

## **ACT Government submission to the Select Committee into the Abbott Government's Commission of Audit**

The ACT Government welcomes the Senate's Select Committee into the Abbott Government's Commission of Audit and hopes that its findings and recommendations prove practical and useful to the Commonwealth Government as it considers the outcomes of the Commission of Audit.

The ACT supports the Commonwealth Government's stated objective of recognising and respecting jurisdictions' sovereignty, and removing unnecessary duplication and administrative overlap.

It is true that there has been widespread fear and concern that the Commission of Audit's recommendations if implemented may result in a large reduction in services, commensurate job losses and potential cost shifting to citizens or states and territories governments (the states).

As Chief Minister, I have discussed my concerns directly with the Prime Minister and other senior Cabinet Ministers. Further the ACT Government has provided a submission to the Commission of Audit.

In this submission to the Senate Inquiry, I wish to address terms of reference 1 d, f and k – specifically the effects of proposed cuts to the ACT and region's economy and community; the importance of recognising the role of Canberra as a regional service provider; and the need for a sensible approach to the separate roles and responsibilities of the Commonwealth and the states.

### **Effects of downsizing of the Australian Public Service**

The Commonwealth's election commitment to reduce the Australian Public Service (APS) by approximately 12,000 jobs has already affected many members of our community. Contract positions have not been renewed and many people have taken redundancies and other incentives to leave the APS. For those that remain, uncertainty around the Commission's outcomes has created concern in the community. This is evidence in the ACT's dampened consumer and business confidence.

The Prime Minister's commitment to realise these job losses through natural attrition has relieved some pressure felt within the community, but created a rift in many departments between 'permanent' and 'contract staff'. The effect to our economy is further dampening of consumer confidence.

Any large scale downsizing of the APS is likely to have disproportionate impact on the Territory. It is reasonable to expect that:

- APS job losses be based on the findings of the Commission of Audit and identified inefficiencies, rather than being coupled with continuation of ongoing non-specified reductions.
- Losses be shared across jurisdictions and the rate of attrition be contained to minimise damage to the ACT and surrounding region's economy.
- The approach to reductions in staffing not be based on achieving set targets, but rather on delivering a more streamlined public service that is still sufficiently skilled and able to deliver public policy and services.

- Job losses be managed sensitively. There is already a significant impact on many Canberrans facing job insecurity and the Commission should make its findings known as soon as possible. Staff should be simultaneously told of means for accessing opportunities for redeployment and/or retraining opportunities.

### **Regional service provision**

In formulating its recommendations, the ACT has called upon the Commission to consider how regional service hubs could be better recognised under Commonwealth-state funding arrangements recognising:

- A higher priority should be assigned by governments to appropriately account for cross-border service impacts. In this context, we are working on better data and evidence, greater collaboration on service planning, and development of effective cost recovery mechanisms with NSW.
- The need for short and long term land-use and settlement planning, as well as infrastructure and service impacts, in the context of cross-border land developments.
- The importance of identifying strengths and opportunities from regional approaches — whether in shared approaches to services or strategies for economic development.
- A collaborative Commonwealth-state approach to the funding of public transport improvements in major centres.
- A continuing Commonwealth-state approach to the funding and regulation of road infrastructure.

### **Roles and responsibilities**

The ACT supports the Commonwealth Government's objective of recognising and respecting jurisdictions' sovereignty, and removing unnecessary duplication and administrative overlap. The states have shown themselves to be effective governing bodies, capable of delivering a diverse range of quality services to meet the needs of their communities.

In more clearly defining the roles and responsibilities of the two tiers of government, Commonwealth funding to the states will require further consideration. To the extent fiscal transfers continue from the Commonwealth to the states, the federal financial relations framework promotes contested policy space.

The Commission's terms of reference charge it with making recommendations to achieve savings sufficient to deliver a surplus of one per cent of GDP by 2023-24. Given the ten-year objective, the Commission's recommendations should allow for a phasing-in of savings measures over this period to support stakeholders through the transition and avoid large shocks.

The ACT has also asked that the Commission consider the impacts its recommendations may have on the Territory. Commonwealth efforts to reduce or contain contested policy spaces will have a marked impact on employment in the Territory, given the significance of the APS as an employer.

