National Tertiary Education Industry Union

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NTEU Submission

to the

Inquiry into the Abbott Government's Commission of Audit

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The National Tertiary Education Union (NTEU) directly represents the professional and industrial interests of 28,000 staff working in higher education, including staff in Australia's universities and research institutes. On behalf of our members, we welcome the opportunity to provide a submission to the Inquiry into the Abbott Government's Commission of Audit.

However, we have some difficulty in addressing the Terms of Reference for this Inquiry, given the absence of any recommendations from the Commission of Audit at this stage. Indeed, the Commission appears to be going to considerable lengths to avoid any discussion in relation to its work or scrutiny regarding process. It is also remarkable that the recommendations of the first and second phases of the Audit will not be publicly released, and that the first the public will hear of any recommendations is likely to be on Budget night.

The difficulty in addressing what the Commission may, or may not recommend, is compounded further with the absence of an issues paper, which could have been published as a precursor to the Audit. Instead, a broad based Terms of Reference (ToR) are all that is offered. These stipulate that the Commission is to review the scope, efficiency, size and functions of the Commonwealth Government and, where appropriate, recommend cuts to jobs, services and outsourcing opportunities. It is hardly a blueprint to encourage public engagement, but rather reads as a 'to do' list from the Government.

From the ToR we also understood the Commission has been tasked with reviewing the Federal Government's relationship with state and local government. While it is clear that the Audit is a whole of Government review and intended to provide vital advice on future public services and spending, it is not clear whether any areas are being targeted. It is also unclear as to what extent expenditure cuts expected to contribute to the overall target of achieving a budget surplus of 1% of GDP prior to 2024.

Leaving aside the current work of the Commission, however, we are able to comment on the review process, the structure of the Commission, and voice some concerns around other submissions.

Transparency and Structure

The appointment of three external pro-business, non-government advisers as Audit commissioners, and the exclusion of representatives from unions or community organisations, raises questions over both the transparency and balance of the Commission of Audit. It does nothing to allay fears that the Commission is a political mechanism for the mass privatisation of public services.

The NTEU's strong view is that the process would have been more transparent and accountable with the establishment of a Parliamentary Committee or, at the very least, if the Commission of Audit included members of Parliament. Given the potential impact of the Commission's recommendations to Federal Government funding across the board, there should have been the inclusion of Commission member's representative of a broader segment of the Australian community.

Commission's Terms of Reference (ToR)

The ToR for the Audit are problematic in that they are based on the assumption that the Commonwealth Government has expanded exponentially over the last 20 years; yet Commonwealth revenues as a percentage of GDP are lower than in 1996-97, the time of the last Commission of Audit. Furthermore, expenditure as a share of GDP is only 0.2 percentage points higher than in 1996-97, showing that the size of government (if measured by government expenditure) has remained relatively stable. In fact, Australian Governments, when taken together, are smaller as a share of the economy than the governments of almost all the other advanced economies (OECD Economic Outlook, 2013).

Other misleading elements with the ToR include the assertion by the Government that there is a budgetary emergency. This claim has been countered by a number of individuals and organisations in their submissions to the Commission. The ACTU's submission well encapsulates the evidence based argument against this claim. In short, their data shows that:

- The debt accumulated by implementing fiscal stimulus (as a buffer to the Global Financial Crisis) is modest, appropriate and far preferable to the alternative of higher unemployment.
- Already implemented policy changes, such as the 2 percent efficiency dividend across the public service and budgetary savings, have resulted in significant progress in tightening fiscal policy. However, more rapid and deep set cuts would reduce growth and harm employment;
- The Commission has been asked to make recommendations to achieve a surplus of 1 percent of GDP by 2023. Projections by the BCA and Treasury already have us on

track to meet this target based on current policy settings. This target cannot be used to justify large short-run cuts to spending;

NTEU strongly supports the argument put forward by ACTU and others that, to the extent that Australia has a fiscal policy challenge, it is related to insufficient revenue not excessive expenditure, and thus it is a medium-long term challenge, not one suited to short-term solutions. Indeed, the ToR for the Commission would have been of better strategic use to the Government if the focus of the Commission had been on addressing questions of the revenue in the medium to long term.

We note that concerns over the impact of the Government's agenda to drastically cut spending has also been voiced by the OECD, who have stated that this is the worst time to cut public expenditure and services as the Australia economy is in transition and is thus fragile. (see http://www.oecd.org/economy/australiaeconomicforecastsummary.htm).

