An estimation of the annual savings achievable through moving to a _National-Local system_ of government, comprising just a national government and local governments, with the national government being _an amalgamation of present federal, state and territory governments_, and local government remaining essentially in its present form.

1.   Presented herein is an estimation of the annual cost savings that could be achieved if Australia's present Commonwealth (or federal), state and territory governments amalgamated into just a single national government, with local government remaining essentially as it is. The resultant form of government shall be referred to throughout as a National-Local system of government, comprising the following two tiers of government:

Tiers of government in National-Local Government System

Tier A.   A single national government with powers and responsibilities shared among the Commonwealth, state and territory governments in the present system.

Tier B.   Local government in its present form – doing all that it presently does in terms of quality and quantity of functions and activities; with regional organisations of councils (ROCs) in their present form.

2.   It is advantageous to divide this overall amalgamation into two the following two processes:

2a.   an initial process of **horizontal amalgamation**, and

2b.   a subsequent process of **vertical amalgamation**.

3.   In the process of horizontal amalgamation, the eight state and territory governments will amalgamate into a single Australia wide state/territory type government which would operate in parallel to the federal government. So the result of this horizontal amalgamation process would be a hypothetical system that will be referred to herein as a Dual National Government system, comprising the following three tiers of government:

Tiers of Government in Dual National Government System

Tier A1.   A single federal government in its present form – doing all that it presently does in terms of quality and quantity of functions and activities, except for those coordination/harmonization activities no longer required due to the horizontal amalgamation of state/territory governments.

Tier A2.   A single Australia-wide state/territory type government – doing all that the present state/territory governments in terms of quality and quantity of functions and activities at the service delivery coalfaces.

Tier B.   Local government in its present form – doing all that it presently does in terms of quality and quantity of functions and activities; with regional organisations of councils in their present form.

So, again, Tiers A1 and A2 above represent two Australia-wide, national governments operating in parallel to one another under the Dual National system.

4.   The total savings figure to be estimated shall have public and private sector components, as follows:

$$\mathbf{S_{tot} = S_{tot,pub} + S_{tot,priv}} \qquad \mathbf{[1]}$$

5.   We shall first determine an estimation for the public sector savings component $S_{tot,pub}$, and then determine an estimation for the private sector savings component $S_{tot,priv}$, in turn, as follows.

6.   The total public sector savings component $S_{tot,pub}$ represents:

the public sector costs that would be avoided in moving from our present system to the National-Local system as defined above – that is, the combined bureaucratic overhead costs of the present Commonwealth, state and territory governments **MINUS** the bureaucratic overhead costs of the single Tier A national government in the National-Local system defined as above.

7.   This public sector savings component $S_{tot,pub}$ can be divided into two components as follows:

7a.   a horizontal savings component $S_{H,pub}$ achievable as a result of the initial horizontal amalgamation process that transforms our present system into the Dual National government system as in paragraph 3 above; and

7b.   a vertical savings component $S_{V,pub}$ achievable as a result of the subsequent vertical amalgamation process that transforms the Dual National government system into the National-Local system as in paragraph 1 above.

8.   So we have that: $$\mathbf{S_{tot,pub} = S_{H,pub} + S_{V,pub}} \qquad \mathbf{[2]}$$

9.   To estimate $S_{H,pub}$ we first obtain that total public sector expenditure levels of state/territory governments are, approximately, as follows:

$$\mathbf{E_{pubS/T} = \$1.772\ billion\ plus\ \$6,166\ per\ head} \qquad \mathbf{[3]}$$

10.   The above equation is found by applying linear regression to the total public sector expenditure figures provided in Table 12 of the 1999-00 ABS Catalogue 5512.0, titled 'Government Finance Statistics'.

11.   The significant reliability of equation [3] is demonstrated by the very high values of the coefficient of determination and F-statistic associated with the regression, as follows:

> 11a.   The coefficient of determination (r^2) is found to be 0.9870 and the correlation coefficient (the square root of the coefficient of determination) is found to be r = 0.9935. So state/territory public sector expenditures are very well described by the linear approximation given by [3] above.

> 11b.   The F-statistic is used to determine if the regression relationship given by [3] above occurred due to a systematic/substantive/non-random relationship between the dependent variable (expenditure) and the independent variable (population) rather than just by (random) chance.

