

The Senate

Senate Select Committee into the
Abbott Government's Commission
of Audit

Second interim report

April 2014

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List of Recommendations

Recommendation 1

2.19 The committee recommends that the government use funding found through efficiencies to increase evidence based preventative health measures aimed at reducing the burden of chronic conditions in the future.

Recommendation 2

2.35 The committee recommends that the government commit to provide additional resources to progress the review of Medicare Benefits Schedule item numbers being undertaken by the Medical Services Advisory Committee.

Recommendation 3

2.64 The committee strongly recommends that the government does not implement co-payments for GP consultations and emergency department services.

Recommendation 4

2.71 The committee recommends that the government review health data collected with a view to: consolidating data held by different departments across different levels of government; and collecting data on the value of preventative healthcare and the primary care function of GPs.

Recommendation 5

2.76 The committee recommends that the government explore the effectiveness of the safety nets relating to medicines and primary care, including the consideration of potential options for improving access and reducing out-of-pocket costs to patients.

Recommendation 6

3.32 The committee recommends services for low-income and vulnerable groups be quarantined from any government spending cuts.

Recommendation 7

3.33 The committee recommends that the government actively consult with the community sector before undertaking any changes to targeting or prioritisation of funding in social services and disclose potential changes under consideration as part of this consultation.

Recommendation 8

3.38 The committee recommends that the welfare review being undertaken by Mr Patrick McClure be released to the public once it has been provided to government.

Recommendation 9

3.40 The committee recommends that any efficiencies found as a result of recommendations by the National Commission of Audit or the Welfare Review being undertaken by Mr Patrick McClure be reinvested in providing services such as those required to support people with a disability to enter or re-enter the workforce.

Recommendation 10

4.40 The committee recommends that the government does not reduce or remove the penalty rate system.

Recommendation 11

4.42 The committee recommends that the government ensure workers affected by jobs losses in the industry and manufacturing sectors have early access to information, support and opportunities to retrain and reskill.

Recommendation 12

4.43 The committee recommends that in regions affected by job losses from the manufacturing sector, the government investigate opportunities for public-private partnerships for projects that would provide a future workforce as well as retraining and reskilling opportunities.

Recommendation 13

4.45 The committee recommends that the government recognise the individual and community benefits of the solar industry by retaining the Renewable Energy Target.

Recommendation 14

4.49 The committee recommends that there are no further cuts to jobs in the Australian public service.

Recommendation 15

4.51 The committee recommends that in the event that further cuts are made to public service staffing numbers, the government confirm the total number of jobs to be cut, the timeline (over the forward estimates) of these cuts, the rationale for these cuts and any impact on resources available for the purposes of policy development, contract management and program and service delivery.

Chapter 1

Introduction

Referral

1.1 On 11 December 2013 the Senate established a Select Committee into the Abbott Government's Commission of Audit to inquire into and report on the following matters by 13 May 2014:

- (a) the nature and extent of any cuts or changes to government expenditure recommended by the Commission;
- (b) the effect of any proposed cuts or changes on the provision of services, programs or benefits by the Government;
- (c) the effect of any proposed cuts or changes on the ability of the public service to provide advice to government;
- (d) the effect of any proposed changes to the current split of roles and responsibilities between the Commonwealth Government and state and territory governments on the current levels of government expenditure, taxation and service delivery;
- (e) the potential impact of any proposed revenue measures on the Budget and on taxpayers, including access to services like health and education;
- (f) the potential impact of any proposed cuts or changes to government expenditure or service provision on employment and the economy;
- (g) the consistency of the Commission's recommendations with the Government's commitments on spending on health, medical research, education, and defence spending;
- (h) the potential impact of any proposed cuts or changes on the structural budget balance over the forward estimates and the next 10 years;
- (i) the potential impact that any proposed changes to Commonwealth budgeting arrangements might have in undermining public confidence in the provision of Commonwealth government accounts;
- (j) the potential effects of any proposed cuts or changes on the Government's medium- to long-term fiscal position, such as reducing future productivity, reducing the tax base and government revenues, or increasing future demand for government programs or support;
- (k) whether the Commission's terms of reference are appropriate, and, in particular, whether consideration ought be given to alternative means of:
 - (i) improving the efficiency and effectiveness of government expenditure,

- (ii) improving the state of the Commonwealth's finances and addressing medium-term risks to the integrity of the budget position,
 - (iii) improving the fairness and efficiency of revenue raising, including that businesses cover the full cost of their activities, and that individuals with greater capacity contribute more to government revenue,
 - (iv) funding infrastructure and enhancing Australia's human, economic and natural capital, or
 - (v) improving the public service; and
- (l) any other matters the committee considers relevant.

First interim report

1.2 On 18 February 2014 the committee tabled an interim report that focused on the following issues:

- processes being used by the National Commission of Audit; and
- assumptions made by the commission's terms of reference, including its target of achieving a 1 per cent surplus before 2023-24.

1.3 This report is available from the committee website: www.aph.gov.au/senate_coa.

Second interim report

1.4 The committee has decided to table a second interim report that will focus on the effects of potential cuts recommended by the commission in the following areas:

- healthcare expenditure, and the operation of and access to the healthcare system;
- government services; and
- employment.

Public hearings

1.5 The committee held public hearings on 15 January and 5 February 2014 which informed the committee's first interim report tabled on 18 February 2014.

1.6 The committee held further hearings in Canberra on 18 February 2014 and Perth on 1 April 2014, which focused on the potential effects of the commission's recommendations on the healthcare system and government services. A hearing in Melbourne on 13 March 2014 focused on issues around employment.

1.7 The Hansard transcripts of evidence may be accessed through the committee's website at www.aph.gov.au/senate_coa.

Acknowledgement

1.8 The committee thanks all those who made submissions and appeared at hearings.

Chapter 2

The Australian healthcare system – expenditure, access and outcomes

Introduction

2.1 The government has stated that it remains committed to its election promise of not making cuts to the health budget. However, the National Commission of Audit (the commission) is looking for areas of waste and inefficiency. The government has indicated that if any savings are identified by the commission, these funds would be reallocated to other priority areas in the same portfolio.¹

2.2 This chapter will examine government healthcare expenditure and suggested areas where efficiencies may be found. It will also consider the importance of primary and preventative healthcare, the specific proposal to charge a \$6 Medicare co-payment and other related areas raised with the committee.

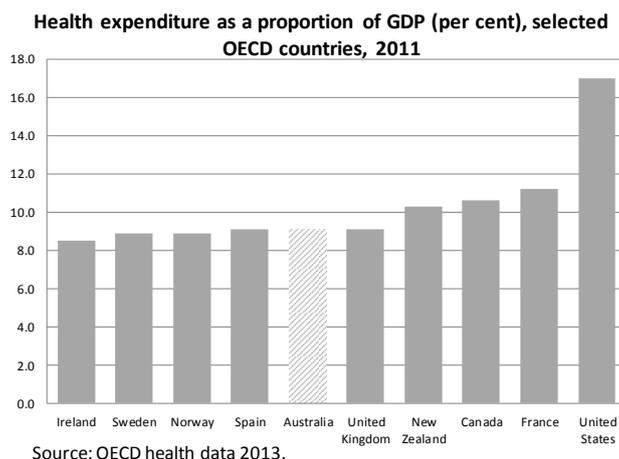
Government expenditure on health

2.3 Healthcare has been highlighted as an area of growing government expenditure, with the system under pressure from a growing and ageing population with high expectations around their level of healthcare.² However, the committee notes that Australia's health expenditure is moderate when compared to international benchmarks (see figure below).³

1 See the Hon Joe Hockey MP, Shadow Treasurer and the Hon Andrew Robb AO MP, Shadow Minister for Finance, Deregulation and Debt Reduction, Joint Press Conference, 5 September 2013; 7.30, 'Joe Hockey blames Labor's legacy as debt ceiling rises', 22 October 2013, Transcript available from www.abc.net.au/7.30/content/2013/s3874679.htm (accessed 17 March 2014); Paul Osborne, 'Debt ceiling lifted as audit announced', *Sydney Morning Herald*, 22 October 2013.

2 7.30, Health Minister flags increasing healthcare costs, 19 February 2014, Transcript available from: www.abc.net.au/news/2014-02-19/health-minister-flags-increasing-healthcare-costs/5270840 (accessed 17 March 2014)

3 OECD, *OECD Health Statistics 2013 – Frequently Requested Data* (2013). See also Professor Geoffrey Dobb, Vice-President, Australian Medical Association, *Proof Committee Hansard*, 1 April 2014, p. 1.



2.4 Total health expenditure in Australia has increased substantially over the last decade from \$82.9 billion in 2001-02 to \$140.2 billion in 2011-12 in real terms.⁴ However, it should be noted that as a proportion of GDP this represents an increase of just 1.2 per cent, which suggests that health spending has been reasonably stable over time.⁵

2.5 Despite this, the committee acknowledges that recent *Intergenerational Reports* have suggested rising healthcare costs will put increasing pressure on the health budget in coming decades.⁶ This will be compounded by an ageing population, the cost of new technologies and pharmaceuticals, the introduction of programs such as the National Disability Insurance Scheme, and the growing burden of chronic disease.⁷

Effectiveness

2.6 The committee notes Australia's healthcare system is reasonably efficient when compared to international benchmarks.⁸ The Organisation for Economic Co-operation and Development's (OECD) *Health at a Glance 2013* indicates that Australia's health system achieves excellent outcomes at an efficient price:

Australians also enjoy good access to a high quality health care system. It consistently rates among the top five countries in terms of survival after

4 Australian Institute of Health and Welfare (AIHW), *Health Expenditure Australia 2011-12* (2013), p. viii.

5 Mr Simon Cowan, Research Fellow and TARGET30 Program Director, Centre for Independent Studies, *Proof Committee Hansard*, 18 February 2014, p. 20. Note: figures from the AIHW state that: 'In 2011-12, health expenditure as a percentage of gross domestic product (GDP) was 9.5 per cent, up from 8.4 per cent in 2001-02.' See *Health Expenditure Australia 2011-12* (2013), p. viii.

6 The Treasury, *Australia to 2050: future challenges* (2010), p. 8.

7 Mr Phil Bowen, Parliamentary Budget Officer, *Committee Hansard*, 5 February 2014, p. 60; Dr John Daley, *Committee Hansard*, 5 February 2014, p. 2; Mr Simon Cowan, Research Fellow and TARGET30 Program Director, Centre for independent Studies, *Proof Committee Hansard*, 18 February 2014, p. 18.

8 OECD, *OECD Health Statistics 2013 – Frequently Requested Data* (2013).

being diagnosed with cancer or after suffering acute myocardial infarction (heart attack). These good outcomes are achieved at a reasonable price, with Australians spending 8.9% of their GDP on health compared to an OECD average of 9.3%.⁹

2.7 Dr John Daley, CEO of the Grattan Institute, who appeared before the committee in a private capacity, commented that the efficiency of the Australian system meant that finding substantial savings in health expenditure would be challenging:

The issue with health is that Australia has one of the most efficient health systems in the world. We looked at this in the supplementary materials to [the Grattan Institute] *Game changers* report. That showed that Australia has some of the best health outcomes in the world, if you measure them by mortality, but you can use lots of other measures as well. And we have what you might describe as middle-of-the-road spending. So, in terms of outcome for the amount we spend, we do it about as well as anyone else in the world and indeed better than most people.¹⁰

2.8 Ms Alison Verhoeven, Chief Executive Officer of the Australian Health and Hospitals Association (AHHA), noted that Medicare was the foundation of the Australian healthcare system, and that its provision of universal access to good treatment was one of the reasons why health indicators are predominantly good, while costs are reasonable.¹¹

2.9 Mr Ian McAuley, Adjunct Lecturer, University of Canberra, noted that most successful health systems were built around a single national insurer, such as Medicare, that kept costs low:

The huge cost is the incapacity of a fragmented private insurance system to control the costs imposed by service providers. That is why, for instance, the USA stands out there with health expenditure of 18 per cent of GDP—a huge burden on that country—whereas most developed democracies were around nine per cent of GDP. The countries which have been most successful are those which have used a single national insurer to keep costs under control.¹²

2.10 The figure below shows that countries that rely more heavily on private insurance to fund healthcare have more expensive health systems.¹³

9 OECD, *Health at a Glance 2013 – Australia* at www.oecd.org/australia/Health-at-a-Glance-2013-Press-Release-Australia.pdf (accessed 4 March 2014). See also Professor Geoffrey Dobb, Vice-President, Australian Medical Association, *Proof Committee Hansard*, 1 April 2014, p. 1.

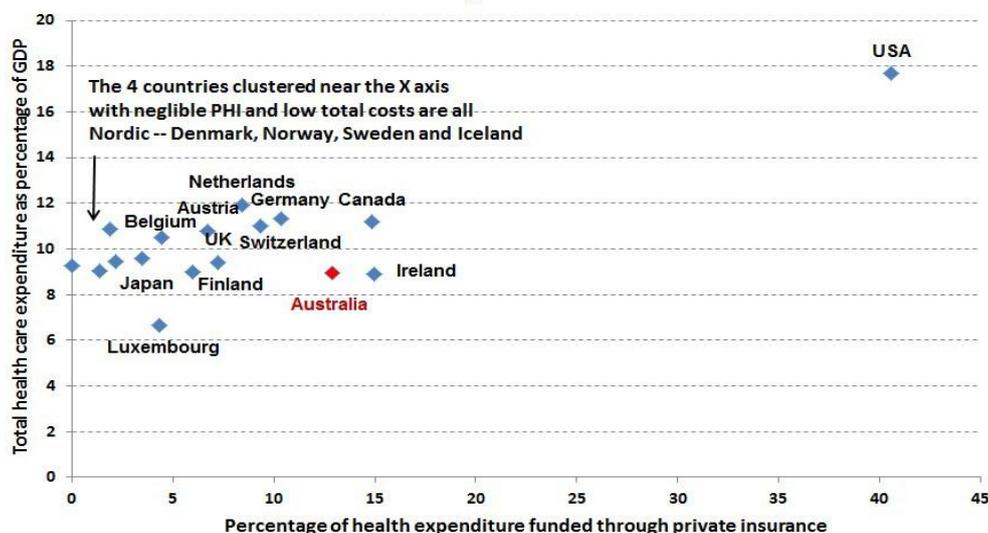
10 *Proof Committee Hansard*, 5 February 2014, pp 2-3.

11 *Proof Committee Hansard*, 18 February 2014, p. 7.

12 *Proof Committee Hansard*, 5 February 2014, p. 41.