Issues around the Promotion of the Privatisation of Public Services and Assets

The ToR also strongly advocate that the Commission identifies public services that could be privatised. However, there is no discussion on the merits of privatisation, or evidence to show that privatisation is beneficial in terms of access and quality of service. Indeed, considerable research has emerged to show the opposite occurs; research on the recent policy experiment in the UK (the so-called Big Society initiative) has found that the Cameron government's wide spread privatisation of public services created a race to the bottom in driving down labor costs, conditions of employment and quality of service. (TUK, 2010)

In the Centre for Policy Development's 2012 discussion paper *Whatever happened to the Big Society* (Eliot, 2012), it was reported that a wide variety of unintended consequences and negative outcomes arose as a direct result of the Cameron government's privatisation policy. Contrary to the stated intent of the policy, instead of putting an end to government waste and red-tape, there are multiple examples of profiteering by the few large companies that have had a monopoly on the provision of public services, coupled with growing evidence of substandard service delivery by outsourced providers. Furthermore, with more than 60,000 public servants having lost their jobs, the financial status of households has worsened, and income inequality has continued to grow. The report lists the consequences of the pairing of austerity measures (reduced government spending) with the privatisation agenda, in what is a depressing list of undesirable outcomes especially for the most vulnerable:

- *Volunteerism has decreased.*
- *Social investment and enterprise remain small with extremely slow growth.*
- *Homelessness in England jumped by 14% in a year.*
- *Financial status has worsened for UK households while income inequality has grown.*
- *Mental health services were cut while Mental Health Act detentions rose - reaching the highest levels ever recorded.*
- *Examples of substandard service delivery by outsourced providers, notably large private companies such as Serco, G4S and A4e, continue to emerge.*
- *Nine in ten community sector and charity providers report they are more at risk under Big Society outsourcing regimes.*
- *The civil service has been reduced by more than 60,000 a 12% reduction, in the absence of any kind of work force planning for public services as a whole.*
- *Local authorities, particularly councils led by the Conservative Party, have turned to large scale privatisation, purportedly to save council funds.*
- *Changes in the National Health Service have limited accountability, damaged continuity of care and lifted restrictions on user fees, yet increased bureaucracy and costs. (Elliot 2012).*

In Australia, privatisation is a politically contentious endeavour - while big business and various governments have been strong advocates, the public remains sceptical largely due to their own experiences. To illustrate, the privatisation of electricity assets in the late 1980s and early 1990s was promoted by government and businesses as leading to a more productive and efficient industry and lower prices for consumers.

In Victoria, the Kennett government espoused this philosophy and sold its electricity assets. Despite this, a report released in April 2013 by the Australia Institute entitled *Electricity and privatisation: what happened to those promises?* found that electricity prices in Victoria actually increased, in step with non-privatised States since 1990. Other research that delved deeper, however, found that for some consumers, the cost of electricity was higher than in other states. A study focusing on the privatisation of Victoria's electricity industry (Cahill and Beder, 2005) cited evidence that showed prices in Victoria increased up to 175% for "off-peak" periods leading to some consumers – such as farmers who employ electricity-intensive activities during off-peak periods – to experience significantly high price increases.

Indeed, for government, the benefits of privatisation would appear to be more focused on improving the budget balance. While the sales of assets are pitched as a way to reduce debt and perhaps use the proceeds to build other needed infrastructure, evidence is that this is more the promise than the reality. A paper by economist John Quiggin entitled *Electricity privatisation in Queensland*, (Quiggin, 2013) noted that such increased infrastructure spending did not occur in Queensland under the Bligh government, despite nearly $10 billion in sales of government-owned assets.

The argument for privatisation as a mechanism to improve the government's budget position relies on proceeds from the sale exceeding the net present value of proceeds that would have been produced through annual dividends to the government. However, any asset that falls into this category may also lead business to question the profitability of buying into it in the first place.

A further issue lies in the potential private ownership of 'natural monopolies' in which essential services such as electricity, water, airports, ports (to name a few) are controlled by a few suppliers, with the primary motivation being profit to shareholders. Infrastructure Australia has itself warned of this issue (while still advocating the sale of such assets), in a submission to the Productivity Commission's Inquiry into Public Infrastructure (entitled *Part of the Answer to Removing the Infrastructure Deficit*, 2013) stating that *"...many economic infrastructure assets have monopoly characteristics which could potentially enable their owners to misuse their market power and earn monopoly profits*" (IA, 2013: 36). While an effective regulatory environment may act to counter any 'monopoly' like behaviour, such regulation almost immediately comes under pressure to be weakened by the same people who were advocating the initial privatisation, including the buyers.

Finally, the privatisation of public assets and services is generally not viewed positively by the public, who see it as leading to job cuts, higher prices and profits going to shareholders, rather than the ongoing provision of services. Reports of the submission to the Commission of Audit by Industry Super Australia (http://www.theaustralian.com.au/national-affairs/push-for-super-billions-to-buy-up-public-assets/story-fn59niix-1226797692332_) cite polling by Newspoll (2013) that found community support for privatisation was 13% when an asset was sold to 'short term investors' (such as investment banks) or overseas buyers (although this rose to 75% if the new owner was a superannuation fund). It is clear, therefore, that the public is highly dubious on the benefits of privatisation – particularly if the profits are seen to be 'disappearing' overseas.

