particular which impose costs on elements (sometimes some of the poorest) of the public and other levels of government (a favourite). A fuller view of costs, which may include for example health related costs which will manifest themselves in future years, suggests that savings measures need to produce 'real' savings, rather than short term savings.

Bigger thinking

Australia is a nation beset by seasonal weather, some extreme weather events such as cyclones, floods and fires. The use of public works such as highway construction, repairs and maintenance can be used in counter cyclical ways, as many regional areas also have high seasonal unemployment. The constant virtual reconstruction of highways in tropical Australia might demand more durable and less maintenance intensive use of concrete construction rather than bitumen, and more durable (read out of reach of floods) infrastructure. The cutting off of major regional towns should be rare rather than common every annual wet season. Some bigger thinking would deal with two issues, namely unemployment and also infrastructure needs.

Carrots and Sticks and creative policy

As an adviser I was particularly involved with means testing. The clever use of carrots and sticks can save money, result in better targeting of social security (Australia is very well placed in this respect), encourage better behaviour, encourage work effort, encourage self-reliance.

Creative use of incentives has been effective in raising immunisation rates, in the UK raising breast feeding rates (and associated health and social benefits). There is enormous scope to do this.

The current Prime Minister was noteworthy as health minister in encouraging innovative policy which supported things such as school breakfast programs etc. to improve school performance. Some cheap and inexpensive preventative interventions can prevent substantial social problems down the track.

Valuing educational effort

The previous government had sought to cap self-education expense claims through the tax system. Having seen some claims I can understand why this might appeal, but it is a blunt instrument. Similarly a measure to generate more scientists and science understanding is perfectly reasonable as a public policy. But there is little point if having generated the science graduates that they are discouraged from working in their fields due to the insecure employment that many scientists confront. Many public servants that work in Commonwealth policy areas include a good number of former scientists, they have come to be bureaucrats as they cannot get continuing employment in their field of science. A new broader view of policy and how the sector works, might lead to some simple changes, such as longer term employment, making the personal and public educational investment pay off for Australia.

eliminate wasteful spending;

There are few truly wasteful forms of public spending, but more a case of different priorities and poorly constructed policy or poorly administered policy.

New Zealand in recent times had a roof insulation program, which was very successful, whereas Australia's was very poorly executed. A small agency that is primarily policy in nature, is completely unsuitable to make large volume of payments which need proper management and oversight. Centrelink could have been engaged to do the payment and processing. A proper system of checks and administration could have made this program a success rather than a failure. The objective of the program to reduce energy use, and the progressive impact of reduced energy bills for low income households is sound.

Further the obvious flaws in the policy implementation would have been obvious if someone familiar with policy design had been involved, or they had looked to New Zealand for their approach. This could have been done via the internet, or the 'radical' alternative of the phone or teleconference. I am often astounded by the lack of use of technology, or even seeking information from obvious sources.

I will refer to policy histories in the health and education areas, not so much for identifying waste as such, but to identify ineffective spending, and political responses which undermine the ideal policy outcome. Whilst waste exists, the potential for revenue raising should not be ignored, nor well designed policy which produces benefits commensurate to outlays made.

Tertiary education

Prior to the introduction of free tertiary education in the early 1970's there were full fees and scholarships. The introduction of free tertiary education was obviously popular (as is usually the case with any measure that you benefit from but someone else pays for!). In the tax space, the best tax is a tax that someone else pays!). When you examine the socio economic impact of free primary and secondary education it is progressive in its impact. Whilst for tertiary education it is massively regressive, as it transfers money from the poorest members of society to the wealthiest. In fact it was problem the most regressive policy action ever undertaken by an Australian government.

When the ALP did realise the regressivity and it wanted to increase tertiary education outlays it devised HECS. Its architect Bruce Chapman was a lecturer of mine many years ago. Notwithstanding that the portion of the total cost of providing the education borne by students was small, there was some opposition. Taxpayers still meet the vast bulk of the cost of tertiary education. HECS has several flaws, including that many students never pay the debt, or pay only a small portion, and it does generate some upfront anxiety about debt.

