

# Government senators' dissenting report

## Introduction

1.1 The Coalition government was elected with a mandate to bring the budget under control and end Labor's reckless spending. The government is committed to living within its means and the National Commission of Audit (commission) is a key element of this election commitment.

1.2 The commission is charged with conducting an important and urgent review of the scope, efficiency and functions of the Commonwealth government. The work of the commission will form a critical part of the 2014-15 budget process.

1.3 Government senators further believe that the committee majority has, for its own political reasons, wilfully misrepresented the nature of the National Commission of Audit's work. It is important to recognise from the outset that while the commission will make recommendations to government, decisions will ultimately be made by government, not the commission.

1.4 Further, all of the government's decisions will be subject to the full range of mechanisms for parliamentary scrutiny and, ultimately, democratic accountability through the ballot box.

1.5 Additionally, Government Senators are concerned that the majority report implies that the Abbott Government's Commission of Audit is unusual or unprecedented. This is not the case. There are precedents at both state and federal level for this type of body to be used to provide advice to governments.

1.6 Government senators believe that the committee majority fail to appreciate the importance of the commission's task and the necessity of the time constraints on the commission. Government senators strongly reject the assertions, conclusions and recommendations in the majority report.

## There is a need to act quickly

1.7 The majority report recommends that the government adopt a longer timeframe for the commission to complete its work. Government senators strongly disagree with this recommendation. The government must live within its means, so addressing the budget deficit is a matter of urgency.

1.8 Witnesses highlighted the importance of the work of the commission. For example, Dr Peter Burn, Director of Public Policy at the Australian Industry Group, stated:

[The work of the commission] is a very important task, and it is worth emphasising that it would be important regardless of the current position of the budget. It is perhaps most important in the context of longer term public finances in view of the accumulated impacts that demographic forces and

rising health expenditures could have on Australia's public finances over coming decades.<sup>1</sup>

1.9 Ms Maria Tarrant, Deputy Chief Executive of the Business Council of Australia (BCA), noted:

From the perspective of the BCA, one of the important first steps to ensuring the right fiscal settings for the long-term growth and prosperity of all Australians is the undertaking of a commission of audit...

The National Commission of Audit has the potential to provide government with the advice it needs to put Australia on fiscal footings which can help restore growth and build community and business confidence.<sup>2</sup>

1.10 Government senators disagree with the observation that allowing the Commonwealth budget to continue in deficit has only 'political', as opposed to 'economic', consequences.<sup>3</sup> As the chair of the commission, Mr Tony Shepherd AO, pointed out:

Australia faces the challenges of an ageing population, poor productivity performance, a persistently high Australian dollar, high energy costs, heavy reliance on the resource sector, and a volatile global political and economic outlook. We are facing the sixth year in a row of budget deficits. Without action, deficits are in prospect for many years to come. This situation is not going to fix itself. *The Magic Pudding* is a fable. Unless we fix this problem now, we will consign to our children and their children a legacy of unsustainable largesse.<sup>4</sup>

1.11 Dr John Daley, a public policy expert, echoed Mr Shepherd's call for action on the structural budget deficit:

Australian governments need to make tough choices to balance their budgets. They have run structural deficits for the last seven years and now face a decade of deficits the result of big-ticket spending initiatives, rising health costs, pressure on welfare budgets and an inevitable fall in the terms of trade. On current trends, we estimate that these will lead to deficits of four per cent of GDP—that is about \$60 billion in today's terms—within a decade. So we cannot put off tough choices indefinitely. Deficits mean that the next generation must pay interest and repay the debt for today's spending. Government budgets cannot simply grow out of trouble; solving the problem requires the hard work of structural budget reform.<sup>5</sup>

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1 *Proof Committee Hansard*, 5 February 2014, p. 32.

2 Ms Maria Tarrant, Deputy Chief Executive, Business Council of Australia, *Proof Committee Hansard*, 5 February 2014, p. 21.

3 Dr Richard Denniss, Executive Director of The Australia Institute, *Proof Committee Hansard*, 5 February 2014, p. 17.

4 *Proof Committee Hansard*, 15 January 2014, pp 1-2.

5 *Proof Committee Hansard*, 5 February 2014, p. 1.

1.12 Dr Daley argued that Australia has been 'running a very substantial budget deficit that is clearly not sustainable in the long run'.<sup>6</sup> He went on to explain the effect of budget deficits:

[R]unning budget deficits is in effect a form of borrowing from the future. What you are essentially saying is that future generations will pay more tax to pay for our spending today. There are obviously real issues in saying that we are happy as the current generation to say that the next generation is going to pay for what we are doing.<sup>7</sup>

1.13 Mr Jarrod Ball, Acting Chief Economist of the BCA, noted any decisions on fiscal consolidation in the short term are a matter of 'fiscal credibility':

In terms of fiscal credibility you can tend to make savings progressively over a period of time...but you also need to start to take those steps in the short term if you want to have credibility.<sup>8</sup>