13 Mr Ian McAuley, Ms Jennifer Doggett and Mr John Menadue, *Submission 6*, p. 27.

Figure 14: National Health Expenditure and Funding through Private Health Insurance -- High income OECD countries



The importance of expenditure on primary care and preventative health measures

2.11 To address the burden of complex conditions and chronic disease in the future, the committee heard of the importance of primary care and preventative health measures. An increased focus on and investment in primary care and preventative health campaigns has the potential to alleviate the burden of health costs over time as people would stay healthier for longer and manage complex or chronic conditions with the assistance of their General Practitioner (GP) rather than enter expensive hospital care. Ms Verhoeven summarised this view:

We know that preventive health is critical in the long term to getting good health outcomes, but we also know that there are not short-term wins from investment in preventive health. So, if you want an investment win from a dollar spent last year or the year before, you are not going to see it. The reality is that those wins will not be seen for 20, 30 or 40 years.¹⁴

2.12 Ms Jennifer Doggett, Fellow, Centre for Policy Development, also emphasised that the dividends of public health campaigns only become apparent over time:

There is a lot of data which shows that, in a number of areas, it is a sensible investment: investment in preventative care in particular strategies will deliver significant gains down the track. That does not necessarily mean every health promotion campaign or every preventative strategy; it means evidence based preventative health care....Certainly you would have to look at the fact that Australia is a global leader in reducing smoking; you would have to look at government's investment in, say, the 1970s and 1980s

in anti-smoking campaigns paying dividends now in the reduction of smoking-related illnesses that we are seeing turning up in our hospitals.¹⁵

2.13 The submissions made to the committee by the Grattan Institute and the Public Health Association of Australia also highlighted how some preventative health strategies, such as raising excises on tobacco and alcohol, could help reduce health costs in the long run while also lifting government revenues.¹⁶

2.14 Investment in prevention measures was also supported by Mr Chris Twomey, Director of Social Policy, West Australian Council of Social Service, as a way to reduce costs in certain areas:

Any analysis of the health budget shows the areas we have been blowing out have been hospitals, crisis care, PBS and so forth, and what we actually want to do to reduce the blow-out in those costs is more primary care and more prevention and early intervention. We want to get people to see their GPs more, not less.¹⁷

2.15 Professor Michael Daube, Professor of Health Policy, Curtin University and Director, Public Health Advocacy Institute of Western Australia, was concerned that funding for preventative health services is not seen as a 'soft target' for cuts to the health budget. Professor Daube highlighted the substantial reductions in preventable death and disease, and the reduced costs to the community and health system from the modest funding for prevention measures in areas including immunisation, tobacco, road safety and HIV-AIDS.¹⁸

2.16 Professor Geoffrey Dobb, Vice-President, Australian Medical Association, (AMA) stressed that preventative health should be a major part of making healthcare funding sustainable:

The effects will not be short term, but if we are to achieve sustainability in health care funding in the budget in 10 or 15 years time, then we need to be doing those things right now. On the other side, in terms of managing chronic disease that is already here, yes, general practice is the key to that, and it is key to keeping people out of hospital and improving the quality of their lives. General practitioners are increasingly becoming experts in the management of chronic and complex disease in the community. The costs of caring for people in the community are far less. What we need to do is support the general practice model to provide those services where they are

15 *Proof Committee Hansard*, 5 February 2014, p. 40.

16 Grattan Institute, *Submission 1*, Attachment 1, p. 71; Public Health Association Australia, *Submission 14*, pp 8-9.

17 *Proof Committee Hansard*, 1 April 2014, p. 10.

18 *Proof Committee Hansard*, 1 April 2014, pp 60-61.

delivered in a way that is better for patients, more appropriate for the health care system and, ultimately, will bring a smile to the faces of treasurers.¹⁹

Suggestions to fund preventative health measures

2.17 Professor Daube noted that the taxation of harmful products such as tobacco and alcohol brings in around \$14 billion a year and some of this could be used for prevention measures. Professor Daube also noted that the introduction of a volumetric tax for alcohol could bring another estimated half a billion dollars a year which could be used to fund preventative health services.²⁰

Committee view

2.18 The committee notes the long-term success of preventative health measures including tobacco control and sun protection/skin cancer prevention and believes that there should be a greater focus on evidence based preventative health programs to reduce acute healthcare costs in the future.

Recommendation 1

2.19 The committee recommends that the government use funding found through efficiencies to increase evidence based preventative health measures aimed at reducing the burden of chronic conditions in the future.

Potential efficiencies in Australian health expenditure

2.20 The committee received evidence that areas of the Australian health system could be more efficient, and these are discussed below.

Duplication across agencies and levels of government

2.21 One area put forward for increased efficiency was the duplication of services across Commonwealth and state health agencies. Mr Frank Quinlan, Chief Executive Officer, Mental Health Council of Australia, stated that in relation to mental health programs:

What we see in the interactions between state and territory governments and the Commonwealth government currently is a considerable overlap in programs and a considerable gap in programs, so we see some Commonwealth programs taking on similar roles to some state programs. We have traditionally seen state governments providing direct services, hospital based services and supporting community mental health services for instance. We have seen the Commonwealth as a relatively recent entrant into the mental health domain having provided funding to a range of

19 *Proof Committee Hansard*, 1 April 2014, pp 61-62. Note: regarding potential efficiencies, Professor Dobb stressed the need to improve arrangements for GP management of chronic and complex disease which has the potential to save \$1.3 billion a year by managing people in the community rather than in the public hospital sector. See *Proof Committee Hansard*, 1 April 2014, p. 1.

20 *Proof Committee Hansard*, 1 April 2014, p. 61, 64. Note: a volumetric approach to the taxation of alcohol was supported by Professor Geoffrey Dobb, AMA, *Proof Committee Hansard*, 1 April 2014, pp 64-65.

programs. What we principally mean by that statement is not so much that one government or the other ought to abandon the space but that we ought to find ways for state and federal governments to work together to ensure that we are less burdened by overlaps and less burdened by gaps between the programs. It is about building a cooperative relationship between the states and the Commonwealth.²¹

2.22 Ms Verhoeven questioned the recent increase in bureaucratic infrastructure:

So one does have to query why there has been so much bureaucratic infrastructure set up to handle something which six or seven years ago was done by one or two agencies. I do think there is some scope for rationalisation there. Just looking at the infrastructure needed to support each of these individual agencies—and I talk about IT services, human resource services, communications services and website building services—it is really very complex and it is not money well spent.²²

The duplication of services - private and public health providers

2.23 The committee heard evidence there is duplication of funding and services between public and private providers, as there is not a clear distinction between the different roles they play and the services they provide. Ms Verhoeven told the committee:

There are clearly issues with a system that sees private hospitals contracted to treat public patients while public hospitals compete for private patients. Like all industries and systems there are opportunities to improve efficiencies and value in the system. There is significant variation in the costs of health service delivery across the country, some of which is explained by complexity in the patient mix, by geography and by market forces, but there are also avoidable aspects to these cost variations.²³

2.24 Dr Anne-marie Boxall, Director, Deeble Institute for Health Policy Research, AHHA, spoke about duplication between public and private health insurance providers:

The problems with Australia's health insurance arrangements go back to the origins of Medicare and Medibank, where we had an existing private health insurance system that had tax subsidies and then we created a universal healthcare system. The problem has always been that we have had two competing systems, but the private health insurance does not necessarily add function as a top-up, an optional extra. In some ways it duplicates what Medicare does and in other ways it is a top-up. So the structure of the system is problematic compared with most other countries.²⁴

21 *Proof Committee Hansard*, 18 February 2014, p. 5.

22 *Proof Committee Hansard*, 18 February 2014, p. 9.

23 *Proof Committee Hansard*, 18 February 2014, p. 7.

24 *Proof Committee Hansard*, 18 February 2014, p. 9.

Private health insurance rebates

2.25 The last Intergenerational Report, *Australia to 2050: future challenges*, stated that private health insurance rebates were a substantial and growing component of government health expenditure, predicted to increase 'by 9 per cent a year over the 10 years from 2012-13, adding a cumulative \$33 billion to spending'.²⁵

2.26 These rebates were not only seen as an inefficient and costly tax expense for the Commonwealth, but it was also suggested that they had not achieved their intended purposes. The Grattan Institute submission included a report that identified the health insurance rebate as a potential expenditure saving for government in the Australian health budget:

Removing the private health insurance rebate could save \$3.5 billion in expenditure. Savings of \$5.5 billion from the cost of the rebate would be offset by an increase in demand for public hospital services.²⁶

2.27 Dr Stephen Duckett, Program Director for Health for the Grattan Institute, appearing in a private capacity, also commented that the private health rebate was not effective in reducing demand on public hospital services:

The argument for the private health insurance rebate when it was first introduced was that it would reduce demand on public hospitals. My reading of the evidence is that there was not a great impact on public hospital utilisation with the introduction of the rebate.²⁷

2.28 Mr Peter Davidson, Senior Adviser, Australian Council of Social Service (ACOSS), suggested that the private health insurance rebate for ancillaries²⁸ was not achieving its intended results:

The 30 per cent to 50 per cent private health insurance rebate for ancillaries cover, we believe, should go. The main justification for that rebate was to reduce public expenditure on hospitals. There is not a direct link between ancillary benefits and those expenditures. Indeed, we have inequity where people who can afford private health cover are being subsidised substantially for private dental care while people on poverty-level incomes are waiting a year on year or more for a lower quality public dental care.²⁹

25 The Treasury, *Australia to 2050: future challenges* (2010), p. 8.

26 Dr John Daley, *Balancing budgets: tough choices we need* see Grattan Institute, *Submission 1, Attachment 1*, p. 71; these figures were based on The Treasury, *Commonwealth Budget Papers 2012-13*, Statement 6, p. 26 at www.budget.gov.au/2012-13/ (accessed 3 March 2015).

27 *Proof Committee Hansard*, 18 February 2014, p. 33.

28 Ancillaries includes extras such as dental or physiotherapy services. See www.privatehealth.gov.au/healthinsurance/howitworks/ (accessed 11 March 2014)

29 *Proof Committee Hansard*, 18 February 2014, p. 53.

Medicare Benefits Schedule (MBS) and Pharmaceutical Benefits Scheme (PBS)

2.29 The committee heard evidence that supported full-scale reviews of the MBS and PBS, as well as expediting the ongoing review of MBS item numbers. Ms Verhoeven stated:

Both the MBS and the PBS programs would benefit, in our minds, from a review to determine opportunities for disinvestment of, for example, redundant treatments and technologies, particularly at a time where there is an increasing demand to add new treatments and technologies to these schedules. We argue that regular scheduled review of MBS and PBS items would ensure that the schedules remain current and appropriate in terms both of their content and the rebate levels.³⁰

2.30 Dr Duckett agreed the MBS could be reviewed, though advised that any changes be undertaken with caution so disadvantaged individuals are not negatively affected financially or in relation to access:

There are obviously parts of the [MBS] that have not been revised and reviewed for decades, so you end up with certain items being over-remunerated relative to others.³¹

2.31 The AHHA also recommended that the ongoing review of MBS item numbers by the Department of Health be expedited and its recommendations prioritised by government.³² Dr Boxall told the committee:

[The Department of Health's review of the MBS have] started their work and they do have a very rigorous process set up through the...Medical Services Advisory Committee. It does involve stakeholder consultation and the reports are produced publicly. The problem with the process is that they have done about 23 and there are more than 5,000 items on the MBS, so it is really the scale of the project rather than the nature of it in itself.³³

2.32 The Grattan Institute's submission noted potential Commonwealth savings of \$2 billion from PBS expenditure.³⁴ This drew on evidence in a previous Grattan report by Dr Duckett that argued three reforms to Commonwealth pharmaceutical subsidies were necessary:

The first is to establish a truly independent expert board. Like New Zealand's Pharmaceutical Management Agency, it would manage pharmaceutical pricing within a defined budget.

The second and vital change is to pay far less for generic drugs, which can be bought for low prices because they are off-patent. In Australia drug

30 *Proof Committee Hansard*, 18 February 2014, p. 7.

31 *Proof Committee Hansard*, 18 February 2014, p. 30.

32 More information on this ongoing review of MBS item numbers can be found at www.msac.gov.au/internet/msac/publishing.nsf/Content/reviews-lp (accessed 5 February 2014).

33 *Proof Committee Hansard*, 18 February 2014, p. 8.

34 *Submission 1 Attachment 1*, p. 71.

companies must cut prices by 16 per cent when a patent expires. Many countries require much bigger cuts....

Down the line, a third reform should encourage people to use cheaper but similar pharmaceuticals, which could save at least \$550 million a year more.³⁵

2.33 Mr Davidson also commented that PBS subsidies should be reduced for medicines that are off-patent to reduce costs for government and to deliver more effective treatment to individuals.³⁶

Committee view

2.34 The committee considers that more resources should be provided to progress the ongoing review of MBS item numbers currently being undertaken by the Medical Services Advisory Committee. This review is looking at all MBS items to assess clinical need, appropriateness, and the currency of treatments to improve both health outcomes for individuals and the financial sustainability of the MBS more generally.

Recommendation 2

2.35 The committee recommends that the government commit to provide additional resources to progress the review of Medicare Benefits Schedule item numbers being undertaken by the Medical Services Advisory Committee.

Examining the proposal for a Medicare co-payment

2.36 Although the commission's findings have not been made public, there has been some indication that the government is considering the introduction of a co-payment for accessing GP services.³⁷

2.37 The committee heard evidence from Mr Terry Barnes, Principal, Cormorant Policy Advice, about a submission he drafted for the Australian Centre for Health Research (ACHR) to the commission. The ACHR submission advocated introducing a \$6 co-payment on bulk-billed GP and emergency department visits. It estimated that this would reduce Commonwealth health expenditure by \$750 million over the forward estimates from 2014-15 to 2017-18.³⁸

2.38 The ACHR submission argued that a \$6 co-payment would send affordable – 'less than the price of two cups of coffee' – and 'clear price signals to Australians that their basic health care services are not free goods'.³⁹ This would lead to consumers

35 Stephen Duckett et al. *Australia's bad drug deal: high pharmaceutical prices* (2013), Grattan Institute, p. 2.

36 *Proof Committee Hansard*, 18 February 2014, p. 53.

37 Dan Harrison 'Health Minister Peter Dutton opens door to GP co-payment', in *Sydney Morning Herald*, 20 February 2014.

38 Australian Centre for Health Research, *A proposal for affordable cost sharing for GP services funded by Medicare* (October 2013), pp.1-2.

39 Australian Centre for Health Research, *A proposal for affordable cost sharing for GP services funded by Medicare* (October 2013), p. 2 and p. 11

thinking twice before going to a GP with a minor complaint, thus reducing the chance of over-servicing by GPs.

2.39 Mr Simon Cowan, Research Fellow and Target 30 Program Director from the Centre for Independent Studies, supported the introduction of GP co-payments generally, but suggested an additional reduction in the Medicare benefit paid:

...Our model involves not just a \$5 co-payment but a \$5 reduction in the Medicare benefit that is paid, and that is where the savings to government will come from.

Applying that to GP visits, specialists, pathology tests, diagnostic tests and optometry—which is a total of something like 292 million services—the \$5 payment will generate about \$1.45 billion in savings. That does not take into account any potential reduction in use as a result of changing behaviours from co-payments. That is simply taking the number of services that are currently provided and applying a \$5 co-payment together with a \$5 reduction in [services funded by the Commonwealth]...⁴⁰

2.40 Both Mr Barnes and Mr Cowan contended that people would not start attending emergency departments instead of GPs, in an effort to sidestep a modest co-payment. Mr Barnes stated that emergency departments should also implement a co-payment for unnecessary visits.⁴¹ Mr Cowan told the committee:

I think that the majority of people will continue to consume health as they have before. As a result of the co-payment they will not go instead to an emergency department because there are a variety of other costs associated with going to an emergency department.⁴²

2.41 Mr Barnes also suggested:

Provided it has a reasonable ceiling to protect the less well-off, chronically ill and families with young children, there is no reason why a co-payment on bulk-billed services should stop people going to the GP when they need to.⁴³

2.42 Mr Barnes told the committee that it was difficult to prove over-servicing was endemic in the Australian system as this data is not collected. However, he suggested that anecdotal evidence suggested there may be a problem:

...what Medicare records is simply quantitative information. If you go to the GP and claim a benefit for a visit, a visit is recorded. We do not, as we do with acute care in hospitals, code what the person presents for. So we do not really have as good a fix on how GP services are used. But, anecdotally, particularly in areas where there are high concentrations of doctors or of

40 *Proof Committee Hansard*, 18 February 2014, p. 22. See also Mr Jeremy Sammut, 'Co-payment plan is no mortal blow against Medicare', *Sydney Morning Herald*, 12 March 2014.

41 *Proof Committee Hansard*, 18 February 2014, p. 60.

42 *Proof Committee Hansard*, 18 February 2014, p. 21.