I have always preferred a graduate tax approach. The benefits of education do flow to society, but in particular to those with the education, who are able to command higher incomes. The wasteful aspect of HECS is debt never collected, and the fact that higher earnings from education are taxed generally via personal income tax, a graduate tax of say one percent in addition to the marginal tax rate, would be a progressive tax, and one which recovers the cost and benefits of education at a time when the tertiary educated are most able to pay. This would be a significant revenue raiser.

Uncapped university places.

Additionally I have concerns about the uncapped provision of places the Commonwealth has embarked upon. Merely allowing universities to offer whatever places will invariably (in my humble opinion (IMHO)) merely lead to surpluses of some skills and continued deficiencies of other skills. If we need speech pathologists for example, then direct the expansion of places. I have no particular dislike of lawyers, but as an example do we need more of them and the attendant litigation industry? Rather than a vested interest supplier (universities, with its own internal priorities and faculties) dictate supply, perhaps some conditionality be applied to places.

The provision of uncapped places is IMHO wasteful spending.

National curriculum

The implementation of the national curriculum was a good case of partisan politics impeding a good idea. The delay in agreement to 2007 was a purely partisan political delay and which has only delayed the gains to be made from a national system.

Dental health

The torturous history of public dental health in Australia is a classic case of poor policy design, predictable political responses and poor outcomes. Prior to 1993 states used to provide dental health services to low income earners, and it was variable around the country.

In 1993 the then government proposed a Commonwealth scheme with a capped amount of money and occasions of service, which more or less expired when there was a change of government in 1996 and financial stringencies were apparent. Over the ensuing decade or so state governments of the opposite persuasion appear to have underfunded this area of their responsibility and the waiting list of vulnerable low income earners awaiting dental services exploded. On the election of a new

Commonwealth government in 2007, some attempt was made to remedy this substantial backlog, created over some years in large part by the state colleagues of the new government!

Since 2007, the Commonwealth has embarked on a new dental program, and replaced a high needs dental program that previously existed. The problem is that for all of this politicking the exploited have had to wait for services, one to clear the backlog and second to access services, which they should be able to access anyway.

The new arrangements will cover lowest (FTB A) income children families, and low income seniors and social security recipients, and those with private health insurance will have coverage, but out of pocket outlays (which will now longer have tax assistance). With all of this there is a large number of children and adults who will not have affordable access to dental care, and those with care will face a rationed system, and those with private health insurance they will have out of pocket outlays.

One advantage of chronological analysis is that the absurdity of things can be more obvious, but it would be fair to say it's a bit of a mess. Where we are at present is a multi-tiered system of dental care, any solution is inherently expensive. I favour a level of support for private health insurance, as the alternative invariably leads to increased demands on the public system, the level of support is debateable, but the cost of a fully publicly free at point of service system is high.

The lessons are, if you design a system, design it with the right terms and conditions, particularly if there are other levels of government involved. Try to minimise disincentives and the creation of multi-tiers classes of people.

Superannuation

I won't recount the history of superannuation in large party because it is simply too long. The political spin attached to superannuation rather conceals the reality of its economic nature. Superannuation contributions are foregone wages, where a portion of an employee's earnings are diverted into a tax effective regime for decades.

The system introduced by the then government in the early 1990's has a significant flaw in its design, in that it provides because of its favourable tax treatments the greatest benefits to the highest income earners, and the least (or close to nil) benefit for low income earners.

The claimed benefit of superannuation is the diminution of demands on age pensions in retirement, but as tax expenditure calculations show, the cost of the preferential treatment of contributions, earnings and income is very large.