1.14 Government senators are also alert to the importance of the Commonwealth budget being in a position of fiscal readiness to deal with external economic impacts, such as the global financial crisis in 2008. Dr Daley informed the committee that in the event of another significant financial crisis Australia is not in the strong position it was seven or eight years ago:

Obviously, we have got a material debt level and, obviously, we have a budget which is currently in deficit. You would much rather be going into a crisis with the reverse. I think we are in a position where we could deal with it. I think one of the arguments for dealing with our budget position now when, to be blunt, we do not face a crisis is precisely so that we will be in a better position if a crisis comes around. I think that is an important argument.<sup>9</sup>

1.15 Government senators note a recent International Monetary Fund (IMF) report has also referred to the need for timely decisions on cuts to government spending:

The government's aim to return the budget to surplus in the coming years will help rebuild fiscal buffers and increase the policy scope to deal with adverse shocks, but will be challenging in light of current social spending commitments. Cuts in projected spending and/or increased revenues are likely to be needed, and early decisions on policy changes required would help preserve policy flexibility.<sup>10</sup>

1.16 The IMF also referred to the importance of the work of the commission in this context:

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6 *Proof Committee Hansard*, 5 February 2014, p. 5.

7 *Proof Committee Hansard*, 5 February 2014, p. 6.

8 *Proof Committee Hansard*, 5 February 2014, p. 29.

9 *Proof Committee Hansard*, 5 February 2014, p. 6.

10 International Monetary Fund, *Australia: 2013 Article IV Consultation – Staff Report; Press Release and Statement by the Executive Director for Australia*, IMF Country Report No. 14/51, February 2014, p. 17.

To achieve the aim of returning to and maintaining a budget surplus, sizeable cuts in projected spending would be required. Important for this would be the recommendations of the National Commission of Audit's Review of the efficiency and effectiveness of expenditure and of spending pressures over the medium term.<sup>11</sup>

1.17 Government senators further note that former Labor Prime Ministers Bob Hawke and Paul Keating have urged speedy action be taken to address Australia's fiscal challenges.

1.18 Mr Hawke has said "You've got to have a prime minister and treasurer, and a competent ministry which understands the issue and is prepared to make hard decisions."<sup>12</sup>

1.19 For his part, Mr. Keating noted the imperative to "inform the public of the problem and then earnestly pursue the remedies."<sup>13</sup>

1.20 Despite the importance of the commission's work, the majority report argues that this work should be slowed down and drawn out. Government senators strongly disagree with that recommendation. The commission's work is a matter of urgency and that is reflected in the reporting timeframes.

### **The committee has delayed the commission's important work**

1.21 The establishment of this committee represents yet another deal between the Greens and Labor, with the aim of disrupting the important and urgent work of the commission. Unfortunately, the committee has indeed managed to affect the work of the commission and contributed to the two week delay for its interim report.

1.22 While condemning the tight reporting timeframe of the commission, the committee has disregarded a reasonable request from the chair of the commission, Mr Shepherd, to delay the first hearing held on 15 January 2014 until the first week of February. In correspondence to the committee, Mr Shepherd indicated the willingness of the commission to work constructively with the committee. However, the proposed hearing date of mid-January was at a time of peak workload for the commission, which was working towards the finalisation of its Phase 1 report by the end of January.<sup>14</sup> Despite this, the majority of the committee insisted that the hearing proceed on 15 January.

1.23 In addition, when Mr Shepherd noted he was willing to appear before the committee on 15 January, supported by the head of the commission secretariat, Mr Peter Crone, and a First Assistant Secretary from the commission secretariat,

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11 International Monetary Fund, *Australia: 2013 Article IV Consultation – Staff Report; Press Release and Statement by the Executive Director for Australia*, IMF Country Report No. 14/51, February 2014, p. 8.

12 *The Australian*, 'Hawke, Keating tell PM to slash spending', January 1 2014, p.1

13 *The Australian*, 'Hawke, Keating tell PM to slash spending', January 1 2014, p.1

14 See letter from Mr Tony Shepherd AO, commission chair, to Senator Richard Di Natale, committee chair, dated 14 January 2014.

Mr John Grant, the majority of the committee proceeded to call for the attendance of all the commissioners, despite the fact that the hearing was, by this stage, less than 48 hours away. As Mr Shepherd pointed out in his correspondence to the committee:

[A]ccount should be taken of the fact that Commissioners are not working on the Audit on a full time basis with many also having their own day-jobs. This, along with the fact that no Commissioners reside in Canberra and the relatively short notice period provided, will make it difficult to guarantee that all Commissioners will be available to attend.<sup>15</sup>

1.24 To this end, Government senators would like to extend their appreciation to all commissioners for making themselves available to attend the hearing on 15 January. Government senators believe that rather than preparing for, travelling to and attending the hearing the commissioner's should have been able to use that time to finalise the Phase 1 report. The proposal by Mr Shepherd, for the commission to appear in early February, would have made no difference to the committee's initial hearing which focussed on the commission's processes.

