



## Australian Council of Social Service

31 January 2014

Senator Richard Di Natale

Chair

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

PO Box 6100

Parliament House

Canberra ACT 2600

By email: [coaudit.sen@aph.gov.au](mailto:coaudit.sen@aph.gov.au)

Dear Senator,

Thank you for the opportunity to participate in the current inquiry into the Government's Commission of Audit.

ACOSS has welcomed the Commission of Audit, recognising the need for a wholesale review of Federal Government expenditure. As we stated in our submission to the Commission, "as the peak body for the community sector, and the national voice against poverty and inequality in Australia, we strongly support a courageous yet carefully considered audit of what government is trying to achieve, and whether its roles and responsibilities are being fulfilled effectively and efficiently." <sup>1</sup>

We recognise that the fiscal challenge facing Australia is real and requires considered action to place the Federal Budget on a more sustainable footing. We have also expressed concern about the growing gap between the community's reasonable expectations for social services and supports, and the revenue available to meet these expectations.

Despite our general support for a review of expenditure, we have a number of concerns about the purpose, scope and process of the Commission of Audit which we outlined in this submission. ACOSS' analysis and recommendations regarding specific Commonwealth spending priorities is contained in our Submission to the Commission of Audit itself (attached).

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<sup>1</sup> See attached submission and associated media release.



## Purpose of the Commission of Audit

The terms of reference set out a number of principles to guide the work of the Commission of Audit:

1. Government should have respect for taxpayers in the care with which it spends every dollar of revenue;
2. Government should do for people what they cannot do, or cannot do efficiently, for themselves, but no more; and
3. Government should live within its means.

These principles are reasonable in themselves but one sided. The emphasis falls on stringency in spending, with the principles lacking an equivalent focus on the community's needs for basic services and the government's need for the revenue to finance them. ACOSS largely agrees with these principles. As we understand it, the second principle requires that government direct expenditure to those most in need of assistance. We suggest that the Commission should also be bound by a 'do no harm' principle with respect to vulnerable and disadvantaged members of the community. Its work should be directed to ensuring that government spending is targeted efficiently and effectively to improve the lives of those most in need of assistance. We are encouraged by the Chair's statement that the Commission has been guided by a sense of fairness.<sup>2</sup>

The process should not be used simply as a means to identify short-term budget savings, including cuts to important social services and supports, which would have significant longer-term social and economic costs.

Despite the current debates about increased social security spending, Australia's spending remains comparatively low and the real budget problems lie elsewhere. Expenditures on social security payments in 2013 were 9% of GDP compared with an OECD average of 13%.<sup>3</sup> Of the \$28 billion of growth in social security costs between 2002 and 2012 (after inflation), \$13 billion comprised increases in Age Pension expenses (due to a growing population of older people, increases in pension rates and easing of the means test), and \$9 billion came from increases in family payment expenses (due to increases in payment rates, easing of income tests, and the introduction of the Baby Bonus and Schoolkids Bonus). Expenditure on Newstart Allowance and Parenting Payment declined by \$4 billion over that ten-year period, despite a temporary rise during the Global Financial Crisis (due to higher unemployment).<sup>4</sup> A sharp increase in the number of Newstart Allowance recipients in 2013 was mainly due to the transfer of approximately 80,000 sole parents in that year from the higher Parenting Payment to the lower Newstart Allowance. Despite claims of an inexorable rise in reliance on

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<sup>2</sup> Tony Shepherd, Committee Hansard, Senate Inquiry into the Abbott Government's Commission of Audit, 15 January 2014.

<sup>3</sup> OECD Social expenditure data base

<sup>4</sup> Daly 2013, 'Budget pressures on Australian Governments,' Grattan Institute.



the Disability Support Pension, the number of recipients peaked in the mid-2000s, at 5% of the population of working age, and has fallen in each of the last two years as eligibility was tightened.

One of the key recommendations in ACOSS' submission to the Commission of Audit was that those who are the most vulnerable should be protected from government retreating further from social services and support. Given this, we are very concerned to ensure that disadvantaged job seekers, including those with disabilities, do not end up worse off as a result of changes proposed by the Commission – either through reduced payments or increased compliance obligations that do not improve employment outcomes. We would also strongly oppose any abandonment of indexation of social security payments for low income households to wage movements, since this implies that their living standards would fall behind the rest of the community in future years. This was the experience of Newstart Allowance recipients over the last 20 years. In order to keep pace with increases in community living standards, these payments should be linked to movements in wages, as well as prices. The current gap between pensions and allowances is in part due to the different indexation formulae, and highlights the problems with price indexation. Reducing or freezing payment indexation may generate benefits for the budget bottom line, but it would inevitably increase poverty in Australia.

We are also concerned by reports that the Commission is considering a range of options which would increase the burden on health consumers for the cost of care, including user-charge and co-payments. These measures are likely to reduce access to health services, increase financial stress and result in poorer health outcomes. The proposals are at odds with the principle that governments should direct investment in prevention, with low income health consumers less likely to seek medical advice early and more likely to require interventions down the track when they are more expensive and have poorer health outcomes. There is also a risk that the role of Medicare in controlling inflation in medical costs could be undermined, increasing costs for consumers and government.