The previous government proposed the addressing (for revenue raising reasons) the increasing inequity of superannuation taxation (a system its own predecessors created) by proposing a higher tax on earnings over \$100,000 per annum. I support this measure, and believe it should be implemented. In time with the failure to index this amount it will become a significant means of addressing the huge inequity and huge cost of concessional treatment of contributions, earnings and income from superannuation. This would be a significant revenue raiser.

identify areas of unnecessary duplication between the activities of the Commonwealth and other levels of government;

Cooperation

A recurring theme of my submission is cooperation, rather than retreating from areas of Commonwealth involvement. I have commented on the use of one stop shops in environmental issues, this is a good initiative.

Above I have referred to the use of carrots and sticks to achieve immunisation outcomes, school breakfast programs to improve education results. I would be the first to say the Commonwealth is not always the font of wisdom, but often it may want to achieve things nationally that the states cannot afford, in large part because of revenue base issues, and they are juggling demand management, resource management, and election cycles.

The Commonwealth should be open to initiatives that are genuine proposals of the states and local government, and also industry. I say genuine as cost shifting is a standard tactic of all governments, but some initiatives make a lot of sense and the Commonwealth can ensure they are applied nationally. Industry sometimes originates good ideas, they are not always attempts to shift the cost to government but often some educational and qualification coordination can be beneficial to all concerned.

The money lever is very powerful, the Commonwealth should make use of it.

identify areas or programs where Commonwealth involvement is inappropriate, no longer needed, or blurs lines of accountability; and

One stop shop

The current government has embarked on a series of initiatives such as a one stop shop for environmental approvals. This is a constructive process and which should yield considerable benefits. The critics are in the main those who oppose development and the more means of obstructing development there are, the more opportunities there are to achieve their obstructive aims. I favour making decisions that yield the greatest national benefit and oppose the whingers and whiners.

Intervention

Rather than retreat by the Commonwealth, the one stop shop model and greater consistency is my preference. In various areas such as health, education, and infrastructure etc., the intervention of the Commonwealth can be beneficial. Providing money, with conditions and leveraging opportunity with the states and local government, is a greatly beneficial to the nation as a whole.

In a way the one stop shop model in environmental approvals supports my point about not vacating the field, but rather using the lever the Commonwealth has to improve outcomes and make it easier to get results.

improve the overall efficiency and effectiveness with which government services and policy advice are delivered.

I just make the following observations about briefs processes and budget processes in particular. I make no proposals, other than to reinforce the completely soul destroying nature of these processes. Any improvement would be an improvement!

Bureaucratic imperatives

I have referred above to the roof insulation program, but it is not alone as a policy beset by design issues, or implementation issues. The reality is that the process to generate any policy and its implementation is long, complex, hard, and rarely, swift, simple or easy. Advisers and ministers are invariably frustrated by delays, excuses and failures on some policy. Having said that, bureaucrats do not delicately obstruct policy, but development involves many people, often too many and sometimes not the right ones. Usually micro-management of words and tweaking of briefs becomes an imperative which overrides progress.

The size of the brief is only one aspect of a brief, shorter is usually much better, and the exposition of the details in short dot points is helpful to all concerned.

Clearance processes are invariably frustrating. By the time a brief leaves a section all staff involved with it are thoroughly sick of the sight of it. The interest level of staff has been completely eroded by countless editing, and focus not on important issues, but administrivia around the format of the brief. The entire process of briefs is not about information, but process and there is absolutely no reward for creativity, and it is certainly stomped out of you during the process. Conformity and process usually prevail.

Budget processes

Worse still is the budget process. This is more painful, pointless and frustrating than any other brief. Every department has teams of people working late in the night and even the morning awaiting approval from Finance. A simple question from Finance involves email usually to the Finance/Policy Strategy area of a Department and then relayed to the responsible division and then clunks up or down through several people, and then in reverse with clearance from an SES officer back to the Departments Finance/Policy Strategy area, and then relayed to Finance. This process applies no matter how important or unimportant the issue.

It is rare for people to work on two budgets processes, they are simply too soul destroying.

I wish the commission well in their work.

Regards

Martin Gordon