43 *Proof Committee Hansard*, 18 February 2014, p. 60.

health services, there is at least anecdotal evidence that services are overused.⁴⁴

2.43 The committee notes there is research suggesting that the assumptions in the ACHR submission are flawed.⁴⁵ In addition, those opposed to the co-payment argued that 'anecdotal' evidence is not sufficient to model the effects of a co-payment. Moreover, witnesses suggested there is actually no problem with over-servicing in the health system at the moment.⁴⁶

The case against co-payments

2.44 The committee heard evidence that a co-payment would not reduce health expenditure substantially, and that it would negatively affect access to quality and timely healthcare for some Australians, especially those on low-incomes.

Reducing access for low-income earners

2.45 Ms Jackie Brady, Acting Executive Director, Catholic Social Services Australia, told the committee:

On the issue of co-payment...I would hope to impress that given the low incomes that many of the people at the lower end of the spectrum are surviving on—and I do describe it as surviving because it is a week-to-week existence—and even though it is sometimes hard for some of us to believe that a \$6 co-payment is going to be enough to dissuade somebody from going to the GP, that is in fact a reality.⁴⁷

2.46 Professor Laurie Brown, Research Convenor, National Centre for Social and Economic Modelling, University of Canberra (NATSEM), also saw the burden of a co-payment falling disproportionately on low-income groups:

I think it will be absolutely clear that the distributional impacts will fall onto socioeconomically disadvantaged families, and then there is an additional question of what the administrative costs of implementing that type of policy are.⁴⁸

2.47 Dr Boxall advised that there was evidence showing that increases to co-payments had had this effect in other areas of healthcare:

44 *Proof Committee Hansard*, 18 February 2014, p. 61.

45 Australian Medical Association, 'AMA reveals flaws in Australian Centre for Health Research co-payment proposal' at <https://ama.com.au/gpnn/ama-reveals-flaws-australian-centre-health-research-co-payment-proposal> (accessed 27 February 2014); see also "Doctors in cities unlikely to charge proposed \$6 GP fee" at www.news.com.au/lifestyle/health/doctors-in-cities-unlikely-to-charge-proposed-6-gp-fee/story-fneuz9ev-1226834097608 (accessed 27 February 2014).

46 Ms Doggett, *Proof Committee Hansard*, 5 February 2014, p. 38; Dr Duckett, *Proof Committee Hansard*, 18 February 2014, p. 31; Ms Vassarotti, *Proof Committee Hansard*, 18 February 2014, p. 15.

47 *Proof Committee Hansard*, 18 February 2014, p. 71.

48 *Proof Committee Hansard*, 18 February 2014, p. 49.

There is also some evidence looking at increasing co-payments for pharmaceuticals, and it was a substantial increase. When they did it in 2005, they found that the volume of scripts filled for essential medications—so not things like coughs and colds but things like epilepsy drugs—dramatically reduced, including for concession card holders. I do not think that in the space of a couple of months you can see that people have been cured of epilepsy, so co-payments are having a substantial effect on people and their access to health services.⁴⁹

2.48 The committee heard that out-of-pocket healthcare costs in Australia have risen at much faster rates than most other countries, which has already placed a cost-barrier in the path of low-income groups. For instance, Dr Boxall said:

There was a survey done by the Australian Bureau of Statistics in 2009 where they found that one in 10 people reported that they either delayed or sacrificed treatment by a specialist because of the cost, and one in 11 did not fill a script because of the cost⁵⁰

2.49 Ms Rebecca Vassarotti, Director of Policy, Consumers Health Forum (CHF) Australia, also saw co-payments affecting those least able to afford it. Additionally, she highlighted the other costs of accessing health services including, transport, parking and possibly accommodation.⁵¹

Deferred GP consultations will increase health problems in the future

2.50 Evidence considered by the committee suggested that co-payments would lead to many people deferring seeing a GP for minor ailments that had the potential to become major conditions if left unchecked. Ms Vassarotti suggested that this was already happening, due to existing cost barriers in healthcare:

I think often the response that consumers give us is that they will delay care, meaning they will probably end up in emergency when they are much sicker, and it will be much more expensive to treat their illness. So from our perspective the introduction of co-payments, particularly in areas such as primary health, seem on the evidence of it very counterintuitive in terms of resulting in a decrease in spend.⁵²

2.51 Dr Duckett agreed:

...the RAND study [done in the USA between 1972 and 1982] found that the reduction in use occurred in both what doctors judged as necessary care and what doctors judged as unnecessary care. Patients are not themselves very good people to choose, when they have got something wrong with them, whether it is necessary or not, so by reducing what doctors think is

49 *Proof Committee Hansard*, 18 February 2014, p. 10.

50 *Proof Committee Hansard*, 18 February 2014, p. 10.

51 *Proof Committee Hansard*, 18 February 2014, pp 14-15.

52 *Proof Committee Hansard*, 18 February 2014, p. 15. See also Ms Sue Ash, Chief Executive Officer, UnitingCare West, *Proof Committee Hansard*, 1 April 2014, p. 21.

necessary care there is the potential to increase costs for the health system in the longer term and also people suffer illness worse.⁵³

2.52 Professor Dobb from the AMA noted their concerns about a lack of detail and certainty around the co-payment proposal as well as that:

...a significant across-the-board increase in people's out-of-pocket expenditure may act as a deterrent for people who need to see a medical practitioner, allowing their disease to get worse to the detriment of themselves and, ultimately, of the healthcare system if they present later with more serious and complex disease that requires hospitalisation and a much more costly course of treatment.⁵⁴

2.53 Professor Dobb also queried the evidence base for the co-payment and particularly the assumption that it would save the government money:

The AMA has done some modelling, based on the best information available, about how such a measure might look. That was done by Access Economics. It suggests that it will be at best cost-neutral and might actually end up costing governments collectively—if you include state governments, which look after the hospital system—more taxpayer dollars. At the end of the day there is only one kind of government dollar, and it comes out of the pockets of taxpayers.⁵⁵

Cost-shifting to hospitals

2.54 The committee heard that some people who would be deterred from visiting a GP by the introduction of a co-payment may instead seek treatment at emergency departments in hospitals. This would lead to increased costs for government in hospital expenditure. Ms Vassarotti told the committee:

Also there are issues such as co-payment being put in part of the system. Potentially they recognise the differentiating value of those services. So you get these potential perverse incentives where you might be putting a co-payment on a GP service in primary health care but no co-payment in an emergency room. So you are actually being forced into accessing services that are more costly and less effective because of the way that co-payments have been implemented, particularly because of that ad hoc manner.⁵⁶

2.55 Dr Duckett agreed that co-payments could lead to cost shifting behaviour instead of cost savings:

The other point I would make is that the estimates of savings are highly sensitive to what people might do. For example, if only one in four or one in five people who might otherwise have gone to a doctor decides to go to a hospital emergency department then there are no savings for the

53 *Proof Committee Hansard*, 18 February 2014, p. 29.

54 *Proof Committee Hansard*, 1 April 2014, p. 62.

55 *Proof Committee Hansard*, 1 April 2014, p. 62.

56 *Proof Committee Hansard*, 18 February 2014, p. 16.

Commonwealth government at all and substantial increased costs for state governments through increased costs on the public hospital system.⁵⁷

2.56 Moreover, the South Australian Health Department estimated that a \$6 co-payment for a GP visit would actually cost the Commonwealth and state governments almost \$2 billion, because at least four per cent of people would bypass a GP and attended emergency departments for minor ailments instead.⁵⁸

Adding to regulatory burden

2.57 Evidence received by the committee also pointed to the potential for GP co-payments to increase red tape for GPs and lift Commonwealth administration costs.

2.58 Professor Brown, NATSEM noted the administrative burden of charging a \$6 co-payment:

What I do not know is how you implement that type of system of adding a \$6 fee and what are the administrative costs of implementing that. I think that is another element.⁵⁹

2.59 Ms Verhoeven agreed:

More broadly, I think our concern around co-payments is that there are administrative costs in collecting them. We do not think that it is actually going to drive big returns back into the system anyway and that there are probably better and smarter ways to save money.⁶⁰

2.60 A recent report by Ms Doggett for the Consumer Health Forum also raised this issue:

In fact, shifting expenditure to consumers can actually increase overall costs if it requires a more complex system to administer or results in a less efficient allocation of resources. For example, the introduction of a \$5 co-payment for bulk billed GP services would require significant additional administration for general practices resulting in higher transaction costs compared to the administratively simple process of bulkbilling.⁶¹

Committee view

2.61 The committee acknowledges that the most important weapon in good preventative health strategies is effective primary care delivered by GPs. A GP can identify emerging conditions early before they require hospital or specialist treatment. They can also assist people to manage complex, multiple and chronic ongoing conditions more effectively. The role that GPs play in the health system leads to better

57 *Proof Committee Hansard*, 18 February 2014, p. 29.

58 Bianca Hall, 'Proposed GP co-payment would add \$2 billion to Australia's health bill, modelling shows' in *Sydney Morning Herald*, 23 February 2014.

59 *Proof Committee Hansard*, 18 February 2014, p. 49.

60 *Proof Committee Hansard*, 18 February 2014, p. 9.

61 Consumer Health Forum Report by Ms Jennifer Doggett, *Empty Pockets: Why Co-payments are not the solution* (March 2014), p. 31 at www.chf.org.au/pdfs/chf/Empty-Pockets_Why-copayments-are-not-the-solution_Final-OOP-report.pdf (accessed 5 March 2014).

health outcomes for individuals and families. Moreover, it also leads to more efficient health expenditure for government. Early intervention can arrest or alleviate some of the complex and chronic diseases that see people end up in our hospitals which is the most expensive place for people to be treated.

2.62 The committee believes measures which place a barrier to a person seeing a GP are not in the best interests of keeping people healthy. Moreover, that the proposal for a co-payment for GP and emergency department visits may cause people to delay treatment and they would be more likely to need more expensive hospital care.

2.63 The committee sees this co-payment as a blunt instrument that has the potential to hurt the most vulnerable in our society, both financially in the short-term and by risking their future health.

Recommendation 3

2.64 The committee strongly recommends that the government does not implement co-payments for GP consultations and emergency department services.

Other issues raised with the committee

Data collection

2.65 The committee heard that health data collection and sharing across levels of government and between government departments should be improved, to support the development good health policy that would achieve efficiencies for government health expenditure in the long term.

2.66 Ms Verhoeven noted duplication of data collection across governments and departments:

There are any number of agencies collecting data in some shape or form from the states and territories and, by extension, from the hospitals themselves. That is delivered to the Commonwealth. It is handled in multiple agencies. Sometimes one agency collects the data from another agency but then has to be signed off by the state and territory provider. The mechanisms are cumbersome. We are in a position where we have a number of new agencies now all responsible for data reporting, yet most of them are relying on the services of the Australian Institute of Health and Welfare in any case for original data sources.⁶²

2.67 Dr Duckett's submission to the commission advocated that Department of Health data be made more widely available for policy evaluation and research purposes.⁶³

2.68 Mr Barnes proposed that more data on the activity of GPs needed to be collected:

62 *Proof Committee Hansard*, 18 February 2014, p. 9.

63 Dr Stephen Duckett, *Submission to the National Commisison of Audit*, p. 8 at http://grattan.edu.au/static/files/assets/f2bad06b/225_duckett_audit_health.pdf.

...more work needs to be done to understand qualitatively the activity profile of general practice. As I said, in terms of hospital admissions, with the national morbidity database and now with activity based pricing, we effectively code why people are admitted and what they are treated for. We do not do that at the general practice level. I think we need to do the qualitative work to make sure that this measure or any other demand management measure is on the right track.⁶⁴

2.69 The National Rural Health Alliance suggested that the government should aim to improve available data on health outcomes and services in regional and rural areas:

The capacity of [the Australian Bureau of Statistics, the Australian Institute of Health and Welfare and the COAG Reform Council] to deliver the data required for evidence-based health funding, policy and programs is an important component of the ability of the public service to provide good and timely advice to government.⁶⁵

Committee view

2.70 Reliable data is essential for developing evidence based health policies designed to improve health outcomes and increase efficiency in government spending. The committee believes the collection and sharing of health data could be greatly improved across levels of government and between government departments. Consolidating the data held by agencies dealing with health and care could reduce duplication and bureaucracy, thereby reducing government expenditure.

Recommendation 4

2.71 The committee recommends that the government review health data collected with a view to: consolidating data held by different departments across different levels of government; and collecting data on the value of preventative healthcare and the primary care function of GPs.

Harmonisation of the safety nets in Australian healthcare

2.72 The committee heard that there is scope for government to harmonise the different safety nets in the healthcare system. This would protect people from unaffordable costs, especially for the cost of co-payments not fully covered by or outside Medicare. It could also reduce the current duplication of administration between the existing MBS and PBS safety nets.⁶⁶

2.73 Dr Duckett told the committee:

Basically, at the moment, there is a separate safety net for Medicare, the MBS, and there is a separate safety net for the Pharmaceutical Benefits

64 *Proof Committee Hansard*, 18 February 2014, p. 67.

65 National Rural Health Alliance, *Submission 22*, p. 4.

66 See Doggett, *Empty Pockets: Why Co-payments are not the solution*, p. 26; see also the Henry Tax Review's report, which recommended 'the scope and structure of safety net arrangements be reviewed' *Australia's future tax system, Part 2 Detailed Analysis*, Chapter A1 at <http://taxreview.treasury.gov.au/content/>

Scheme, but there is no safety net for allied health costs—dental costs or something like that. One of the things that the [National Health and Hospitals Reform Commission] recommended was that there should be harmonisation of the safety nets so that if you have racked up a huge amount on pharmaceuticals you might be able to get medical services at no cost to yourself sooner. We said that we need to be looking at how the existing safety nets work together with some of the other programs—I think the words that the [NHHRC] used were 'the patchwork of government programs'—that meet the cost of some services like diabetes equipment. The incidence of these things can be really detrimental to some people with, say, diabetes. The two safety nets were developed differently and structured differently but they are still run by the same department, so there ought to be some sort of harmonisation of the two, especially with the phasing out of the tax rebates for medical expenses.⁶⁷

2.74 However, Dr Duckett advised that, although reform was necessary, any harmonisation of Medicare safety nets would require careful planning and design by government to ensure individuals are not disadvantaged.⁶⁸

Committee view

2.75 The MBS and PBS provide very different safety nets that support users with high medical costs. However, because they are not harmonised, many users fall through the cracks and receive less support than they should – especially where medical conditions accrue high costs from both medical services and pharmaceutical prescriptions.

Recommendation 5

2.76 The committee recommends that the government explore the effectiveness of the safety nets relating to medicines and primary care, including the consideration of potential options for improving access and reducing out-of-pocket costs to patients.

Conclusion

2.77 The committee notes that Australia's health expenditure is not high by international standards and that its healthcare system is reasonably efficient. However, the committee acknowledges the challenges that the health system faces, including the ageing of the population and the rollout of new programs such as the NDIS.

2.78 The committee believes it is timely to start a conversation about the healthcare system Australians want to have in the future, including the challenges, opportunities, how to ensure fairness and equity and how this system should be financed. The conversation started by the commission process, including the suggestions made to it by individuals and organisations, is welcome. However, the committee is concerned that this conversation will be cut short by the government when the recommendations of the commission are made public.

67 *Proof Committee Hansard*, 18 February 2014, p. 32.

68 *Proof Committee Hansard*, 18 February 2014, p. 32.

2.79 The committee is concerned that the commission will take a quick fix approach for savings that will not improve the health of Australians over the long term. It urges the government to look to the long-term viability of our healthcare system, especially by considering improvements to preventative and primary care to alleviate future cost pressures.

2.80 The committee supports greater efficiency in expenditure and the delivery of health services, as long as these efficiencies provide for:

- Medicare to remain the cornerstone of the healthcare system;
- no reduction in the overall Commonwealth health funding envelope, and that the proceeds of any efficiencies are reinvested directly into the health sector;
- no degradation in the quality of healthcare and good health outcomes; and
- no additional barriers to access healthcare put in place for low socio-economic, disadvantaged or regional populations.