### **Scope of the Commission of Audit**

The Terms of Reference of the Commission of Audit state that it “has a broad remit to examine the scope for efficiency and productivity improvements across all areas of Commonwealth expenditure.” Despite this, the Commission has indicated that its focus is mainly on direct expenditures, largely excluding tax expenditures that operate in a similar way to direct expenditures, as well as revenues generally. The Chair of the Commission indicated in evidence to the current inquiry that although the Commission “may have something to say on the question of revenue”, it was largely leaving these issues to the forthcoming tax white paper process, though he also indicated that the Commission is examining Commonwealth/State tax arrangements. This illustrates the difficulties of separating out the expenditure and revenue sides of the budget for the purpose of this review.



Tax expenditures have risen well in excess of economic growth for the last decade. These public subsidies take the form of exemptions, rebates or other forms of ‘special treatment’ under tax law. Although they reduce public revenues instead of increasing outlays, their effect is usually the same. However, they are less transparent, attract less scrutiny in the budget process, and have risen well in excess of economic growth over the last decade, from 4.1% of GDP in 2001-02 to 7.6% in 2011-12.<sup>5</sup> For these kinds of reasons, the OECD has suggested that tax expenditures that are comparable with direct expenditures should be included within any public expenditure ‘ceilings’.<sup>6</sup> The Commission of Audit should subject tax expenditures to the same level of scrutiny as direct expenditures, as did the 2006 Audit Commission.

A failure to include tax expenditures within the Commission of Audit’s terms of reference would be a missed opportunity to review and reform major areas of poorly targeted and wasteful expenditure.

### **Process of the Commission of Audit**

A comprehensive review of Commonwealth expenditure should be conducted transparently and informed by an open consultation process. This is vital to ensuring community confidence in the process.

We made a number of specific recommendations about the process the Commission of Audit and the Federal Government should undertake to inform decision-making processes within a proposed ‘Roadmap for Fiscal Reform’, outlined below.

#### Roadmap for fiscal reform

##### *The next six months*

Given the need for major changes in the structure of budget expenditures and programs, it is very important that the Commission involve and engage the wider community in its work as far as possible. Therefore, in addition to its call for submissions, we suggest the Commission should:

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<sup>5</sup>Treasury, Tax Expenditures Statement 2013, at <http://www.treasury.gov.au/PublicationsAndMedia/Publications/2013/TES-2012>.

<sup>6</sup> “Tax expenditures may cause a problem for the proper functioning of the budget, for two reasons: i) tax expenditures may escape the budgetary control of the prevailing fiscal rule and thereby hamper the macro-economic and allocative/distributive functions of the budget; and ii) tax expenditures are typically the responsibility of the Minister of Finance ...this may impede the trade-offs required by the allocative/distributive function and the control of cost efficiency (p4).” See OECD 2004, ‘Best practice guidelines, off budget and tax expenditures.’ GOV/PGC/SBO(2004)6 at 4.



- Release an early issues paper outlining problems to be resolved and the Commission's purpose and approach to reform;
- Promptly release submissions on its website;
- Prepare both phases of the Commission's report prior to the Budget, so that the Government can make these documents public in enough time for stakeholders to respond within the budget cycle; and
- Commission and publish statistical reports on budget programs and trends, including on expenditure to GDP trends for different direct and tax expenditure programs; and information on who benefits from major programs (including distributional analysis where possible).

*Short to medium term actions, over the next three years*

We propose the following steps be taken over the next three years to restore the budget to sustainability and meet the community's essential needs:

- As a short-term goal, while the economy is growing at or above trend, restore Australian Government revenues to their pre-GFC level (25.1% of GDP) and keep expenditures below this.
- Remove, reform or replace poorly targeted and wasteful programs on both the direct and tax expenditure sides of the budget, to make room for action to close the worst gaps in the social safety net.
- Use the proceeds of this 'spring cleaning' effort to reduce budget waste to begin to close the major gaps in the social safety net identified above.

*Longer term actions*

We must not blink on the longer term goals:

- Restore economic growth through improved employment participation and productivity.
- Progressively shift the focus of public expenditures from 'cure' to 'prevention'.
- Undertake a national dialogue on community expectations to reach a new consensus on the role of government and how it will be funded.

More generally, we have argued that the Audit should:

- Identify major questions to be answered, but not seek to develop all the answers, given its time constraints.
- Build on existing work, including the Henry Tax Panel recommendations, and provide advice about processes to continue its work. We need to bring the broad community along with this vital work. Pending these debates, the Audit should be driven by some key principles about scope, effectiveness and efficiency.
- Avoid detailed recommendations on individual programs, given the very short time available for the Commission's work.



- Inform but not overrun the broader reform of federal-state financial relationships and tax reform to the forthcoming White Papers on those topics. 'Front-loading' too much reform into a single Budget is risky and counter-productive.

Thank you again for the opportunity to participate in this Inquiry. I would welcome the opportunity to appear before the Committee to provide further evidence in person.

Yours sincerely,

Dr Cassandra Goldie  
Chief Executive Officer, ACOSS