> 11c.   At the 99.9% confidence level, the critical value of the F-statistic for a regression analysis such as that done here, with a single independent variable – namely population (so $\bullet_1 = 1$) and n = 8 data points (i.e. the 8 state/territory sets of expenditure and accompanying populations), hence a degree of freedom of $\bullet_2 = 6$ [= n - $\bullet_1$ – 1 = 8 – 1 – 1], is

> $$F_{1,6(99.9)} = 35.51 \qquad\qquad [4]$$

> 11d.   So if the F-statistic found for the regression data exceeds this, we can be at least 99.9% certain that the relationship occurred because of a systematic/substantive relationship between expenditure and population rather than by chance.

> 11e.   For the regression analysis in this case The F-observed value is found to be 456.6, which is substantially greater than the F-critical value of 35.51. Therefore, we can be well over 99.9% confident that the regression equation [1] is useful in predicting state/territory public sector expenditure levels in terms of population.

12.   The $1.772 billion figure is an "overhead cost" or "fixed cost" or **"bureaucratic overhead"** component largely representing central/head office activities/functions, whereas the $6166 per head figure is a "unit cost" or "variable cost" or "marginal cost" or, most obviously, a **"per capita cost"** component representing activities/functions at service delivery "coalface" units (schools, hospitals, police stations etc.)

13.   In our present system the eight state/territory governments incur a total of eight lots of this $1.772 billion **bureaucratic overhead** cost, amounting to a total cost of $14.17 billion (= 8 x $1.772 billion) per annum. So if our eight states and territories were *horizontally amalgamated into a single state/territory type government* (i.e. a single Australia wide government with present state/territory type responsibilities), the resultant government, with just its single $1.772 billion

bureaucratic overhead cost component, would generate savings amounting to the surplus of seven lots of this $1.772 billion bureaucratic overhead component – that is, a saving of $12.40 billion (=7 x $1.772 billion).

14.   This $12.40 billion represents the annual cost of horizontal duplication, S_{HD_DN}, among our eight state and territory governments in the present system, which could be avoided/saved in moving to the Dual National system, by amalgamating state and territory governments into the single Tier A2 national government. So we have that, approximately:

$$S_{HD\_DN} = 7 \text{ x } \$1.772 \text{ billion} = \$12.40 \text{ billion} \qquad [5]$$

15.   In terms of paragraph 3 above, S_{HD_DN} represents the horizontal duplication cost savings component that could be achieved through the process of horizontally amalgamating the eight state and territory public sectors into the single Tier A2 national government. In other words, S_{HD_DN} represents the combined total bureaucratic overhead costs of the present eight state and territory governments **MINUS** the bureaucratic overhead costs of a Tier A2 national government.

16.   Whilst S_{HD_DN} is a significant component of $S_{H,pub}$, S_{HD_DN} only represents the savings accrued by the Tier A2 national government formed through the horizontal amalgamation process. $S_{H,pub}$ will also contain a component representing the savings accrued by the Tier A1 national government as a result of the horizontal amalgamation process.

17.   In our present system, a vast proportion of Commonwealth government activities involve *coordination (1) <u>vertically with</u> and (2) <u>horizontally across</u> the eight state and territory governments*, in the interests of national harmonization, compatibility, uniformity, consistency etc., in respect of laws, regulations and policies and practices generally. Much of this coordination function will no longer be necessary, however, in the Dual National system formed through the horizontal amalgamation process described above. And **these cross-jurisdictional coordination roles would disappear altogether in the National-Local system produced through the process of vertical amalgamation. S**o vast savings would be achieved through moving from the present system to a national-local system. Furthermore, whereas it might be claimed that a national-local system would incur additional national-local coordination costs, these are already taken into account in the amalgamation of state/territory governments into the Tier A2 national government. And similarly, whereas the Tier A national government in the final National-Local system would need to host regions for purposes of functional service delivery and delegated administration, such regions and their associated coordination demands are already in place – at both state and Commonwealth levels, with the functional integrity of state regions invariably compromised by the constraints of state boundaries. So the move to the National-Local system will generate savings by reducing overlapping and duplicated regional administration and service delivery efforts, and at the same time improve the functional integrity of such regions by eliminating the constraints of state boundaries.

18.   In the Dual National system, the Tier A1 national government will still need to coordinate **<u>vertically with</u>** the Tier A2 national government, but such vertical

coordination will be much simpler and cheaper than the vertical coordination process which the Commonwealth government undertakes with the eight states and territories in the present system. So the move to the dual national system can be expected to generate significant vertical coordination cost savings, S_{VC_A1}.