Chapter 3

The funding and delivery of social services

3.1 This chapter covers concerns expressed to the committee about the effect of possible cuts to income support payments for vulnerable individuals, such as those on fixed incomes, and on services provided by the community services and not-for-profit sector.

Expenditure

3.2 The overall quantum of Commonwealth social security and welfare payments has increased over the last decade from \$73 billion in 2002-3 to \$131.7 billion in 2012-13.¹ This increase represents a growth in spending of 43.2 per cent, an average of 3.7 per cent annually.² This was higher than the growth in GDP over the same period, which grew by 34.3 per cent or 3.0 per cent annually.³

3.3 The 2012-13 Budget stated that these increases in social security and welfare payments were 'largely due to the indexation of personal benefits and income support payments, such as the Age Pension, and the continuing demographic shift to an older population'.⁴

Government review

3.4 In January 2014, the Minister for Social Services, Mr Kevin Andrews MP, announced a review of the welfare system to be headed by the former chief executive of Mission Australia, Mr Patrick McClure. The minister referred to the most recent annual review of income support payments by the Department of Human Services, which shows significant growth in income support payments with the result that more than five million, or one in five, Australians now receive income support payments.⁵

1 *Commonwealth Budget 2002-03*, Budget Paper 1, Statement 6, p.6 and *Commonwealth Budget 2012-13*, Budget Paper 1, Statement 6, p. 5.

2 Parliamentary Budget Office, *Australian Government spending: Part 1: Historical trends from 2002-03 to 2012-13* (March 2013), p. 4.

3 Parliamentary Budget Office, *Australian Government spending: Part 1: Historical trends from 2002-03 to 2012-13* (March 2013), p. 4.

4 *Commonwealth Budget 2012-13*, Budget Paper 1, Statement 6, p. 5.

5 The Hon Kevin Andrews MP, 'Welfare system', ABC AM Transcript, 21 January 2014, available from: <http://kevinandrews.dss.gov.au/transcripts/41> (Accessed 18 March 2014); Jonathan Swan, 'Social Services Minister Kevin Andrews signals overhaul of welfare system', *Sydney Morning Herald*, 21 January 2014; for the report cited, see Department of Human Services, *Statistical Paper no. 11: Income support customers: a statistical overview 2012*, p. 2 at www.dss.gov.au/about-the-department/publications-articles/research-publications/statistical-paper-series (accessed 17 March 2013).

For a table summarising income support payments by type from 2002 to 2012 see Appendix 1.⁶

Is there a welfare crisis?

3.5 Dr Cassandra Goldie, Chief Executive Officer, Australian Council of Social Service (ACOSS) rejected the perception that there is a welfare crisis in Australia. She acknowledged that over the last 10 years the number of income support recipients has increased by four per cent in gross terms. However, she noted that 'as a proportion of the population increase, the total number of recipients has in fact declined by three percentage points'.⁷ She added:

We do have shifts in the ageing demographics of the population; but, if we look at all income recipients and exclude those on the age pension as a proportion of the working age population, there has been a real decrease from 23 per cent to 18 per cent in 2012 in the number of people reliant on these income support payments. This is a decrease of five percentage points.⁸

3.6 In relation to the Disability Support Pension (DSP), Dr Goldie explained that '[i]f you take the number of recipients and the increase over that same decade, proportionate to population it is an increase of one per cent', which is 'very modest'.⁹

Threat to vulnerable individuals

3.7 Cuts to income support payments have the potential to affect the most vulnerable individuals in the community. The inadequacy of some current payments was highlighted to the committee.

Inadequacy of allowances system

3.8 Dr Goldie stressed that for the vast majority of the population there has been an increase in real living standards and accumulation of wealth over the last 10 years. However, Dr Goldie contrasted this with individuals on fixed incomes who have had their real standard of living drop by five per cent.¹⁰ Dr Goldie stressed that some income support payments are deficient:

There is a clear reason why we are seeing the rise in poverty rates that we are right now; it is because of the way in which those lowest payments have atrophied compared to the overall living standard in Australia. Equally, we know that we are struggling in terms of support services and sustaining those where they are needed.¹¹

6 Department of Human Services, *Statistical Paper no. 11: Income support customers: a statistical overview 2012*, p. 2.

7 *Proof Committee Hansard*, 18 February 2014, pp 50-51.

8 *Proof Committee Hansard*, 18 February 2014, p. 51.

9 *Proof Committee Hansard*, 18 February 2014, p. 57.

10 *Proof Committee Hansard*, 18 February 2014, p. 50, p. 54.

11 *Proof Committee Hansard*, 18 February 2014, p. 50.

3.9 Several witnesses specifically referred to the inadequacy of the NewStart allowance.

3.10 Mr Ben Phillips, Principal Research Fellow, National Centre for Social and Economic Modelling, University of Canberra, indicated that generally the welfare system in Australia is fairly well targeted with 'the vast majority of it, around 72 per cent, goes to the bottom 40 per cent of households and that has been relatively stable throughout time'.¹² However, he also singled out Newstart as an allowance that was insufficient to support long-term unemployed individuals:

You will find that when you stack [up the various payments] the Newstart payment is well [below] the poverty line. Anyone who is on that payment, or the vast majority of them, would be in poverty. I think about 75 per cent of them are in poverty. If your sole income is the Newstart allowance you are certainly in poverty—in deep poverty, in fact—and if you are trying to pay rent as well, if you are in a capital city where the median rent might be \$350 or \$400 per week, that is not really going to be possible. So it is a very difficult position. If you are on those payments for a short time, it is probably not such a concern. It is when you are on that payment for a long time, and in reality people are often on that payment for a long time, and there are a whole range of reasons for that.¹³

3.11 Dr John Daley, Chief Executive Officer for the Grattan Institute, appearing in a private capacity, agreed that cost of living pressures are especially severe on Newstart recipients:

...I suspect we may as a nation have underestimated the pressure that will be on the aged pension budget and also underestimated the pressure that will be on the Newstart budget. At the point that the Business Council of Australia is calling for increases to Newstart, then I would suggest that that is a strong indication that the pips are really starting to squeak.¹⁴

3.12 Mr Frank Quinlan, Chief Executive Officer, Mental Health Council of Australia, told the committee that Newstart is inadequate and added that real reform to the system is required to ensure individuals are engaged 'to the extent that their capacity allows to bring them back into economic and social participation...'¹⁵

3.13 Mrs Jackie Brady, Acting Executive Director, Catholic Social Services Australia, highlighted the risk of shifting people from the DSP to Newstart without appropriate assessment and adequate support. This would push individuals with barriers to employment to look for work in a difficult environment and thereby into

12 *Proof Committee Hansard*, 18 February 2014, p. 44.

13 *Proof Committee Hansard*, 18 February 2014, p. 47. See also Mr Ian Carter AM, Chief Executive Officer, Anglicare, WA, *Proof Committee Hansard*, 1 April 2014, p. 17.

14 *Committee Hansard*, 5 February 2014, p. 2; for the BCA's agreement that the Newstart allowance should be raised see the evidence given by Ms Maria Tarrant, Deputy Chief Executive, Business Council of Australia. *Committee Hansard*, 5 February 2014, p. 21.

15 *Proof Committee Hansard*, 18 February 2014, p. 2.

poverty.¹⁶ Mrs Brady highlighted the need for adequate services to support people with a disability entering the workforce:

If you look at the cohort of people on DSP and the fact that the majority of them now have a mental health condition, quite often their condition is episodic and so forth, and therefore the experience from our agencies on the ground is that working with an employer in that environment is not necessarily an easy thing to do. There needs to be a strong campaign running with employers.¹⁷

3.14 Regarding the DSP and any possible review of assessment criteria, Mrs Brady expressed the view that those with a severe permanent disability should not be subjected to 'a treadmill of review every two years'.¹⁸

Need for consistent system of indexation

3.15 Mr Peter Davidson, Senior Adviser, ACOSS, highlighted the need for a consistent system of indexation, explaining that income support payments such as pensions are indexed to wage movements while others such as Newstart are indexed to the Consumer Price Index (CPI), which makes a significant difference over time:

With regard to all income support payments there should not be first- and second-class citizens in the social security system. All need help to keep up with community living standards. The only way to do that over time is to, in some way, index to wages. If you index to only CPI, then the living standards of people are frozen in time, while those of the rest of the community increase. That is exactly what has happened with Newstart—no real increase for 20 years, so the living standards are frozen in time...¹⁹

3.16 Current indexation arrangements were also raised by Mr Ken Henry, former Head of Treasury, during an interview on ABC 7.30 on 12 March 2014:

...I certainly would support unifying the rates of indexation at some point, and indeed, in the [Henry] tax review, that's what we recommended. We recommended that governments think about the appropriate level of benefit for different types of benefits, including disability support and unemployment. I mean, it's a good question to ask whether the present level of the unemployment benefit is adequate. But once the Government has established levels of adequacy for both benefits and for the unemployment system, then they should be indexed at the same rate. I think that's very important.²⁰

16 *Proof Committee Hansard*, 18 February 2014, p. 72.

17 *Proof Committee Hansard*, 18 February 2014, p. 70.

18 *Proof Committee Hansard*, 18 February 2014, p. 70.

19 *Proof Committee Hansard*, 18 February 2014, p. 54.

20 7.30, 12 March 2014, Transcript available from www.abc.net.au/7.30/content/2014/s3962156.htm (accessed 13 March 2014)

Threat to services

3.17 ACOSS provided the committee with additional information assessing the effect of possible cuts and funding uncertainty for various community services.²¹ Dr Goldie highlighted the additional stress on organisations in the sector due to the uncertainty about ongoing funding as a result of the commission's work:

We are used to being told, 'Look, you're going to have to wait until the May budget to know whether you've got ongoing funding.' There has been some work to try to get a more extended approach to funding arrangements, but we know that this is a very particular environment. We have been told in many cases, 'You have to wait. We have a Commission of Audit. We have a federal budget.' Funding is seriously up for question.²²

Housing

3.18 The National Partnership Agreement on Homelessness (NPAH) has been operating for four years and is due to expire on 30 June 2014. Mission Australia calculated the funding uncertainty 'is affecting 180 services, 80,000 clients and over 3,000 staff across Australia'.²³

3.19 The NPAH was also raised by Mrs Jackie Brady, who commented that the uncertainty will lead to people seeking jobs elsewhere and maintaining the workforce will be a challenge. Mrs Brady explained the effects if the partnership agreement does not continue:

Essentially it will mean that people on the ground, people in the street—not literally—and those people who require homelessness and housing services simply will not be able to get them to the same extent that they do at the current time. It is unknown at this stage how much money the states will be prepared to contribute, because it is a co-contribution type scheme for a large part of it. So it is difficult at this stage to ascertain exactly what the impact would be.²⁴

3.20 The committee notes that on 30 March 2014, the government announced \$115 million to continue the NPAH.²⁵ However, the acting Shadow Minister for Housing and Homelessness, the Hon Jenny Macklin MP, said it represented a cut of \$44 million from the \$159 million in the current agreement and still leaves the sector with an uncertain future.²⁶

21 See ACOSS, answers to questions on notice from 18 February 2014 hearing.

22 *Proof Committee Hansard*, 18 February 2014, p. 51.

23 *Proof Committee Hansard*, 18 February 2014, p. 51. See also ACOSS, answers to questions on notice from 18 February 2014 hearing.

24 *Proof Committee Hansard*, 18 February 2014, pp 70-71.

25 The Hon Kevin Andrews MP, 'Coalition to renew homelessness agreement', *Media Release*, 30 March 2014.

26 The Hon Jenny Macklin MP, 'Abbott government cuts \$44m in homelessness funding', *Media Release*, 30 March 2014.

3.21 Ms Sue Ash, Chief Executive Officer, UnitingCare West and Mr Mark Glasson, Executive General Manager, Anglicare WA, spoke about the effect the funding uncertainty has had on the provision of services²⁷ as did Mr John Berger, Chief Executive Officer, St Bartholomew's House Inc.²⁸

Mental health

3.22 Mr Frank Quinlan, from the Mental Health Council of Australia stressed that recommendations made by the commission could have implications for people experiencing mental illness. He stated:

It is our view that the current mental health system is too often failing those who rely on it for assistance. We invest too much at the acute end while still letting down many people who are acutely ill and [doing] too little in early intervention and prevention. We routinely fail to monitor the outcomes we expect from the investments that we do make. The Mental Health Council of Australia has recommended to the Commission of Audit that, in order to assess the complex interactions of so many policies and programs at both state and Commonwealth level, changes to mental health should be considered and developed through the broad review being progressed by the National Mental Health Commission.²⁹

3.23 In their submission to the committee, SANE Australia stated that the Commission of Audit should not propose any funding cuts to the mental health system, given the pre-election commitments made by the Coalition not to cut expenditure in this area, as well as the ongoing review of the mental health system by the National Mental Health Commission.³⁰

Youth connections

3.24 Ms Rebekha Sharkie, National Executive Officer, Youth Connections told the committee her organisation is facing funding uncertainty. Youth Connections is a national network of community organisations that assists 30,000 young people every year to maintain or renew their engagement in education, training and employment.³¹ Ms Sharkie told the committee that the case management service they provide to young job seekers, including indigenous and regional cohorts, was reasonably low cost and resulted in considerable savings for government:

...if you look at the individual costs to provide the service, it is between \$2,000 and \$4,000—that is what the department tells us it costs annually to assist a young person. We see that as cost effective compared with around \$20,000 if you are on a Centrelink benefit and you are that age. The key focus of Youth Connections is that it is an individualised case management service, because every young person is going to need a different style of

27 *Proof Committee Hansard*, 1 April 2014, pp 19-20.

28 *Proof Committee Hansard*, 1 April 2014, pp 55-56.

29 *Proof Committee Hansard*, 18 February 2014, p. 1.

30 SANE Australia, *Submission 20*, p. 1.

31 See ACOSS, answers to questions on notice from 18 February 2014 hearing.

service and every young person will present with a different range of barriers that need to be addressed in order to activate, re-engage and get back on track or into something new.³²

3.25 However, she also indicated that the sector was already being affected by the uncertainty of future government funding – not only direct funding for the program itself, but also for aligned programs:

The program is so strongly supported by JSA [Job Services Australia] contractors that Jobs Australia, the peak body for JSA, recommended in its recent *Policy on Youth Transitions* paper that the Youth Connections Program needs to continue for young people who are not yet ready for the JSA system, particularly early school leavers and young people with multiple and complex barriers.

Within this space there is much speculation that there will be changes to the delivery of the JSA model, which is set to take effect in July 2015, at the end of the current JSA period. That is six months after the Youth Connections contract is set to end if it is not renewed. That means that there could effectively be a six-month period, or possibly longer, where there are no such services for our most disadvantaged and disengaged young people.³³

Other areas

3.26 ACOSS highlighted other areas of concern where a reduction in funding or services would have a significant effect. These included funding for Aboriginal and Torres Strait Islander representative bodies, funding for financial counselling services and legal assistance programs.³⁴ Financial counselling was also mentioned by Anglicare WA and UnitingCare West.³⁵

3.27 Funding cuts to community legal centres was also highlighted by the Community Legal Centre Association of WA and the Women's Law Centre WA.³⁶ Mr David Kernohan, Chair, Community Legal Centres Association of WA stressed that any policy work requested by government is undertaken by solicitors in addition to existing workloads. This means any cuts will affect front-line service delivery.³⁷ The

32 *Proof Committee Hansard*, 13 March 2014, p. 54. See also Ms Justine Colyer, Chief Executive Officer, Rise, *Proof Committee Hansard*, 1 April 2014, p. 27, 29; Mr Craig Comrie, Chief Executive Officer, Youth Affairs Council of Western Australia, *Proof Committee Hansard* 1 April 2014, p. 29.

33 *Proof Committee Hansard*, 13 March 2014, p. 53.

34 *Proof Committee Hansard*, 18 February 2014, p. 53. See also ACOSS, answers to questions on notice from 18 February 2014 hearing.