The Commonwealth/state interface is complex. Policy determination relating to many areas of state responsibility, such as health and education, remains subject to continued negotiation between the two (and sometimes three) tiers of government:

- states set policies in line with local expectations and community needs for services

- the Commonwealth sets a national agenda, at times with little consultation.

This is problematic and can result in conflicting policy agendas delivering poor value for money. The current federal financial arrangements introduced in 2008 made a concerted attempt to address these problems. However, there has been a continuing drift away from the principles of the *Intergovernmental Agreement on Federal Financial Relations* (IGA FFR) since that time, resulting in the perpetuation of:

- blurred roles and responsibilities;
- duplication and overlap of administration;
- higher transaction costs due to lengthy negotiations, consultations and reporting;
- avenues for cost-shifting; and
- a continuing focus on inputs and reporting of activity rather than outcomes – contrary to the explicit intent of the 2008 reforms.

The ACT supports eliminating duplication and overlap across government. As far as practicable, governments should operate at their 'natural' levels; that is, policy oversight for issues agreed to be national should take place at the Commonwealth level; and policy oversight for regional and local issues should be handled by state governments.

Service delivery should be devolved to the level of government closest to the ultimate clients to allow programs to be tailored to meet community needs.

Major changes in roles and responsibilities will not, and cannot, occur without a commensurate change in financial relations. Vertical fiscal imbalance is at the core of the federation, with states lacking the revenue capacity to fully fund their responsibilities.

- In the quest to eliminate duplication, inevitably the level of government left with full program responsibility will experience some cost shift from the other. This may require fiscal transfers to ensure service delivery is not unintentionally affected. Likewise, there are growing fiscal pressures on all levels of government, and where one level of government exits a space this may necessitate an overall reduction in services.
- National integrated funding models, which are intrinsically fairer and give more predictability and financial stability for governments and service providers, should be used more widely, but should not be used as a vehicle for the Commonwealth to take over areas of state responsibility.
- The Commonwealth should also be mindful of the longer term ramifications of shifting funding between sectors to fund reforms. For example, the national education reforms were partly funded through cuts in funding to the higher education sector - meaning improved student outcomes in the early years come at the expense of access to tertiary education later in life.

In formulating its recommendations on reducing duplication and overlap, the Commission should take into account the potential impacts on the ability of governments to maintain or improve current service standards. In so doing, it should also have regard to the extent to which a focus on jurisdictional boundaries can produce perverse outcomes within cross border communities.

Fiscal capabilities of the states, and thus, the roles governments can effectively perform are also linked to funding shared between jurisdictions – not just that received from the Commonwealth.

Horizontal fiscal equalisation continues to be the subject of misleading claims by resource-rich states crying poor, arguing they should not have to pay their way.

The difficulties created by the resources boom on the resource-poor states, through a high Australian dollar and wage pressures, are well documented.

Where a state receives significant financial gains through royalties or other revenue sources, it makes sense for that jurisdiction to receive less GST, to level the playing field. But it goes deeper than that. At the very heart of Australia's social fabric is the concept of equity.

The ACT has urged any consideration of roles and responsibilities should be mindful of the impact a move away from an equitable sharing of funding horizontally (as well as vertically) may have.

### **Reducing red tape in intergovernmental financial relations (IGA FFR)**

The 2008 federal financial relations reforms and the signing of the IGA FFR was designed to reduce the prescriptive and detailed approach to administering funds at the Commonwealth level.

However, the approach to developing agreements under the IGA FFR taken by the previous Commonwealth Government increasingly diverged from the principles of the IGA. This has led to resource-intensive reporting and a proliferation of intergovernmental bodies and agreements. Since 2008 we have seen 125 national partnership agreements settled and the formation of four to five new intergovernmental bodies each year.

Over-prescription means there is a lack of flexibility to deliver services in a way that meets local needs. Funding is instead used to meet accountability mechanisms rather than deliver services. This is compounded by the cycle of more reporting leading to more bureaucracy to review and assess that reporting, and so the problem perpetuates.

The original intent of the IGA FFR was to provide certainty and stability for states in their budget planning and certainty and stability for service providers (both government and community service organisations).

In clarifying roles and responsibilities it is timely to return to the objective of the federal financial relations framework to improve the quality and effectiveness of government services. The framework sought to do this by: providing clarity about who is responsible for the delivery of services; flexibility in the delivery of services; increased accountability to the public; and incentives for reform.

Ms Katy Gallagher MLA  
ACT Chief Minister

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