19.   Furthermore, The Tier A1 national government will no longer need to coordinate **horizontally across** the Tier A2 national government at all since the Tier A2 government is only one in number! So the move to the dual national system can be expected to generate very significant horizontal coordination cost savings, S_{HC_A1}.

20.   Finally, the $12.40 billion figure in [5] is based on Tier A2 national government expenditure levels as per [3] above – in particular the $1.772 bureaucratic overhead cost component. However, the Tier A2 national government will actually be spared of some core "head office" activities, presently carried out by state and territory governments, which contribute to the $1.772 billion bureaucratic overhead component – specifically, activities associated with coordination horizontally across states and territories. We shall let S_{HC_A2} represent this savings component that could be achieved because the Tier A2 national government would no longer need to coordinate with other states and territories.

21.   Noting paragraphs 16-20 above, a complete equation for $S_{H,pub}$ would appear to be:
$$S_{H,pub} = S_{HD\_DN} + S_{HC\_A1} + S_{VC\_A1} + S_{HC\_A2} \qquad [6]$$

And with [5], [6] becomes:

$$S_{H,pub} = \$12.40 \text{ billion} + S_{HC\_A1} + S_{VC\_A1} + S_{HC\_A2} \qquad [7]$$

22.   It might be expected that, of S_{HC_A1}, S_{VC_A1} and S_{HC_A2} in [7]:

22a. S_{HC_A1} would amount to a very large figure, probably in order of at least several hundred $million to a few $billion per annum; and

22b. S_{VC_A1} would only amount to a figure in the order of several tens of $million per annum; and

22c. S_{HC_A2} would only amount to a relatively small figure, probably in the order of a few $million per annum.

23.   Of course, S_{HC_A1} and S_{VC_A1} could be rationalised into a single measure:

$$S_{Ctot\_A1} = S_{HC\_A1} + S_{VC\_A1} \qquad [8]$$

24.   And all three coordination cost components present in [7] can be combined to form a single overall coordination component associated with the move to the Dual National system, S_{C_DN}, as follows:

$$S_{C\_DN} = S_{Ctot\_A1} + S_{HC\_A2} = S_{HC\_A1} + S_{VC\_A1} + S_{HC\_A2} \qquad [9]$$

25.   Result [2] shows that $S_{H,pub}$ in [4] and [5] above is only the first component of $S_{tot,pub}$. The second component $S_{V,pub}$ shall now be examined.

26.   Paragraph 7a stated that $S_{V,pub}$ represents the savings achievable as a result of the vertical amalgamation process that transforms the Dual National government system into the National-Local system as in paragraph 1 above. As with the horizontal amalgamation process that led to the Dual National system, the vertical amalgamation process will also generate savings through reducing or eliminating (1) bureaucratic overhead costs and (2) coordination costs.

27.   We shall let S_{VD_NL} represent the vertical duplication cost savings component that could be achieved through the process of vertically amalgamating the Tier A1 and A2 national governments of the Dual National system into the single Tier A national government of the National-Local system. This S_{VD_NL} component would include the savings achieved by rationalising the Tier A1 health department and the Tier A2 health department into a single Tier A national health department, and so one across other functional areas.

28.   We shall further let S_{VC_NL} represent the vertical coordination cost savings component that could be achieved through the process of vertically amalgamating the Tier A1 and A2 national governments of the Dual National system into the single Tier A national government of the National-Local system. With just the single Tier A national government, such coordination will no longer be necessary at all.

29.   There would appear to be overlap between S_{VD_NL} and S_{VC_NL} above, such that it may be difficult in practice to neatly distil these out from one another. The savings component S_{VD_NL} will be achieved essentially by merging the Tier A1 and A2 national government departments into single national departments across all functional areas. This will involve eliminating many positions of employment – the more so the higher the level in the bureaucratic hierarchy. Furthermore, the newly formed Departments will be spared of all activities associated with coordination between the Tier A1 and A2 national governments. Such Departments would no longer be burdened with cross-jurisdictional political pressures and coordination demands and could concentrate on substantive planning and policy issues relating to the outcomes of the various functional areas.