35 Mr Ian Carter AM Chief Executive Officer, Anglicare WA and Ms Sue Ash, Chief Executive Officer, UnitingCare West, *Proof Committee Hansard*, 1 April 2014, p. 25.

36 Mr David Kernohan, Chair, Community Legal Centres Association of WA, *Proof Committee Hansard*, 1 April 2014, p. 34; Ms Lesley Kirkwood, Managing Solicitor, Women's Law Centre WA, *Proof Committee Hansard*, 1 April 2014, p. 35.

37 *Proof Committee Hansard*, 1 April 2014, p. 38.

effect on front-line services was also emphasised by Mr Dennis Eggington, Chief Executive Officer, and Mr Peter Collins, Director of Legal Services, Aboriginal Legal Service of Western Australia.³⁸

3.28 The lack of certainty around funding for services and its effects was highlighted to the committee numerous times across a number of different sectors.³⁹

The benefits of investing in social services

3.29 Mrs Brady highlighted that most social services help people provide for themselves and investment in early intervention services 'provides long-term financial savings to government and social benefits to individual and families'.⁴⁰ Mrs Brady detailed how early intervention can prevent long-term problems:

By improving participation in education, training and employment, many social programs make a contribution to economic productivity. An example are programs that work with at-risk families with young children. There is evidence that early childhood interventions can reduce the likelihood of problems in later life such as joblessness and criminal offending. Another example is that 76 per cent of clients of Catholic Social Services Australia receiving family support services have reported improved family, community and economic engagement.⁴¹

3.30 However, Mrs Brady noted the challenge for measuring the real impacts of this investment, because benefits resulting from some social services are not always directly attributable to a particular funding stream:

If, for example, it is funded from the Department of Social Security, then potentially the savings will not come to DSS, they may well be out of the health budget or out of state budgets that do not necessarily align. To be honest, some of the complexity involved in delivering and espousing the

38 *Proof Committee Hansard*, 1 April 2014, p. 44.

39 Mr Chris Twomey, Director of Social Policy, West Australian Council of Social Service, *Proof Committee Hansard*, 1 April 2014, p. 13; Ms Sue Ash, Chief Executive Officer, UnitingCare West, *Proof Committee Hansard*, p. 19; Mr Ian Carter AM, Chief Executive Officer, Anglicare WA, *Proof Committee Hansard*, 1 April 2014, p. 19; Ms Justine Colyer, Chief Executive Officer, Rise, *Proof Committee Hansard*, 1 April 2014; Mr Craig Comrie, Chief Executive Officer, Youth Affairs Council of Western Australia, *Proof Committee Hansard*, 1 April 2014, pp 28-29; Ms Lesley Kirkwood, Managing Solicitor, Women's Law Centre WA, *Proof Committee Hansard*, 1 April 2014, p. 34, 36; Ms Sara Kane, Deputy Chair, Community Legal Centres Association of WA, *Proof Committee Hansard* 1 April 2014, p. 36; Mr John Bouffler, Executive Director, Community Employers WA, *Proof Committee Hansard*, 1 April 2014, p. 69.

40 *Proof Committee Hansard*, 18 February 2014, p. 68.

41 *Proof Committee Hansard*, 18 February 2014, pp 68-69. See also Mr David Kernohan, Chair, Community Legal Centres Association of WA, *Proof Committee Hansard*, 1 April 2014, p. 34; Ms Chantal Roberts, Executive Officer, Shelter WA, *Proof Committee Hansard*, 1 April 2014, p. 52; Mr Michael Brown, Chairman, St Batholomew's House Inc, *Proof Committee Hansard*, 1 April 2014, p. 57.

benefits of those programs is that the benefit does not necessarily always come back to the program areas within the funding pool.⁴²

Conclusion

3.31 The committee believes that government expenditure on income support should be targeted to people most in need. In addition, while acknowledging the need to review expenditure, the committee believes the government should commit to protecting services for low-income and vulnerable groups. These individuals should not bear the brunt of the commission's task of finding savings to government expenditure. Any retargeting and reprioritising of funding that is seen as necessary to increase effectiveness in achieving policy outcomes should be undertaken in consultation with the community sector to gain a comprehensive picture of the possible effects of any changes.

Recommendation 6

3.32 The committee recommends services for low-income and vulnerable groups be quarantined from any government spending cuts.

Recommendation 7

3.33 The committee recommends that the government actively consult with the community sector before undertaking any changes to targeting or prioritisation of funding in social services and disclose potential changes under consideration as part of this consultation.

3.34 The committee notes that the welfare review being undertaken by Mr Patrick McClure was due to report to government in February 2014.⁴³ If a report was provided to government in February it has not yet been made public.

3.35 Moreover, the committee also notes that the current review has no formal terms of reference and that details of the framework it is using have not been made public. The committee acknowledges the work of the Senate Community Affairs Legislation Committee during Additional Estimates hearings to discover more detail about the review.⁴⁴

3.36 The committee notes that Mr McClure undertook a similar review in 1999 to 2000. Unlike the current review, Mr McClure's earlier review was a much more public

42 *Proof Committee Hansard*, 18 February 2014, p. 69.

43 Jonathan Swan, 'Social Services Minister Kevin Andrews signals overhaul of welfare system', *Sydney Morning Herald*, 21 January 2014.

44 Mr Finn Pratt, Secretary, Ms Serena Wilson, Deputy Secretary, and Ms Carolyn Smith, Acting Deputy Secretary, Department of Social Services, Estimates Transcripts of Evidence, Community Affairs Legislation Committee Estimates Hearing, Thursday, 27 February 2014, pp 7-11.

process, with formal terms of reference and wide consultation, conducted over a longer time frame.⁴⁵

3.37 It seems that the processes for this welfare review are similar to those adopted by the commission: both are undertaking wide ranging reviews with short reporting deadlines; both lack transparency of their processes; and both lack wide public and community consultation and engagement.

Recommendation 8

3.38 The committee recommends that the welfare review being undertaken by Mr Patrick McClure be released to the public once it has been provided to government.

3.39 The committee agrees that more support and education is required for employers to provide adequate services to individuals with a disability to enter or re-enter the workforce.

Recommendation 9

3.40 The committee recommends that any efficiencies found as a result of recommendations by the National Commission of Audit or the Welfare Review being undertaken by Mr Patrick McClure be reinvested in providing services such as those required to support people with a disability to enter or re-enter the workforce.

45 See Peter Yeend, Parliamentary Library Welfare review e-brief, September 2000, at: [www.aph.gov.au/About Parliament/Parliamentary Departments/Parliamentary Library/Publications_Archive/archive/welfarebrief](http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/Publications_Archive/archive/welfarebrief) (accessed 18 March 2014)

Chapter 4

Employment issues

4.1 Evidence received by the committee suggests that cuts to government expenditure could make Australia's unemployment figures – already the highest in a decade – rise even further and damage the economy.

4.2 This chapter looks at the evidence presented to the committee on the current employment market in Australia. It notes the weakness of labour market conditions, slow wages growth and threats to wages. The chapter discusses areas of the employment market in transition and examines Geelong as an example of a community facing the challenges and opportunities from a changing employment landscape. It also looks at the solar industry as an example of an area where employment and opportunities for people to reduce their energy costs are under threat. Finally, the chapter challenges the assumptions about the public sector in the terms of reference for the commission.

Weak labour market conditions

4.3 Mr Bernard Salt, Demographer, indicated job growth has deteriorated over the past 12 months:

Australian Bureau of Statistics data shows that there was a diminishing level of job growth each month from February through to August 2013, and that from September onwards the job market contracted each month with growth in part-time jobs being offset by losses in full-time jobs.¹

4.4 ABS Labour Force data shows a fall of over 60,000 in the number of people in full-time work between September 2013 and January 2014.² In addition, unemployment figures rose to 6 per cent in early 2014, the highest level of unemployment since July 2003.³

4.5 Mr Tim Lyons, Assistant Secretary, ACTU, stressed current employment data 'is the weakest of the economic indicators and mitigates very much...against any cuts in the short term that would have an effect either on public sector employment and employment more generally in the private sector'.⁴

1 *Proof Committee Hansard*, 13 March 2014, p. 39; see also Bernard Salt, 'Work's new faces: from sheet-metal workers to baristas', *The Australian*, 13 March 2013, p. 25.

2 See the ABS Catalogue number 6202.0, especially Labour Force data released in October 2013 and February 2014 at www.abs.gov.au/ausstats/abs@.nsf/mf/6202.0 (accessed 20 March 2014).

3 ABS, *Labour Force, Australia, February 2014* at www.abs.gov.au/ausstats/abs@.nsf/mf/6202.0 (accessed 17 March 2014).

4 *Proof Committee Hansard*, 13 March 2014, p. 11.

Areas of particular concern

4.6 Ms Rebekha Sharkie, National Executive Officer, Youth Connections National Network, pointed out that youth unemployment is more than double the national unemployment rate at 12.2 per cent. In addition, she advised the committee there are areas where youth unemployment is even higher. For example, the youth unemployment rate in the northern suburbs of Adelaide is 19.7 per cent and in Tasmania 17.5 per cent, with some regions in Tasmania as high as 21 per cent.⁵

4.7 Mr Salt also drew the committee's attention to particular areas of economic disadvantage, noting that at the time of the 2011 Census, Claymore in Sydney had the highest level of unemployment at about 36 per cent when the national average at the time was around 5 per cent.⁶ Mr Salt also referred to data from the Department of Education, Employment and Workplace Relations⁷ which showed that in September 2013, when the national unemployment rate was 5.7 per cent, unemployment in the two remote communities of Ngaanyatjarrakau and Anangu Pitjantjatjara was 27 per cent and 32 percent respectively. Of particular concern is the Indigenous community of Woorabinda where 86 per cent of the local workforce of 500 were unemployed in 2013.⁸

Slow wage growth

4.8 The government has recently argued there is a risk of unsustainable wages growth that would result in further job losses. The Minister for Employment, Senator the Hon. Eric Abetz (Minister), stated in a 14 January 2014 speech to the Sydney Institute:

Employers and unions must be encouraged to take responsibility for the cost of their deals, not just the cost to the affected enterprises, but the overall cost in relation to our economic efficiency and the creation of opportunities for others. If this is not done, then we risk seeing something akin to the 'wages explosions' of the pre-Accord era, when unsustainable wage growth simply pushed thousands of Australians out of work. If the system is not driving the parties to act more responsibly, then it needs to be reformed so that it does.⁹

4.9 However, evidence suggests that unsustainable wage growth is unlikely, given recent trends. Mr Glenn Stevens, Governor of the Reserve Bank of Australia, noted wages growth was very slow:

5 *Proof Committee Hansard*, 13 March 2014, p. 52.

6 *Proof Committee Hansard*, 13 March 2014, p. 41.

7 Now the Department of Employment. The data is the published quarterly estimates of unemployment by statistical local area, modelled from ABS labour force data. See *Proof Committee Hansard*, 13 March 2014, p. 41.

8 *Proof Committee Hansard*, 13 March 2014, p. 41.

9 Senator the Hon. Eric Abetz, Address to the Sydney Institute 'After the Thirty Years War', 28 January 2014 at <https://abetz.com.au/speeches/address-to-the-sydney-institute-after-the-thirty-years-war> (accessed 19 March 2014).

...you're seeing pretty subdued growth in real wages right now. Wages growth in nominal terms have slowed, to some extent that was expected, but it has been quite responsive to the softer labour market.¹⁰

4.10 Mr Matt Cowgill, Economic Policy Officer, ACTU, pointed to recent data that does not support the suggestion of a potential 'wages explosion'. He highlighted the low rate of growth of the Wage Price Index at 2.6 per cent, a full percentage point below the average.¹¹ In addition, Mr Cowgill cited a fall of 1.8 per cent in 'real-unit labour costs' in 2013.¹² He explained these figures, when taken together, show that 'labour costs—the bulk of which are wages—are not keeping up with productivity growth.'¹³

Potential threat to penalty rates

4.11 The need to review penalty rates has been raised recently by many government MPs.¹⁴ The government has committed to a Productivity Commission review of the industrial relations system.¹⁵ Initially, the minister stated that penalty rates are not being considered by this review and are instead a matter for the Fair Work Commission.¹⁶ However, the minister subsequently conceded the terms of reference for the Productivity Commission are very broad and cover all aspects of the Fair Work Act, and subsequent media reports have noted the terms of reference mention 'pay and conditions', which is understood to include penalty rates.¹⁷

4.12 Mr Lyons, Assistant Secretary of the ACTU, suggested that in his view it is likely this Productivity Commission review would include penalty rates, and then explained why they are so important for many workers:

What we do know is that many millions of workers receive part of their income through penalty rates...It includes additional remuneration paid for

10 'Glenn Stevens on the \$A, rates and growth' in *Australian Financial Review*, 13 December 2013 at www.afr.com/p/national/economy/full_transcript_glenn_stevens_on_g8FIuePVTxTVnSVJn v5knM (accessed 19 March 2014).

11 *Proof Committee Hansard*, 13 March 2014, p. 13.

12 Mr Cowgill explained real-unit labour costs as: 'The change in the cost of employing labour on the one hand relative to the productivity of labour on the other hand'. See *Proof Committee Hansard*, 13 March 2014, p. 13.

13 *Proof Committee Hansard*, 13 March 2014, p. 13.

14 Jonathan Swan, Anna Patty and James Massola, 'Coalition MPs plot to strip workers' weekend and holiday penalty rates' *Sydney Morning Herald*, 8 March 2014.

15 'Productivity Commission review of the workplace relations framework Draft Terms of Reference', at http://images.theage.com.au/file/2014/03/07/5240170/PC_workplace_draftTOR.pdf (accessed 20 March 2014).

16 Daniel Hurst, 'Workplace relations: government moves to ease inquiry fears' in *The Guardian*, 7 March 2014, at www.theguardian.com/world/2014/mar/07/unions-warn-everything-up-for-grabs (accessed 20 March 2014).

17 Jonathan Swan, Anna Patty and James Massola, 'Coalition MPs plot to strip workers' weekend and holiday penalty rates' *Sydney Morning Herald*, 8 March 2014.

overtime, shiftwork, allowances for working at different times of the day and night, and allowances for working things like public holidays, Saturdays, Sundays and shift loadings. Many millions of workers receive those. A simple exercise in arithmetic suggests that that is many billions of dollars of take-home pay from workers.¹⁸

4.13 Mr Lyons stressed to the committee that penalty rates are received 'disproportionately in the middle and bottom half of the income distribution curve' and a cut to take home pay would not only reduce standards of living, it would also reduce the amount of money circulating in the local economy.¹⁹

Economy in transition

4.14 Australia's economy continues to shift away from industry and manufacturing as can be seen from the recently announced closures and workforce downsizing including:

- the loss of 5,000 full-time positions from Qantas;²⁰
- around 600 jobs being lost from the closure of the Ford plant in Geelong in 2016;²¹
- Holden ceasing manufacturing in Australia from 2017,²² along with around 500 manufacturing jobs from the closure of Holden plants in Adelaide and Melbourne in 2013;²³
- the loss of around 800 jobs in late-2014 from the closure of the Alcoa Port Henry smelter near Geelong;²⁴
- BP's announcement of the closure of its Brisbane refinery which will result in the loss of more than 350 jobs;²⁵

18 *Proof Committee Hansard*, 13 March 2014, p. 11.

19 *Proof Committee Hansard*, 13 March 2014, p. 12.

20 Media Release: 'Qantas Group Strategy Update', 27 February 2014, at www.qantas.com.au/infodetail/about/investors/2013HYMediaReleaseStrategyUpdate.pdf (accessed 20 March 2014).

21 Media Release: 'Important announcement from Ford Australia', 23 May 2013, at www.ford.com.au/about/newsroom-result?article=1249024395989 (accessed 20 March 2014).