### **The commission is not an inquiry**

1.25 The majority report argues that the commission's processes lack transparency and that the audit is being conducted in secret. This characterisation fails to understand the nature of the commission's work, or the purpose for which it is established. As Mr Shepherd clearly reiterated during the hearing, the commission has been engaged by the government to produce a report and make recommendations to the government.<sup>16</sup>

1.26 The commission is not undertaking an inquiry.<sup>17</sup> The commission is not obliged to carry out its work through public consultation and debate on government spending. The commission is an independent panel with the specific task of reviewing government expenditure and reporting back to government with recommendations. It is for the government to decide which recommendations to adopt and when they have to be legislated.

1.27 While the commission is under no obligations to make any of its processes or consultations public, the Government senators commend the commission on its willingness to provide the committee with information about its processes and work. Government senators note that the commission has invited submissions from Premiers, Chief Ministers, federal department secretaries and heads of government agencies and other key stakeholders. The commission has received over 300 submissions from a wide spectrum of the community.<sup>18</sup> The commission has provided the committee with a list of those individuals and organisations which have made

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15 See letter from Mr Tony Shepherd AO, commission chair, to Senator Richard Di Natale, committee chair, dated 14 January 2014.

16 *Proof Committee Hansard*, 15 January 2014, pp 5, 9.

17 National Commission of Audit, Answers to questions on notice, received 31 January 2014, number 8.

18 Mr Tony Shepherd, *Proof Committee Hansard*, 15 January 2014, p. 2.

public submissions.<sup>19</sup> The commissioners and members of the secretariat have also held meetings with a wide range of people.<sup>20</sup>

### **A 1 per cent surplus of GDP by 2023-24**

1.28 The committee spent considerable time in the hearings questioning the inclusion in the commission's terms of reference to make recommendations to achieve savings sufficient to deliver a surplus of 1 per cent of GDP prior to 2023-24.

1.29 The committee heard evidence that a 1 per cent surplus of GDP has been achieved in the past.<sup>21</sup> Further, the commission and its secretariat, which includes a number of eminent economists, believe that a target of 1 per cent of GDP is and achievable and fair target.<sup>22</sup>

1.30 A number of witnesses also indicated that a 1 per cent surplus of GDP by 2023-24 is reasonable. Mr Ball, Acting Chief Economist of the BCA, told the committee, at this point in time, the target of a surplus of 1 per cent of GDP in 10 years' time seems reasonable.<sup>23</sup> Dr Burn agreed that, a surplus of 1 per cent of GDP in 10 years is achievable '[i]f it is done carefully and strategically'.<sup>24</sup>

1.31 Government senators note that the Commonwealth budget has had surpluses of 1 per cent, or more, of GDP previously, and evidence to the committee was that such a target was achievable. On this basis, Government senators believe that it is appropriate that the commission's terms of reference includes developing recommendations to deliver savings of a 1 per cent surplus of GDP by 2023-24.

### **Government is looking at tax through a separate process**

1.32 The majority report criticises the commission's terms of reference for focusing on government spending and not taking into account revenue. However, this argument ignores the government's broader policy agenda. The government has clearly set out its plans to develop a White Paper on tax reform during the first two years of government and seek a mandate for reform at the next election.<sup>25</sup>

1.33 Further, as Mr Shepherd explained:

[The commission] will deal, in some cases, with revenue issues, but we are cognisant of the fact that the government is intending to issue a white paper

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19 National Commission of Audit, Answers to questions on notice, received 31 January 2014, number 2.

20 Mr Tony Shepherd, *Proof Committee Hansard*, 15 January 2014, p. 2.

21 Mr Tony Shepherd, *Proof Committee Hansard*, 15 January 2014, p. 20.

22 Mr Tony Shepherd, *Proof Committee Hansard*, 15 January 2014, p. 25.

23 Mr Jarrod Ball, Acting Chief Economist, Business Council of Australia, *Proof Committee Hansard*, 5 February 2014, p. 29.

24 *Proof Committee Hansard*, 5 February 2014, p. 35.

25 See [www.liberal.org.au/lowering-company-tax](http://www.liberal.org.au/lowering-company-tax) (accessed 10 February 2014).

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on taxation. So, obviously, that would be a far better process for dealing with the revenue side of the equation.<sup>26</sup>

1.34 The government is committed to stabilising the budget in a methodical and measured manner. That work will start with the report and recommendations by the commission and will continue with the White Paper on tax reform.

### **Conclusion**

1.35 The Coalition government is committed to bringing the budget under control and stopping the wasteful government spending that was the hallmark of the Rudd/Gillard Labor governments. The government has tasked the commission with the job of reviewing government expenditure and identifying savings to bring the budget back to a 1 per cent surplus of GDP by 2023-24.

1.36 Government senators would urge the committee, in future, to allow the commission to continue with its important work without the committee placing unreasonable demands on its time or resources.

1.37 Government senators strongly support the establishment of the commission and believe that the commission's terms of reference are entirely appropriate.

**Senator David Bushby**  
**Senator for Tasmania**

**Senator Dean Smith**  
**Senator for Western Australia**

**Senator Sean Edwards**  
**Senator for South Australia**