Timing of the Audit

The time line allocated for the audit is also of concern. The wide-ranging, whole of Government Audit, tasked with reviewing some $350billion worth in expenditure, the employment of tens of thousands of Australians nationally, and complex multi level government financial and regulatory arrangements, has less than five months to produce its two reports. This timeline means that it is impossible for the Commission to use an evidence-based approach, or to be able to take the full measure of the task at hand. Instead, it risks working to a preconceived, politically nuanced 'to do' list, with short term, quick fix budgetary solutions as the outcome. The NTEU strongly agrees with the view that the Commission should refrain from making recommendations on issues that require a long-term focus and consensus with social partners (ACTU, 2013).

Given the short time allocated for public consultation, the first phase report from the Commission should be made publicly available to allow public discussion and debate around the recommendations of the Commission and the potential impact on public services.

We note that other sector organisations and groups with an interest in higher education have made submissions to the Commission of Audit. In an unusual move, the Commission has elected to not publically release the 300 or so submissions it has received; and whilst the majority of the major organisations in the sector (including the NTEU) have done so regardless, others such as the Business Council of Australia (BCA) (noting that the Commission chairman is BCA President, and the Commission secretariat is headed by the BCA's director of policy, Peter Crone) have not. This is a deviation from standard practice in a general government inquiry, where usually organisations and individuals must request that their submissions be kept anonymous or confidential. Thus, the decision to *not* make submissions publicly available, as the default position, adds to already serious concerns over the Audit's transparency and potential conflicts of interest of the Commission members.

Issues around Higher Education

Leaving aside concerns regarding the structure, timing and intent of the Commission of Audit, a further note on our submission should be made. NTEU's submission (attached) was framed by the current global agenda, where innovation policy and strategy are a central tenet of economic policy-making, and where national strategies have become critical in fostering an environment for economic growth and progress. Our submission argues that higher education is now part of the larger web of public investment in research and science. Education is Australia's largest services export, generating $15.0billion of export income in 2012. We highlight that government expenditure on education, and higher education and research in particular, is a multifaceted investment in human capital that widens workforce participation, employability, productivity growth and the post tax earnings of individuals, as well as increasing the stock of knowledge in Australia. This in turn results in innovation spill-overs to industry through the commercialisation of new technologies, and underwriting the depth and diversity of Australian research capability, particularly in those areas where it is unlikely that industry has the capacity or inclination to invest. Our submission argues that these benefits underpin the rationale for, and value of, public investment in higher education, and that these broad based parameters should guide any evaluation of the efficiency and effectiveness of government expenditure in higher education.

We note that some other submissions (and recent discussion papers that may be reviewed by the Commission) have made specific recommendations regarding higher education. While NTEU would prefer to comment on the Commission of Audit only (and leave aside the recommendations of other organisations and lobbyists) we do feel that we should comment on the Business Council of Australia's (BCA) pre-election discussion paper (*Economic Action Plan for Enduring Prosperity*, 2013), as there is a clear link between its authors and members of the Commission.

The BCA's paper makes 93 recommendations relating to higher education and research. These include deregulating university fees, increasing Commonwealth oversight of vocational education, subsidising vocational students at the same level as university students, and harmonising intellectual property arrangements in publicly funded research.

While NTEU welcomes broader community discussion regarding the role and public funding of our universities and TAFEs, it should be one that takes into account the diversity of the tertiary sector and gives ample opportunity for all views to be considered and discussed. Certain tenets of higher education – such as intellectual freedom, institutional autonomy, student access and equity, and quality of teaching and research – must be considered paramount. It is the strong view of the NTEU that given the limited time for consultation for the Audit and the lack of transparency in terms of both process and the Commission's reporting, any decisions to introduce broad and sweeping changes to higher education, without adequate consultation, would be ill advised. The sector has undergone a raft of structural and funding changes in a short time period, and further changes, of the magnitude suggested by the BCA's discussion paper, risks destabilizing the sector and may damage the standing and reputation of Australian universities internationally.

Conclusion

Whilst our submission to the Commission focused primarily on higher education and research, we argued that the broad impact of public expenditure should be considered when determining the value of any public service, be it in education, health, welfare, defence, quarantine, climate, policing, human services, local government, etc. The NTEU shares a widespread concern that the Commission of Audit's predominant focus on cost cutting and privatisation, together with the absence of a community representative from civil society or from the trade unions, risks that the Commission will miss the broader, yet important, benefits bought via public investment. Furthermore, we have great concerns over the Commission of Audit process and the political motives underpinning it. This risks not being a 'whole of Government review' but instead a mechanism by which a pro-big business, anti-government privatisation agenda can be pursued. We have little faith in the integrity of the Commission of Audit, and the secrecy around its process and decision making does little to counter our deep concerns.