22 Media Release: 'GM to Transition to a National Sales Company in Australia and New Zealand Company to cease manufacturing in Australia by 2017', 11 December 2013, at http://media.gm.com/media/au/en/holden/news.detail.html/content/Pages/news/au/en/2013/Dec/1211_National_Sales_Company.html (accessed 20 March 2014).

23 Media Release: 'Market Conditions Force Holden to Restructure South Australian and Victorian Operations 4 August 2013' at http://media.gm.com/media/au/en/holden/news.detail.html/content/Pages/news/au/en/2013/Apr/0408_restructure.html (accessed 20 March 2014).

24 Media Release: 'Alcoa to Close Point Henry Aluminium Smelter and Rolling Mills in Australia', 17 February 2014, at www.alcoa.com/australia/en/news/releases/PTH.asp (accessed 20 March 2014).

- Aeroplane manufacturer Boeing cutting up to 300 jobs from its Port Melbourne plant by the end of 2014;²⁶ and
- job losses at other companies, including Simplot, Caterpillar, Electrolux, and at Rio Tinto's Alcan alumina refinery in Gove, Northern Territory.²⁷

4.15 Industry Employment Projections from the Department of Employment show the long-term decline in manufacturing's share of total employment will continue, with employment projected to decline by 40,300 full time jobs, or 4.3 per cent, over the next five years.²⁸

4.16 Mr Salt spoke about the economy being in transition, moving away from traditional manufacturing, and noted that over the 12 months to November 2013, 'net job losses in the manufacturing sector totalled 27,000'. Mr Salt also noted job losses in other areas: 34,000 jobs in the information, media and telecommunication sector; and 33,000 jobs in the wholesale trade sector. However, he also reported the following areas of job growth: public administration sector, up 77,000 positions; construction sector, up 35,000; and retail sector, up 28,000.²⁹

4.17 Other aspects of the economy in transition include a shift 'either by preference or by necessity' from full-time to part-time work:

In January 2014, for example, the ABS shows that there were 8,050 part-time jobs added and 9,629 full-time jobs lost, resulting in an overall net loss of 1,579 jobs across the workforce.³⁰

4.18 Mr Salt stressed that a transitioning economy requires the labour market to be agile and responsive to areas of job growth. However, he acknowledged the process of transition causes a great deal of concern for areas of the workforce affected and that the management of the transition is very important.³¹

Managing a transitioning economy: Geelong

4.19 The committee spoke with the Committee for Geelong about measures being put in place to support its economy in transition. Mr Dan Simmonds, Chairperson, Committee for Geelong told the committee that although manufacturing is still

25 Marissa Calligeros, 'Brisbane job losses as Brisbane refinery is closed', *Brisbane Times*, 2 April 2014.

26 ABC News, 'Boeing cuts: aeroplane manufacturer to shed 300 jobs from Port Melbourne plan by the end of 2014', 3 April 2014.

27 Wren Advisers, 'Hollowing out of Australian industry' at www.wrenadvisers.com.au/2013/11/job-losses-australia/ (accessed 19 March 2014).

28 Australian Government, Department of Employment, Industry Employment Projections, 2014 Report. Note: the projections are based on ABS employment data from November 2013 and the forecasts and projections in the December 2013 Mid-year Economic and Fiscal Outlook.

29 *Proof Committee Hansard*, 13 March 2014, p. 39.

30 Mr Bernard Salt, *Proof Committee Hansard*, 13 March 2014, p. 39.

31 *Proof Committee Hansard*, 13 March 2014, p. 43.

responsible for over 40 per cent of the economic output of the city, there have recently been substantial job losses from the restructuring or closing of several industrial plants and businesses.³²

4.20 In order to respond effectively to these changes, the Committee for Geelong stated the region needs government assistance to manage this transition by retraining manufacturing workers and creating other opportunities for the workforce.³³ The Committee for Geelong highlighted several areas where government assistance was paying dividends:

- the Australian Future Fibres Research and Innovation Centre is a collaborative relationship between Deakin University, CSIRO and the Victorian Centre for Advanced Materials Manufacturing. It conducts research on all aspects of fibre manufacturing, including carbon fibre development. Some former Ford employees now work in this area;³⁴
- the Australian Sports Technology hub, with the headquarters in Geelong, is supporting local businesses and providing jobs and training opportunities to the local community;³⁵ and
- the LAND 400 project, designing a land combat vehicle for the Australian Defence Force, which will build expertise that could potentially attract more defence manufacturing projects and programs to the region.³⁶

4.21 Mrs Rebecca Casson, Chief Executive Officer, Committee for Geelong, also highlighted the value of new government agencies being brought to the region covering areas of health, rehabilitation, insurance and disability, especially the retraining possibilities they provide.³⁷

4.22 The Committee for Geelong also stressed the importance for recently unemployed manufacturing workers to be given early assistance with job seeking skills such as resume writing and interview skills. This would help them adapt to the new jobs market more quickly and lessen the chance of them becoming unemployed long-term.³⁸

32 Mr Dan Simmonds, *Proof Committee Hansard*, 13 March 2014, p.5. See also the Geelong Manufacturing Council's website at www.geelongmanufacturingcouncil.com.au/.

33 Mr Dan Simmonds, *Proof Committee Hansard*, 13 March 2014, p. 5.

34 Mr Dan Simmonds, *Proof Committee Hansard*, 13 March 2014, p. 5. See also www.deakin.edu.au/affric/about.php (accessed 1 April 2014).

35 Mrs Rebecca Casson, *Proof Committee Hansard*, 13 March 2014, p. 5. See also Jared Lynch 'Geelong given \$6m to develop into sports tech hub', *Sydney Morning Herald*, 26 August 2013; Australian Sports Technologies Network website: <http://astn.com.au/> (accessed 1 April 2014).

36 Mrs Rebecca Casson, *Proof Committee Hansard*, 13 March 2014, p. 5.

37 *Proof Committee Hansard*, 13 March 2014, p. 3.

38 *Proof Committee Hansard*, 13 March 2014, p. 9.

Industries at risk: solar technology

4.23 The committee heard there is a risk cuts to government programs will affect the jobs and growth of sectors such as the solar energy industry. Mr John Grimes, Chief Executive Officer of the Australian Solar Council, stated that according to industry modelling the proposed repeal of the Renewable Energy Target (RET) scheme would mean the loss of 8,000 jobs from the sector:

...When you think about that in the context of the numbers of jobs that have been lost in car manufacturing, SPC and a whole range of other companies, that is actually bigger than all of those combined in terms of direct job losses.³⁹

4.24 Mr Grimes noted that many of these jobs would be lost in small family-run businesses, predominantly in regional areas, which provide employment opportunities for experienced workers, as well as entry-level training opportunities for young people:

[This] would have immediate and substantial effects in terms of employment, and you would see the burden really falling to those small businesses, mum-and-dad operations, the apprentices that they employ and opportunities for jobs across the country.⁴⁰

4.25 In addition, Mr Grimes drew the committee's attention to the customers that would be affected; overwhelmingly low-income groups, including pensioners, taking advantage of solar technology energy to reduce their power bills:

Disproportionately they are retired people, often on a pension, sometimes self-funded. They are single parents. They are working families in the mortgage belt of our big cities. They are people who can least afford the ever-increasing spiralling cost of electricity, so they take proactive measures to lock in their future energy costs.⁴¹

Job losses in the public sector

Assumptions of the Commission of Audit

4.26 A number of assumptions are implicit in the terms of reference for the National Commission of Audit, including that the public sector is too large and inefficient.⁴² Ms Nadine Flood, Secretary of the CPSU, took issue with the assumption the public service had grown too large:

Twenty years ago, the Australian Public Service employed just over 160,000 employees for an Australian population of 17.8 million, yet today there are 167,000 employees serving a population which has grown to 23 million, or in fact by almost 30 per cent, while the workforce has grown by just over four per cent. Clearly, there is not an explosion in public sector

39 *Proof Committee Hansard*, 13 March 2014, p. 22.

40 *Proof Committee Hansard*, 13 March 2014, p. 22.

41 *Proof Committee Hansard*, 13 March 2014, p. 26.

42 National Commission of Audit, terms of reference, p. 1.

job numbers. As you have heard in this inquiry, Commonwealth expenditure as a share of GDP is only 0.2 percentage points higher than it was in 1996-97, when the last national commission of audit was held.⁴³

4.27 Ms Flood also challenged the assumption the public sector is inefficient:

As we have detailed in our submission, the World Bank in 2012 ranked Australia in the top six per cent, or 94th percentile, for government effectiveness and the top three per cent for regulatory quality in the world. Yet at the same time we are amongst the bottom five lowest taxing nations. This is clear evidence that we have a highly efficient government, and certainly more efficient than most of our peer nations.⁴⁴

Public sector job losses

4.28 Ms Flood informed the committee that 5,000 ongoing public sector positions have been lost since September 2013, excluding a significant number of non-ongoing positions that have been discontinued.⁴⁵ The table at Appendix 2 was provided to the committee by the CPSU. It tracks 5,000 job losses since the September 2013 Federal Election, that have occurred or are likely to occur.⁴⁶ On 1 April 2014 Ms Karen Atherton, National Policy Coordinator, CPSU provided an update:

Coming out of the CPSU appearance on 13 March, we provided a list of known redundancies that had occurred in the Australian Public Service since the federal election. The list we provided was as at 19 March, and since then there have been reports of more job losses to come. The Department of Industry was already on the list for 200 and announced last week another 200 jobs are to go before 30 June. The Treasury secretary, in a speech to the Institute of Public Administration, reported that his department would shrink from a peak of 1,100 workers in 2011 to as few as 730 in 2017, with a third of jobs going. In media reports yesterday, we heard that there will be significant job losses in Prime Minister and Cabinet, as Indigenous affairs functions are restructured. These are real jobs and real people and work that matters.⁴⁷

4.29 Ms Flood said there is currently a great deal of uncertainty in the public service about its future. She commented this was exacerbated by the government stating to the CPSU that more job losses are planned, though without specific targets:

...the estimate of job losses over the forward estimates has moved from a policy position of a net loss of 12,000 jobs through natural attrition to a net loss of anywhere from 14,500 to 26,500 jobs, depending on the Commission of Audit and federal budget process. That is based on an argument about the cumulative effect of savings measures already in place

43 *Proof Committee Hansard*, 13 March 2014, p. 29.

44 *Proof Committee Hansard*, 13 March 2014, p. 30.

45 *Proof Committee Hansard*, 13 March 2014, p. 30.

46 CPSU, Answers to questions on notice from 13 March hearing, received 31 March 2014.

47 *Proof Committee Hansard*, 1 April 2014, p. 1.

implemented by the previous government, plus policies of the new government. That has created enormous uncertainty in the Public Service, and we do not know what the proposed scale of job losses actually is.⁴⁸

Effect on individuals

4.30 This uncertainty is having serious effects on many individuals – both public servants that are under increased workloads, as well as to individuals who rely on the services they provide.

4.31 For instance, Ms Flood pointed to the effects of staffing reductions in the Department of Human Services (DHS), the largest federal agency that delivers services the public depend on, such as Medicare, child support and Centrelink programs:

...we are now seeing that there has been a reduction of [DHS] staffing of more than 5,000 employees from 2009 to today. In the last year alone, the number of calls to Human Services, Centrelink and Medicare rose by more than one million; so we have far fewer employees doing far more work. It does not take a brain surgeon to work out that that creates real pressures. Those pressures are substantial for employees, and they are substantial for clients who are waiting on payments and waiting on help...⁴⁹

Effect on ACT and regional economies

4.32 Mr Cowgill of the ACTU told the committee that the loss of public sector jobs would not only affect individual public servants, but also local businesses:

...just as when Toyota closes it is not just the employees who worked at Toyota or suppliers who are affected; it is the local lunch bar and it is the local businesses that were patronised by the people who worked there that are affected. It is no different in the case of the public sector.⁵⁰

4.33 The need to consider not only the direct effect of the reduction in the size of the public service but also the indirect effects was highlighted in a policy brief by the Australia Institute:

...when jobs are lost in one industry in a local economy the reduction in demand has 'spill over' or 'multiplier' effects on other industries.⁵¹

4.34 ABS data for retail turnover suggests that public service restructuring is already having a negative effect on Canberra's economy. For instance, retail turnover

48 *Proof Committee Hansard*, 13 March 2014, p. 31.

49 *Proof Committee Hansard*, 13 March 2014, p. 30.

50 *Proof Committee Hansard*, 13 March 2014, pp 19-20.

51 David Richardson and Richard Denniss, The Australia Institute, 'The regional impact of public service job cuts', Policy Brief No. 18, August 2010, p. 1.

dropped by almost two per cent in the Canberra region in January 2014, against an average increase of 1.2 per cent nationally.⁵²

4.35 Mr Cowgill advised that further cuts to public service jobs would certainly lead to a serious economic downturn in the ACT and the surrounding region:

It does give us cause for concern that if the pace of fiscal contraction is increased—in other words, if we move back to surplus at a more rapid rate than was previously envisaged—then, yes, the ACT economy in particular would bear much of the brunt of that.

....It would be essentially a Commonwealth-driven version of what the effect of concentrated job losses in communities is from major private sector employers proposing to close and the regional effects you get from that....⁵³

4.36 Ms Flood of the CPSU indicated that the effects of public sector job cuts would also hurt regional communities where public sector employment is significant, particularly those already suffering job losses in other sectors:

Two-thirds of the Public Service is outside Canberra—as much as that is not the impression one sometimes gets. In our experience, cuts to the Public Service have a disproportionate effect on employment in regional areas, partly because these jobs are more significant in regional economies. So, if you look at areas such as Newcastle, Wollongong, Geelong and Tasmania, the Commonwealth is a significant employer in a small economy.....And of course in some cases those public sector employees have partners who are losing jobs in other sectors, such as manufacturing, car components and so on, where jobs are also going out of those regional areas.⁵⁴

Conclusion

4.37 The committee notes the current weak labour market conditions and believes the government should not take actions that would lead to further job losses in the private and public sectors. Further job losses would exacerbate weak employment conditions, increase the need for government services and reduce the amount of money circulating in local communities.

4.38 The committee also notes the government has recently argued there is a risk of unsustainable wages growth that would result in further job losses. The committee has received no evidence to support this assertion. Data indicates that over 2013 wages grew at the lowest rate on record.

4.39 In another threat to wages, there are signs that the government is aiming to reduce or remove the penalty rate system so many working Australians depend on as part of their weekly wages. Penalty rates are recognition of the unsociable and

52 ABS, *Media Release Retail turnover rises 1.2 per cent in January 2014*, 6 March 2014, at www.abs.gov.au/ausstats%5Cabs@.nsf/mediareleasesbyCatalogue/676AC4CC578D6559CA25773400204519?Opendocument (accessed 17 March 2014).

53 *Proof Committee Hansard*, 13 March 2014, p. 19.

54 *Proof Committee Hansard*, 13 March 2014, p. 32.

demanding hours many people work. The committee is concerned that reducing penalty rates will hurt those who are least able to afford it.

Recommendation 10

4.40 The committee recommends that the government does not reduce or remove the penalty rate system.

4.41 Areas of the Australian economy are in transition. One trend is a reduction in industry and manufacturing, which is unsettling for affected workers and businesses. The committee believes that government should provide support for affected workers to retrain and reskill well before announced job cuts take effect. This includes appropriate assistance to affected regions to create new opportunities for the workforce. The committee considers that public-private partnerships for local projects would be a means to drive retraining and reskilling for workers from the manufacturing sector.

Recommendation 11

4.42 The committee recommends that the government ensure workers affected by jobs losses in the industry and manufacturing sectors have early access to information, support and opportunities to retrain and reskill.

Recommendation 12

4.43 The committee recommends that in regions affected by job losses from the manufacturing sector, the government investigate opportunities for public-private partnerships for projects that would provide a future workforce as well as retraining and reskilling opportunities.

