

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

10 – 11 February 2010

Question: aet 39

Topic: Superannuation Clearing House

Hansard Page: Written

Senator EGGLESTON asked:

1. What advice did the Treasury give to the Minister regarding the decision to award the Superannuation Clearing House contract to Medicare rather than to a private operator?
2. Is the Government in receipt of alternative business proposals for the Superannuation Clearing House? Have these proposals been fully evaluated against the Medicare proposal?
3. Given that the original superannuation clearing house discussion paper promised a tender to the private sector, was there a draft tender document prepared by Treasury in 2009?
 - a) If so, why was the tender not released by the Department so that Medicare could be formally compared to alternative providers?
 - b) Can the Government confirm that confidential intellectual property provided by the private sector in response to its discussion paper has not been provided to Medicare in any way? Can Treasury produce either its own written report or an independent expert's written report justifying why the decision to appoint Medicare was a superior solution over tendering to the private sector?
4. Effective and fully ASIC licensed commercial clearing house alternatives exist which could be implemented in less time and could be delivered under the allocated budget. Given that alternatives exist in the private sector, why has the Government opted to spend significant taxpayer dollars on attempting to reinvent a technology platform from scratch?
5. Can the Department provide a fully costed budget for the Medicare Clearing House project including all costs for both internal government resources and external consultants, all planning costs, all software development costs, all costs of engagement with industry, a comprehensive operating budget for three years, all costs of handling payments in and out of the Clearing House, the costs of supporting employers who use the Clearing House and the cost of ensuring take-up of the Clearing House by the small business sector?
 - a) Can the Government confirm that in issuing the contract to operate the Clearing House to Medicare that it is fully in compliance with the letter and spirit of the Trade Practice Act. In particular, does the nomination of the Medicare Clearing House as the only 'approved Clearing House' in the proposed legislation, create an unfair competitive advantage for Medicare over existing commercial clearing house operators?

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- b) Does the Government intend to compensate commercial clearing house operators if Medicare is found to have breached the TPA?
6. What are the success criteria for the Clearing House project?
 - a) How many employers does the Government think will use the system in each of the three years of its operation?
 - b) How will this take-up of employers be achieved if there is no budget for promoting the service to small business?
7. Leaked minutes from the working group within Treasury from January 15 state that the Treasury believe that the scope of functionality for employers will be reduced by providing the contract to Medicare. If this is true, how will the clearing house meet its objectives of reducing employer red-tape?
 - a) Can the Government guarantee that the solution won't damage existing market confidence because the proposed Medicare model de-scopes critical validation criteria that is widely available in the private sector?
 - b) Can the Government guarantee that the solution won't damage existing market confidence because the proposed Medicare model de-scopes critical validation criteria that is widely available in the private sector?
 - c) Can the Government guarantee the scope of functionality will not be further reduced given that there is only four months available for developing the service?
 - d) Has the cost of further development to finish the development of a fully effective Clearing House solution been costed and will this require further expenditure beyond what has been budgeted?
8. Which public health projects have been impacted by the re-deployment of Medicare resources to the Clearing House project?
 - a) If none, then how long have excess resources been available within Medicare and why has Medicare not sought to reduce its operating costs and return excess budgets to reduce the Government's operating deficit?
 - b) What improvements on public hospitals could be made with these resources rather than diverting critical resources away from core Medicare business into the superannuation industry?
9. It has taken effective commercial clearing house operators many years and a combined estimate of \$50 - \$80 million dollars to develop effective clearing house solutions that are fully integrated with the many hundreds of superannuation provider back office systems. How can the Government justify the overall cost to the industry given that there are no defined success criteria for employer usage of the Clearing House?
 - a) If the Government cannot achieve an equivalent solution to that which is commercially available with the extremely limited budget and very short time frame available, will the Government consider utilising a commercial solution

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which meets the project objectives and does not require re-building of interfaces to superannuation providers?

Hansard reference page E71 (Thursday 11 February)

Answer:

1. Treasury provided advice to the Minister on a range of possible implementation strategies for the Government's clearing house election commitment, including the option to provide the clearing house service for small business through a single public sector provider (Medicare Australia). This decision was taken having overall regard to a number of factors. These key factors included ensuring the security of employee superannuation entitlements in an environment where employers' legal obligations have been discharged, the limited (and capped) nature of the available funding for the measure, administrative simplicity and the availability of significant 'in-house' payment processing capacity within Medicare.

2. During the 2007 election campaign, the Government committed to introducing an optional superannuation clearing house facility that would be available free of charge to eligible small businesses (those with fewer than 20 employees). The clearing house policy was subsequently included as a measure in the 2008-09 Budget, with funding of \$16.1 million allocated over three years (from 2009-10). The focus of the measure is on reducing the cost and paperwork burden for small businesses of meeting their superannuation obligations, in particular under the choice of fund rules.

A discussion paper on the design of the policy was released on 14 November 2008, the consultation period for which closed on 19 December 2008. All submissions received in response to the discussion paper were considered in finalising the design of the measure. Treasury also responded to requests from various interested parties for meetings to discuss the measure.

While a range of preparatory work on the measure was undertaken prior to the Government's decision, no draft tender document suitable for public release was prepared. Given the decision to provide the clearing house service through the public sector, no assessment of potential private sector providers needed to be undertaken.

3. Refer to the response to Question 2.

4. The decision to provide the small business superannuation clearing house service through Medicare Australia will not add to the budgetary cost of the measure. Medicare Australia's existing business model is suited to the provision of the clearing house service. As a result, Medicare Australia is able to leverage its existing electronic payment processing capacity and expertise to deliver the clearing house service within the funding allocated for the measure in the 2008-09 Budget.

5. Prior to the Government's decision on the preferred provider of the clearing house service, Medicare Australia provided Treasury with an estimate of the resources it would need to provide the clearing house service to eligible small businesses. This

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estimate indicated that the service could be delivered by Medicare Australia within the available funding.

The clearing house measure reflects the Government's specific election commitment to reduce compliance costs for small businesses associated with meeting their superannuation obligations. In implementing the measure, the Government has sought to minimise impacts on existing commercial clearing house arrangements, while at the same time ensuring that the service provided to small businesses is in line with its election commitment – this includes allowing employers to discharge their superannuation guarantee obligations on payment to the approved clearing house. The proposed arrangement for Medicare Australia to provide services as the approved clearing house is not inconsistent with the provisions of the Trade Practices Act 1974.

6. Use of the clearing house service is optional for small businesses. As a result, the likely level of take up of the service cannot be known in advance and will depend on the perceived benefits to individual small businesses of using the service. For capacity planning purposes, Medicare Australia has made some internal assumptions in relation to the level of take up of the clearing house service in its initial years of operation.

Employer and industry groups have indicated a willingness to utilise existing communication channels to raise awareness of the availability of the clearing house facility. Medicare Australia will provide material to support this.

7. As far as Treasury is aware, the statement on which the question is premised is incorrect.

Medicare Australia is in the process of developing the functionality for the clearing house service. The solution is being co-designed with employers and industry to ensure the clearing house will meet its objectives of reducing red tape. The solution will achieve this by allowing employers to make one payment to the clearing house which will then distribute the payment to the relevant funds. This will reduce the administrative burden on employers by reducing the time and paperwork involved in paying contributions into numerous funds. Use of the clearing house service will be optional for employers.

8. Medicare Australia will utilise resources made available in the 2008-09 Budget to deliver the clearing house initiative. As a consequence, the initiative will not draw resources from other Medicare Australia programs.

9. Medicare Australia continues to discuss and investigate options relating to interfaces with the superannuation industry.