30.   So we can write:

$$S_{V,pub} = S_{VD\_NL} + S_{VC\_NL} \qquad [10]$$

31.   And so, substituting [7] and [10] into [2] gives that:

$$\mathbf{S_{tot,pub}} = \$12.40 \text{ billion} + S_{HC\_A1} + S_{VC\_A1} + S_{HC\_A2} + S_{VD\_NL} + S_{VC\_NL} \qquad [11]$$

32.   We can define an overall public sector coordination cost savings component, $S_{Ctot,pub}$, as follows:

$$S_{Ctot,pub} = S_{HC\_A1} + S_{VC\_A1} + S_{HC\_A2} + S_{VC\_NL} \qquad [12]$$

or, noting [9]:

$$S_{Ctot,pub} = S_{C\_DN} + S_{VC\_NL} \qquad [13]$$

33.   With [12], [11] can be written as:

$$S_{tot,pub} = \$12.40 \text{ billion} + S_{VD\_NL} + S_{Ctot,pub} \quad [14]$$

34.   Equation [14] above gives the total public sector savings estimate as the sum of duplication cost savings components, $S_{HD\_DN} = \$12.40$ billion and S_{VD_NL}, and a combined coordination cost component, $S_{Ctot,pub}$ as given by [12].

35.   Several further points should be noted at this juncture. In areas such as education and health, for which state governments have constitutional power and responsibility, newly formed Departments – spared of coordination demands – could be expected to more closely resemble state government departments than Commonwealth government departments, though of course such departments would amount to a rationalisation of both types of Department (traditional state and Commonwealth).

36.   Whereas in our present system, state/territory type governments are principally responsible for coalface service delivery, a vast proportion of federal government activities and functions are devoted to the coordination with and across states/territories in the interests of national harmonization, uniformity, consistency etc. Following the broad estimates proposed in paragraph 22, it might be similarly predicted that S_{VC_NL} would again amount to a very large figure, probably in order of at least several hundred \$million to a few \$billion per annum. This would suggest that the total public sector coordination cost savings estimation, $S_{Ctot,pub}$, would probably be at least \$1 billion per annum, and probably at least in the order of a few \$billion per annum, such that we could safely conclude that:

$$S_{Ctot,pub} > \$1 \text{ billion} \qquad [15]$$

37.   It is often said that the Commonwealth doesn't run a single hospital or school – it is pointed out that schools and hospitals are the direct constitutional responsibility of state and territory governments. Yet of total government spending (across all levels) of \$37.47 billion per annum on Health, the states (including local governments) and territories account for just \$20.46 billion, ***leaving \$17.01 billion spent by the Commonwealth government on Health***. And of total government spending (across all levels) of \$32.54 billion per annum on Education, \$23.216 is spent by state, territory and local governments, ***leaving \$9.327 billion spent by the Commonwealth government on Education***. The fact that Commonwealth government expenditure exceeds \$26 billion per annum in the areas of health and education alone, combined with the well known reality that coordination with and across state and territory governments indeed represents a significant fraction of Commonwealth government activities in health, education and other functional areas, again suggests that the total coordination cost savings $S_{Ctot,pub}$, would be at least a few \$billion per annum, such that we could safely conclude that:

$$S_{Ctot,pub} > \$2 \text{ billion} \qquad [16]$$

38.   The figures in paragraph 37 above suggest that in Health and Education alone the bureaucratic overhead costs of the Commonwealth government must run into several $billion per annum at least. It would seem clear then that the bureaucratic overhead costs of the Tier A1 national government (i.e. the Commonwealth government in its present form minus coordination activities) would well exceed the $1.772 billion bureaucratic overhead costs of state/territory type governments and hence the Tier A2 national government, though much of such bureaucratic overhead expenditures would remain in the National-Local system and would not count towards S_{VD_NL} nor $S_{Ctot,pub}$. It could clearly be expected, nevertheless, that S_{VD_NL} – the vertical duplication cost savings component achievable through this vertical amalgamation process – would well exceed $1.772 billion, so we could write:

$$S_{VD\_NL} > \$1.772 \text{ billion} \qquad [17]$$

39.   This $1.772 billion figure represents the savings achieved *for each single amalgamation* of state and territory governments (noting from equation [5] that the $12.40 billion represented the savings achievable through seven such amalgamations – in reducing from eight state/territory governments to the single Tier A2 national government). Clearly there would seem to be greater scope for savings through amalgamating the Tier A1 (modified Commonwealth) national government and the Tier A2 (modified state/territory type) national government, than would be possible through a single amalgamation of state/territory governments (which would yield savings of $1.772 billion).