4.44 The committee heard persuasive evidence about the need for government to support industries that use innovative technology, for example, the solar industry. This growth sector sustains a substantial number of jobs, invests heavily in building the workforce of the future, and drives innovative technologies. The sector also provides a valuable service for regional and low-income groups, including pensioners, to reduce the costs of their power bills.

Recommendation 13

4.45 The committee recommends that the government recognise the individual and community benefits of the solar industry by retaining the Renewable Energy Target.

4.46 The committee believes the assumptions about the public sector that are in the Commission of Audit's terms of reference are flawed. It has heard compelling evidence the public sector is efficient, reasonably sized and provides good value for money for the Commonwealth.

4.47 Public sector job losses and efficiency dividends have already compromised the ability of departments to deliver the services they provide to Australians.

4.48 Cutting more jobs and increasing efficiency dividends is unsustainable and will only create more uncertainty in the public sector. It would also damage regional

economies where the public service is a large employer, not just Canberra, but also regional locations across the country.

Recommendation 14

4.49 The committee recommends that there are no further cuts to jobs in the Australian public service.

4.50 The committee is particularly concerned there is a lack of clarity around the total number of jobs under threat in the public service and whether the targets set by the previous government are included or excluded from the targets set by the current government. This lack of clarity is compounding the already high level of uncertainty in the public service and should be addressed as a matter of priority.

Recommendation 15

4.51 The committee recommends that in the event that further cuts are made to public service staffing numbers, the government confirm the total number of jobs to be cut, the timeline (over the forward estimates) of these cuts, the rationale for these cuts and any impact on resources available for the purposes of policy development, contract management and program and service delivery.

Senator Richard Di Natale

Chair

Government senators' dissenting report

Context for the National Commission of Audit

1.1 The Coalition government was elected with a clear mandate to bring the budget under control and to end the reckless spending that characterised the preceding Labor government.

1.2 The mismanagement of the economy by the Gillard/Rudd Labor governments has given us the biggest deficit in modern Australian history. Their inability to make tough economic decisions has meant that their legacy is one of a structural budget deficit driven by unsustainable spending.

1.3 The government has inherited these decisions, which Labor and the Greens never acknowledged as problems in government and keep denying in opposition.

1.4 Whereas the former government decided to keep spending borrowed money, the Coalition government will not play games with Australia's future prosperity. Addressing the budget deficit is a matter of urgency. It is essential that we act decisively and quickly to fix Labor's economic negligence.

1.5 It is only right that the government seek good advice on putting the budget back on a sustainable footing, including considering the recommendations made by the Commission of Audit (the commission).

The growing burden of Australia's budget deficit

1.6 Recent Treasury projections expect deficits totalling \$123 billion over the next four years, with a \$47 billion deficit in 2013-14.¹ On current levels of expenditure, this is projected to rise to \$667 billion in 2023-24.² These growth trends have also been confirmed by the Parliamentary Budget Office (PBO), which found that from 2002-03 to 2012-13 government spending grew by 45.2 per cent, or 3.8 per cent annually, outpacing GDP growth over the same years of 34.3 per cent or 3.0 per cent annually.³

1.7 Moreover, a recent International Monetary Fund (IMF) paper found this situation will only worsen if left unchecked. It noted that Australia has the highest projected change in real expenditure of the 17 nations surveyed and the third highest growth in net debt.⁴

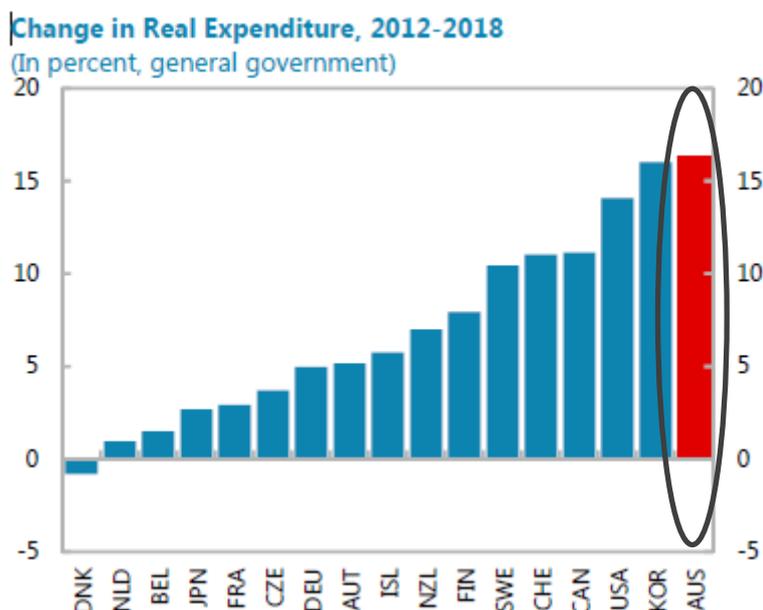
1 *Mid-Year Economic and Fiscal outlook 2013-14*, Part 1, p.1 at www.budget.gov.au/2013-14/content/myefo/download/2013_14_MYEFO.pdf (accessed 18 March 2014).

2 *Mid-Year Economic and Fiscal outlook 2013-14* Part 1, p.3 at www.budget.gov.au/2013-14/content/myefo/download/2013_14_MYEFO.pdf (accessed 18 March 2014).

3 Parliamentary Budget Office, *Australian Government Spending, Part 1: Historical Trends from 2002-03 to 2012-13*, December 2013, p. 5.

4 *IMF Country Report No. 14/51 Australia* at www.imf.org/external/pubs/ft/scr/2014/cr1451.pdf accessed 18 March 2014, p. 24.

1.8 For the six years from 2012 to 2018 Australia is forecast to have the largest percentage increase in spending of the 17 IMF advanced economies profiled. Our spending is growing faster than countries like Korea, Canada, Germany, France and Japan. The forecasts on which the IMF study is based are based on the spending projections that Labor had locked in while still in government.



1.9 Over the same period, Australia is forecast to have the third largest increase in net debt (in percent of GDP) of the advanced economies profiled. IMF data shows that over half the comparable countries planned a reduction in net debt over the period 2012-2018. Countries that are reducing net debt include France, New Zealand, Germany and Korea.

1.10 These projections are concerning for Australia, because even the Labor Party intended Australia to be in a debt repayment phase over this period.

1.11 Former Labor Minister for Financial Services Chris Bowen went as far as claiming on Radio National that 'the Government has returned the Budget to surplus three years ahead of schedule and ahead of any other major advanced economy'.⁵

1.12 After promising on hundreds of occasions that Australia would be running a surplus from 2012 onwards, Labor was found to be incapable of taking the decisions needed to make such surpluses achievable. Labor delivered an increase of 8,360 in public servants (or 5.82%) from June 2007 to June 2013 after Opposition Leader Kevin Rudd in 2007 promised to take a "meat axe" to the public service. For every saving measure Labor adopted or additional tax they imposed, they surpassed these decisions with additional spending.

5 Fran Kelly Interview, ABC Radio National, 13 May 2010.

1.13 Under Labor's spending settings, Australian Government finances are projected to stay in deficit in each and every year into the foreseeable future. The former Government established a façade of several fiscal rules, then systemically set about breaching those rules. Most of those fiscal rules were outlined in Labor's first budget in 2008-09 and published with fanfare in every set of Labor budget papers.

1.14 One of those rules was to achieve budget surpluses on average over the medium term. The reality is that Labor left Australia with six successive deficits. These were the six record largest deficits in Australia's history.

1.15 Labor also committed to improve the Government's net financial worth over the medium term. In fact the MYEFO forecasts shows that government Net Financial Worth is projected to rise from -\$290 billion to -\$361 billion over the forward estimates. Debt is on track to hit \$667 billion in a decade.

1.16 A further fiscal rule was to keep taxation as a share of GDP on average below the level of 2007-08 (that is 23.6 per cent). The 2013 Pre-Election Fiscal Outlook (PEFO) made it clear that tax receipts under Labor would be expected to surpass that level based on the existing tax system and based on the fiscal drag that could be expected from a government that is unable to balance its books to allow tax cuts. Page 61 of PEFO states that "Tax receipts would reach around 25 ½ per cent of GDP in 2023-24".

1.17 A further fiscal rule was published in Labor's July 2010 Economic Statement. This 'rule' was to hold real growth in spending to 2 per cent a year, support a return to surpluses. But the fact is that real average spending growth over the five years to 2012-13 was 3.5% per annum, according to Treasury's figures in MYEFO. This is almost twice the 2% target. MYEFO also projects average real growth in spending over the medium term, after the forward estimates, to be 3.7%.

1.18 In opposition, the Coalition pointed out Labor decisions in 2013 to ramp up spending meant that important stresses on the budget were hidden in the fifth year, for which there were no published projections.

1.19 Treasurer Joe Hockey revealed in the March 2014 sittings of parliament that the latest Treasury advice shows that without any policy change, spending growth will be 6 per cent over the final out-years of the next budget (2016-17 and 2017-18).

1.20 This is 3 times larger than Labor's feigned spending limit. This is a direct result of Labor's poor budgetary decisions.

1.21 The spending growth between 2016 to 2018 will include some increases even higher than 6%. In Defence it will be 13%. In overseas aid 66%. In disability it will be 125%, as the NDIS builds up.

1.22 Labor pushed their spending decisions beyond the immediate estimates period, knowing that the true cost of their reckless decisions would not be revealed until after the 2013 federal election.

1.23 In order for Labor to have met their bogus 2 per cent rule, Labor would have needed to cut tens of billions per year from projected spending over the forward estimates.

1.24 In this report, the IMF expressed surprise that our spending was 'higher than anticipated' and stated clearly that bringing the budget back to surplus will be difficult on current spending plans.⁶

1.25 They noted particularly the increasing burden of government expenditure on health, age-related pensions and aged care, disability services and education.⁷

1.26 The IMF however noted that notwithstanding the challenges, its analysts 'supported the broad aim of improving the budget position over the medium term, which would help rebuild fiscal buffers and increase the policy scope to deal with adverse shocks, but cautioned that it should be done in a way that does not disrupt growth prospects in the near term.'⁸

1.27 This caution about growth prospects is an important reason for concentrating on expenditure control, rather than taking the economic damaging path of increasing taxes.

1.28 Australia's fiscal problem is at its heart a spending problem and the Commission of Audit will be an important first-step in understanding the problem and identifying potential remedies.

1.29 Repairing the Australian budget is important to all Australians as it will help us strengthen the economy and create growth and jobs. Unless we take action, rising spending and debt will add pressure on interest rates. It will add pressure on taxpaying businesses and individual taxpayers who already do the heavy lifting and will be made to bear an even heavier burden. It will take away Australia's capacity to absorb external economic shocks.

The important work of the commission

1.30 The commission is undertaking a timely and necessary review of the entirety of the Commonwealth's expenditure to address the serious budget problem inherited by this government which is denied by the committee majority.

1.31 The commission's recommendations will be one input that informs the development of the 2014-15 Budget. With the benefit of the commission's findings the government will be best placed to make decisions to place the economy on the right footings.

6 *IMF Country Report No. 14/51 Australia* at www.imf.org/external/pubs/ft/scr/2014/cr1451.pdf accessed 18 March 2014, p. 9.

7 *IMF Country Report No. 14/51 Australia* at www.imf.org/external/pubs/ft/scr/2014/cr1451.pdf accessed 18 March 2014, p. 2, p. 9.

8 *IMF Country Report No. 14/51 Australia* at www.imf.org/external/pubs/ft/scr/2014/cr1451.pdf accessed 18 March 2014, p. 8.

1.32 It should be remembered that the commission's recommendations are not a done deal. Rather, when they are delivered, they will be carefully considered by government. Those that the government chooses to adopt in the short term will still need to be announced as part of the budget process. Many would require legislation which would involve parliamentary scrutiny and further public consultation.

1.33 As can be expected, Labor and the Greens believe the answer is simply raising taxes, which will hit ordinary Australians in the hip pocket.

1.34 Although the Coalition government has committed to a review of the tax system, the results of which we will take to the Australian people at the next election, we believe that it is completely right to consider making government expenditure smaller, better targeted and more efficient.

Timing

1.35 The committee has repeatedly dwelt on when the commission's report will be released to the public. The government is carefully considering the commission's report, and looking at how its recommendations will inform the 2014-15 Budget. It is not unusual for governments to take their time to consider reports, especially when their recommendations are so important.

1.36 The government has consistently said it will release the report before the 2014-15 Budget. The Treasurer, the Hon Joe Hockey MP, has publically stated the report of the National Commission of Audit will be released on Thursday 1 May 2014.

Increasing health expenditure

1.37 This second interim report focuses on how the Australian health system is financed. It is clear recent growth trends in health expenditure are unsustainable and that the government should find ways of driving efficiency and reducing our health costs.

1.38 Australia's health budget has been growing rapidly over the last decade. In 2001-02 the total combined government expenditure at both federal and state levels on health was \$82.9 billion. In 2011-12 it was \$140.2 billion – an appreciable rise in real terms.⁹

1.39 The bulk of this funding comes from the Commonwealth. In 2011-12, the government spent \$59.5 billion on health. A decade earlier, in 2001-02, government funding was just \$27.8 billion.¹⁰

1.40 This is placing an increasingly heavy burden on the Commonwealth budget. The PBO has found that health spending represented 16 per cent of total spending in 2012-13 at \$61.3 billion. Between 2002-03 and 2012-13, Commonwealth spending

9 Australian Institute of Health and Welfare (AIHW), *Health Expenditure Australia 2011-12* (2013), p. viii.

10 Australian Institute of Health and Welfare (AIHW), *Health Expenditure Australia 2011-12* (2013), p. viii.

on health grew by around 59 per cent or 4.8 per cent annually, well above our GDP growth rate of 3 per cent over the same period.¹¹

1.41 The growth trend of the last decade is expected to continue. The last *Intergenerational Report* projected that over the next 40 years health expenditure will rise from 4.0 per cent of GDP in 2009-10 to 7.1 per cent of GDP in 2049-50.¹²

Drivers of health expenditure

1.42 Mr John Daley, in a report by the Grattan Institute, found that health is responsible for most of the spending increases above GDP for both Commonwealth and state governments. He noted that the drivers for this increase are not solely the aging population, as is usually argued, but the 'provision of more and better health services per person'.¹³

1.43 Although Australia's health outcomes are reasonably good, there are more worrying signs that Australia's health system is facing increasing pressure. In 2009, the final report of the National Health and Hospitals Reform Commission stated:

While the Australian health system has many strengths, it is a system under growing pressure, particularly as the health needs of our population change. We face significant challenges, including large increases in demand for and expenditure on health care, unacceptable inequities in health outcomes and access to services, growing concerns about safety and quality, workforce shortages, and inefficiency.¹⁴

Ensuring sustainability of the health system

1.44 There is a clear need to rein in the growth in health spending to ensure the sustainability of the health system into the future.

1.45 The government believes that it is time for a conversation about what the best possible future health system for Australia should look like. Importantly, this should also include the issue of how this system should be funded.

1.46 This means broaching tough questions that the opposition would prefer to ignore, most importantly whether people should make a contribution to their health costs where they can afford to do so.

1.47 The suggested co-payment for GP visits is an example of the scare campaign generated by Labor and the Greens. We do not know if this suggestion will be recommended by the commission but it would not mean the end of Medicare. This is

11 Parliamentary Budget Office, *Australian Government Spending, Part 1: Historical Trends from 2002-03 to 2012-13*, December 2013, pp 20-21.

12 The Treasury, *Australia to 2050: future challenges* (2010), p. 8.

13 Mr John Daley, 'Balancing budgets: Tough choices we need', The Grattan Institute November 2013, pp 10-11.

14 *A Healthier Future For All Australians – Final Report of the National Health and Hospitals Reform Commission* (June 2009), p. 3 at [www.health.gov.au/internet/nhhrc/publishing.nsf/content/1AFDEAF1FB76A1D8CA257600000B5BE2/\\$File/Final_Report_of_the%20nhhrc_June_2009.pdf](http://www.health.gov.au/internet/nhhrc/publishing.nsf/content/1AFDEAF1FB76A1D8CA257600000B5BE2/$File/Final_Report_of_the%20nhhrc_June_2009.pdf)

simply the suggestion that a user benefiting from a service should contribute to the cost. This is not a new idea and it is fair.

1.48 It would ensure appropriate value is placed on the service and that the user only consumes as much as is needed. Australia needs a fair system and it could accommodate co-contributions through the use of a safety net or exemptions.

The increasing bill from income support payments

1.49 Australia also has an increasing welfare bill. Social security and welfare payments have increased over the last decade from \$73 billion in 2002-3 to \$131.7 billion in 2012-13.¹⁵

Government review

1.50 The most recent annual review of income support payments by the Department of Human Services shows significant growth in income support payments with the result that more than five million, or one in five, Australians now receive income support payments.¹⁶

1.51 The PBO found that social security and welfare was the largest component of government spending totalling \$132 billion in 2012-13, or 34 per cent of the total.¹⁷ Social security and welfare spending represented more than a third of total spending in 2012-13 and contributed approximately a third of the overall growth in spending.¹⁸

1.52 The PBO also found that social security and welfare, along with health were the largest contributors to the growth in spending over 2002-03 to 2012-13. 'Together, spending on these items accounted for over one half of the growth in total spending over the period'. The PBO noted:

Social security and welfare spending contributed one third of spending growth and contained four of the major program contributors to overall spending growth over the period: the Age Pension, the Disability Support Pension (DSP), Family Tax Benefit, and Aged Care.¹⁹

15 *Commonwealth Budget 2002-03*, Budget Paper 1, Statement 6, p.6 and *Commonwealth Budget 2012-13*, Budget Paper 1, Statement 6, p. 5.

16 Department of Human Services, *Statistical Paper no. 11: Income support customers: a statistical overview 2012*, p. 2 at www.dss.gov.au/about-the-department/publications-articles/research-publications/statistical-paper-series (accessed 17 March 2013)

17 Parliamentary Budget Office, *Australian Government Spending, Part 1: Historical Trends from 2002-03 to 2012-13*, December 2013, p. 4.

18 The annual growth for social security and welfare is 3.7 per cent and its contribution to total growth is 15.7 per cent. See Parliamentary Budget Office, *Australian Government Spending, Part 1: Historical Trends from 2002-03 to 2012-13*, December 2013, p. 7.

19 Parliamentary Budget Office, *Australian Government Spending, Part 1: Historical Trends from 2002-03 to 2012-13*, December 2013, p. 1.

1.53 In January 2014, the Minister for Social Services, Mr Kevin Andrews MP, announced a review of the welfare system to be headed by the former chief executive of Mission Australia, Mr Patrick McClure.²⁰

1.54 The scope of the review is limited to working age payments such as Newstart Allowance (NSA) and the Disability Support Pension. Payments such as Age Pension and the various forms of family assistance will not be examined.²¹

Employment

1.55 The government is working on its plans to guarantee the long-term sustainability of our economy by creating a strong employment market.

1.56 This includes responding to the challenges of an economy in transition, by ensuring we create the conditions for sustainable and rewarding jobs to be created by private enterprise, as well as an employment relations system that is fair for both employers and employees.

1.57 The government has set out to create two million jobs in the next decade, with one million new jobs in the next five years. This target is ambitious, but possible - should the opposition overcome its unwillingness to assist.

1.58 We need the red tape that constrains private enterprise to be removed to encourage the creation of new jobs in new areas. We need the shackles of the carbon and mining taxes to be lifted, so that the resources, manufacturing and industrial sectors can be revitalised.

1.59 Most importantly, we need to build confidence in Australia's economy by the government living within its means, working to drive efficiency and reduce the deficit.

Labour market conditions

1.60 Currently, Australia has the worst unemployment statistics for a decade. This is due to a number of factors, including the high dollar and terms of trade. However, it is also a legacy of the job-destroying Gillard/Rudd Labor government.

1.61 The Treasury has clearly stated to the government that the employment market consistently reflects a six-month lag behind wider economic factors, including government policy.²² The current government has inherited the

20 The Hon Kevin Andrews MP, 'Welfare system', ABC AM Transcript, 21 January 2014, available from: <http://kevinandrews.dss.gov.au/transcripts/41> (Accessed 18 March 2014); ; Jonathan Swan, 'Social Services Minister Kevin Andrews signals overhaul of welfare system', *Sydney Morning Herald*, 21 January 2014; for the report cited, see Department of Human Services, *Statistical Paper no. 11: Income support customers: a statistical overview 2012*, p. 2 at www.dss.gov.au/about-the-department/publications-articles/research-publications/statistical-paper-series (accessed 17 March 2013);

21 Jonathan Swan and Dan Harrison, 'welfare overhaul excludes aged, family and parental benefits', *Canberra Times*, 22 January 2014, p. 1.

22 Dr David Gruen, *Senate Economics Legislation Committee Hansard*, 26 February 2014, pp 24-25.

employment conditions we are seeing now from the previous government's economic policy.

1.62 Through its mismanagement of the economy, the last government created uncertainty for the private sector and provided no security for the business community. The Labor-Green carbon tax is an \$8 billion a year tax on electricity. Labor's arbitrary decision to change FBT rules for cars caused damage in the automotive industry, just as their knee-jerk announcement to halt live animal exports damaged Australia's livestock export industries. The Coalition government is committed to improving this situation.

Wages growth

1.63 The opposition claims that wages growth is slow and productivity is above trend. However, this committee has received evidence that suggests this is not the case.

1.64 Dr Peter Burn, Director, Public Policy, Australian Industry Group, told the committee that wages growth was around the historical trend, but that a 'killer statistic' was our rising unit labour costs:

The nominal wages growth has been well within historical bounds in the last decade. The disturbing thing however is that, in a comparative sense, our unit labour costs have risen very fast. So we have looked at a comparison of 19 OECD economies and our labour costs per hour are among the fastest in that 19 and our labour productivity is among the slowest. The combination of those things means that our unit labour costs have risen the fastest of that sample of 19 countries over the last decade.²³

1.65 It is clear that we need greater productivity across the board, including through the workplace relations system. The government has committed to a review of the industrial relations system to be undertaken by the Productivity Commission.

1.66 The Minister for Employment, Senator the Hon. Eric Abetz has stated that this will not consider the penalty rates system, which is a matter for the Fair Work Commission.²⁴ It is irresponsible scaremongering that the opposition has suggested otherwise.

Job losses in the public sector

1.67 The committee majority seems to have conveniently forgotten that Labor had a plan to reduce public service jobs and we are seeing the effect of those cuts

23 *Proof Committee Hansard*, 13 March 2014, p. 51.

24 Jonathan Swan, Anna Patty and James Massola, 'Eric Abetz promises penalty rate changes will only come from Fair Work umpire', *Sydney Morning Herald* 7 March 2014, at www.smh.com.au/federal-politics/political-news/eric-abetz-promises-penalty-rate-changes-will-only-come-from-fair-work-umpire-20140307-34c50.html#ixzz2yH5e695e (accessed 7 April 2014).

now. The committee majority is also glossing over the fact that Labor not only kept but increased the efficiency dividend for the public service.

1.68 The previous government had previously increased the efficiency dividend a number of times, including over the forward estimates period (as shown in the table below). In 2012-13 the efficiency dividend reached a historic high of 4.0%.

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Annual ED	1.25	1.25	1.25	1.25	1.25	1.50	1.50	1.25	2.25	2.25	2.25
One-off ED	-	*	2.00	-	-	-	2.50	-	-	-	-

* The then Government announced a 2 per cent one-off ED during 2007-08. A pro-rata adjustment of the one-off ED was applied for part of the 2007-08 year, with the full year impact of 2 per cent applied in 2008-09.

1.69 In their final days in office Labor cut agency budgets, but were not transparent about the number of jobs that would be lost. Department of Finance advice provided to the Coalition government after the election revealed that Labor's policy settings and measures are expected to result in around 14,500 total job cuts across the public service, as set out in the table below.

Number of staffing reductions from legacy Labor decisions

	2013-14	2014-15	2015-16	2016-17	Total
2013-14 Budget estimates forecast decrease (terminating programs)	1,262	7,192	-925	1,290	8,819
Additional efficiency dividend (increase to 2.25% over three years saving \$1.8 billion over the forward estimates)	-	1,372	1,628	1,808	4,808
More efficient management structures (Redundancies for executive level staff from EL1s to SES)	170	338	338	-	846
Total staff reductions	1,432	8,902	1,041	3,098	14,473

1.70 The secret job cuts of the Labor Government forced a large number of departments and agencies to offer voluntary redundancies. But Labor only made a financial provision for only around 800 of these payouts and this has forced some agencies into operating losses. Further, the Labor job cuts were untargeted decisions, making no distinction between higher or lower priority areas of government activity.

1.71 By contrast to Labor's clandestine cuts, the Coalition took a transparent commitment to the 2013 election to reduce the headcount in the public service through natural attrition.

1.72 In MYEFO the government modified its approach to take account of Labor's secret cuts of 14,500 positions in the Australian Public Service. The Coalition Government's approach to streamlining the public service is now subject to advice from the Commission of Audit on the proper shape and scope of government. The government has responsibly asked the Commission to ensure any staff changes were based on deliberate choices about priority areas, the proper functions of government and the opportunities to reform the way we can deliver services.²⁵

1.73 Labor's APS job cuts are timed to have their biggest impact in the 2014-15 financial year. This has required many agencies to undertake preparatory redundancy rounds and recruitment freezes during the 2013-14 year, to ensure their headcounts are brought down to the necessary entry level for July 2014. It is disingenuous of Labor Senators to now insinuate that recent cuts to public agencies all flow from Coalition decisions, or to disown their contribution to bringing about reductions in Australian Public Sector resourcing.

Conclusion

1.74 While Labor and the Greens remain in denial, this will not change the fact that serious budget issues must be addressed. Labor and the Greens have left a huge debt to repay and action must be taken now, so that future generations do not have to reap the consequences of Labor's irresponsibility.

1.75 Rather than review government spending, Labor and the Greens would have us keep borrowing and raising taxes. This is the easy choice with little immediate electoral pain - but it would leave an unconscionable and burdensome bill for future generations.

1.76 The Coalition believes the first step in addressing the budget emergency is to take a close look at government expenditure, rather than raising taxes for Australian families and businesses.

1.77 The government is taking its time to properly consider the commission's reports and its response. This is not unusual. There are difficult decisions to be made. The government has committed to releasing the reports and this will occur at the appropriate time.

25 Joint Media Release, Treasurer, Minister for Finance, Minister Assisting the Prime Minister for the Public Service 19 November 2013.

Senator David Bushby
Senator for Tasmania

Senator Dean Smith
Senator for Western Australia

Senator Sean Edwards
Senator for South Australia

APPENDIX 1

Summary of income support recipients 2002-2012¹

Table 1: Summary of income support recipients by payment type, 2002 to 2012

Payment type	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Age Pension (incl. Dept of Veterans' Affairs Age Pensions) ^(a)	1,818,205	1,861,055	1,876,250	1,915,036	1,922,129	1,952,686	2,039,305	2,117,530	2,158,303	2,225,127	2,282,592
Disability Support Pension	658,915	673,334	696,742	706,782	712,163	714,156	732,367	757,118	792,581	818,850	827,460
Sickness Allowance	9,540	8,755	8,478	8,367	7,573	7,624	7,437	6,968	6,703	6,705	7,150
Widow B Pension	5,130	2,986	1,879	859	775	732	683	637	600	566	531
Wife Pension (partner receives Age Pension) ^(a)	23,730	20,230	19,646	16,946	16,254	14,045	13,395	11,590	10,873	9,333	9,117
Wife Pension (partner receives Disability Support Pension)	44,238	37,880	33,183	28,144	24,627	21,228	18,555	15,847	13,782	11,882	10,200
Carer Payment	67,260	75,937	84,082	95,446	105,058	116,614	130,657	146,870	168,913	186,065	205,565
Austudy	41,187	38,779	35,026	31,174	27,728	27,869	28,776	34,175	37,342	39,213	41,042
ABSTUDY	46,255	47,028	46,555	45,629	35,045	34,489	33,776	34,612	36,308	37,107	35,942
Youth Allowance (student)	313,068	304,946	297,140	285,383	271,408	264,008	256,634	278,664	297,023	325,224	271,472
Youth Allowance (other)	90,339	87,486	84,665	79,573	76,276	68,698	64,907	82,907	88,459	85,972	83,802
Newstart Allowance	554,821	512,332	483,093	453,614	437,667	417,793	399,401	520,194	553,893	527,480	549,773
Partner Allowance	102,330	102,811	90,936	71,615	59,800	45,988	38,456	29,369	24,054	17,147	13,945
Mature Age Allowance ^(a)	40,132	41,078	32,912	20,877	11,697	5,032	754	-	-	-	-
Widow Allowance	41,277	43,209	45,328	44,329	44,385	40,247	39,131	36,086	33,886	29,341	28,935
Parenting Payment (Single)	427,846	436,958	449,312	450,811	432,958	395,495	360,633	344,096	333,512	326,248	319,582
Parenting Payment (Partnered)	191,576	181,405	177,157	167,272	158,814	144,427	125,922	129,365	124,910	117,754	114,342
Special Benefit	13,091	12,228	11,216	9,408	6,841	6,244	6,003	5,809	6,307	6,385	5,828
DVA service pension and income support supplement	370,721	368,572	341,020	344,311	312,571	295,033	285,089	271,546	256,826	241,338	226,045
Total	4,859,661	4,857,009	4,814,620	4,775,556	4,663,769	4,572,408	4,581,881	4,823,383	4,944,275	5,011,737	5,033,323

(a) For some years, Wife (Age) Pensions paid through the Department of Veterans' Affairs (DVA) are captured in Age Pension figures.

(b) Mature Age Allowance was closed to new claimants in September 2003 and there are no recipients of Mature Age Allowance from 2009.

Notes: This is not a complete list of social security income support payments. Numbers represent the recipients 'current' at a point in time (excludes suspended recipients). '-' = not applicable.

Source: DHS and DVA administrative data.

1 Department of Human Services, *Statistical Paper no. 11: Income support customers: a statistical overview 2012*, p. 2 at www.dss.gov.au/about-the-department/publications-articles/research-publications/statistical-paper-series (accessed 17 March 2013).

APPENDIX 2

Commonwealth Government employment – tracked job cuts CPSU 17 March 2014

Agency	Job cuts
Agriculture	
Department of Agriculture - 2013	220
Attorney-General's	
Attorney-General's Department - 2013	Unknown
National Archives of Australia	Unknown
Communications	
Department of Communications - 2014	125
Environment	
Climate Change Authority - 2013	35
Department of Environment - 2013	140
Defence	
Department of Defence - 2013	110
Social Services	
Department of Social Services - 2013	Unknown
Finance	
Department of Finance - 2013	63
Foreign Affairs and Trade	
AusAID - 2013	38
Health	
Department of Health - 2013	350
Food Standards Australia and New Zealand - 2014	12
Human Services	
Department of Human Services - 2013	1256
Immigration and Border Protection	
Australian Customs and Border Protection - 2013	600
Industry	
CSIRO - 2013	300
Geoscience Australia - 2014	140
Department of Industry - 2013	55
Prime Minister and Cabinet	
Department of Prime Minister and Cabinet - 2013	Unknown

Treasury	
Australian Consumer and Competition Commission - 2014	60
Department of Treasury - 2013	Unknown
Australian Bureau of Statistics - 2014	100
Productivity Commission - 2013	Unknown
Australian Taxation Office - 2014	900
Australian Valuation Office - 2014	200
Other	
Graduate and Indigenous Recruitment - 2013	347
2013/14 TOTALS	5051