39.   If the Commonwealth government did nothing but duplicate the efforts of state and territory governments and/or coordinate with and across state and territory governments, then S_{VD_NL} would amount to the full extent of the Commonwealth government's own purpose public sector expenditures, or about $108 billion in 1999-2000. This $108 billion figure would clearly be a gross over-estimation of S_{VD_NL}, however, since the Commonwealth government clearly does much more than merely duplicate state and territory activities and and/or coordinate with and across states and territories. The Commonwealth government carries out policy development, planning and implementation roles in functional areas which are not state/territory responsibilities. The Commonwealth government also provides direct "coalface" services, in areas such as Defence, Customs, Foreign Affairs, Social Security and Policing (via the Federal Police).

40.   The reflections in paragraph 36 suggest that S_{VD_NL} could easily amount to several $billion and could even exceed $S_{HD\_DN} = \$12.40$ billion. Certainly most of such vertical amalgamation savings could be expected to arise on the Tier A1 (modified Commonwealth) side, though again it would be difficult and somewhat artificial to neatly separate coordination costs from vertical duplication costs here.

41.   Noting results [15]-[17] and paragraphs 36-40 above, and the difficulty in separating out vertical duplication costs from coordination costs (as discussed in paragraph 29), it would appear to be more appropriate to give an estimation of the *combined total* of $S_{VD\_NL} + S_{Ctot,pub}$ from [14], rather than of the components S_{VD_NL} and $S_{Ctot,pub}$ individually. Clearly more work could be done to refine the processes

used to estimate S_{VD_NL} and $S_{Ctot,pub}$ and the sub-components appearing in [12] above, but at this point evidence would clearly support at least the following the claim:

$$S_{VD\_NL} + S_{Ctot,pub} > \$3.0 \text{ billion} \qquad [18]$$

42.   Admitting lack of direct supporting evidence, but noting the inherent value of best estimations, the following educated guess is offered as a tentative estimation:

$$S_{VD\_NL} + S_{Ctot,pub} \bullet \ \$6.0 \text{ billion} \qquad [19]$$

43.   Combining [18] with [14] gives that:

$$S_{tot,pub} > \$12.40 \text{ billion} + \$3.0 \text{ billion}$$

so that $S_{tot,pub} > \$15.4 \text{ billion}$ \qquad [20]

44.   Combining [19] and [14] gives that:

$$S_{tot,pub} \bullet \ \$12.40 \text{ billion} + \$6.0 \text{ billion}$$

so that $S_{tot,pub} \bullet \ \$18.4 \text{ billion}$ \qquad [21]

45.   The estimation so far makes no assumptions concerning the quality of public administration in achieving good public outcomes across various functional areas. Professor Neville Norman of Melbourne University, in his 'Reforming Fiscal Reform', prepared for the Australian Business Council in 1995, states that potential cost savings of $3 billion per annum could be achieved through an elevation to world best practice standards in government (with $2.9 to $3.4 billion 95% confidence intervals). Conservatively, we shall assume that at least $1.0 billion per annum of such 'room for improvement' would 'survive' a move to a National-Local system. So with this additional $1 billion, where "BP" in the subscripts stand for "best practice", results [20] and [21] above can be modified to give that:

$S_{tot,pubBP} > \$16.4 \text{ billion}$ \qquad [22]

and

$S_{tot,pubBP} \bullet \ \$19.4 \text{ billion}$ \qquad [23]

46.   We shall now turn our attention to the estimation of $S_{tot,priv}$. The public sector cost savings figures provided so far relate mainly to the provision and production roles of government in Australia and the bureaucratic costs of regulation. However it is also clear that government regulation imposes significant costs on the private sector.

47.   According to the *Review of Business Regulations Information Paper No. 2* (by the Business Regulation Review Unit, Commonwealth of Australia, May 1986, pages 3-5), the overall cost of business regulation comprises (1) the cost of employing regulators, (2) "paperburden costs", and (3) compliance costs - the latter being by far the most significant component. This report states (on page 5) that "[a]ggregating the

three components brings the estimated overall cost of business regulation to ... 15-30% of Australia's $250B gross domestic product". The Figures in this 1986 report are present as follows, along with percentages of GDP in 1986, and the figures that would apply in 1999-2000 if these same percentages applied, noting that around 1999-2000 GDP was at approximately $600 billion per annum:

Year	1986 ($billion)	% of GDP	1999-2000 ($ billion)
Cost of Employing Regulators	1.8 to 3.6	0.72 to 1.44	4.32 to 8.64
Paperburden Costs	3.6 to 7.2	1.44 to 2.88	8.64 to 17.28
Compliance Costs	36 to 72	14.4 to 28.8	86.4 to 172.8
Overall Costs	41.4 to 82.8	16.56 to 33.12	99.4 to 198.7

48.   Of the figures as above, the Cost of Employing Regulators is already addressed as a public sector cost – to count it again would amount to double-counting. Paperburden and compliance cost burdens, however, are costs incurred by the private sector. Leaving the "Cost of Employing Regulators" rows out of the above Tables leaves the following figures applicable to the private sector alone:

Year	1986 ($billion)	% of GDP	1999-2000 ($ billion)
Paperburden Costs	3.6 to 7.2	1.44 to 2.88	8.64 to 17.28
Compliance Costs	36 to 72	14.4 to 28.8	86.4 to 172.8
Overall Private Sector Costs	39.6 to 79.2	15.88 to 31.76	95.0 to 190.1

49.   The Business Regulation Review Unit Report on which the above figures are based admits that these paperburden and compliance costs are only gross costs rather than the costs net of benefits (in terms of safety and standards generally), but also states (on page 5) that "massive costs are associated with unwarranted regulations and vast gains possible from their removal".

50.   For present purposes it shall be assumed that our private sector, in 1999-2000 terms, incurs a total of paperburden and compliance costs amounting to $142.6 billion, that being the average of the $95.0 billion and $190.1 billion limits in the Table above. The National-Local system will only impose two levels of regulation and associated paperburden and compliance cost burdens.

51.   The following Table, based on 1999-2000 general government expenditure figures from ABS Catalogue 5512.0 (Table 1), shows the own purpose expenditure levels (defined as total expenditure less transfers/grants to other levels of government) of our three levels of government, as approximations in percentage terms (a level of uncertainty arises because university funding is classified as a multi-jurisdictional expense):

Level of Government	Total own purpose expenditures ($ billion)	%
Commonwealth	**118.687**	**53.4**

State/Territory	**88.579**	**39.9**
Local	**14.841**	**6.7**
TOTAL	**222.107**	**100**

52.　　If the $142.6 billion overall private sector regulatory cost burden accrued in proportion to the own purpose expenditures of the three levels of government as above, then this $142.6 billion could be approximately broken down as follows:

Level of Government	Total own purpose expenditures ($ billion)	%	share of $142.56 billion private sector regulatory cost burden
Commonwealth	**118.687**	**53.4**	**$76.18 billion**
State/Territory	**88.579**	**39.9**	**$56.85 billion**
Local	**14.841**	**6.7**	**$9.53 billion**
TOTAL	**222.107**	**100**	**$142.6 billion**

53.　　If the $142.6 billion overall private sector regulatory cost burden was simply divided equally among the three levels of government, then this $142.6 billion could be approximately broken down as follows:

Level of Government	share of $142.56 billion private sector regulatory cost burden
Commonwealth	**$47.52 billion**
State/Territory	**$47.52 billion**
Local	**$47.52 billion**
TOTAL	**$142.6 billion**

54.　　As with public sector costs, the private sector regulatory cost burdens will again be subject to overlap and duplication in terms of their impact on the private sector. Private companies need to apply separate efforts to address the paperburden and compliance cost burdens imposed upon them by the overlapping and duplicated regulatory systems of our three levels of government in our present system. These cost burdens are taken here to include those incurred in compliance with tax laws, accounting standards and so on, although tax paid itself is not included here because that would amount to double counting.

55.　　To elaborate on this double counting issue, please note that the public sector savings realisable through moving to a National-Local system, as estimated earlier, are based on expenditures rather than revenues, but obviously any such expenditure savings can be directly transferred to the revenue side in the form of taxation cuts. For example, payroll tax, which earns state and territory governments some $7 billion per annum at present, could be abolished if public sector cost savings to the value of $7 billion were found on the expenditure side. But the $7 billion saving on the expenditure and the $7 billion reduction on the revenue side would only count as one lot of $7 billion, not two lots totalling $14 billion! It is always intended that any "savings" claimed herein will be gainfully exploited through either productive expenditure (whether that be in schools, hospitals, the environment etc.) or reduction

in tax/revenue burdens, or both! Savings herein refer to the costs of wasteful duplication in bureaucracy and regulation, and wasted effort generally, among both the public and private sectors, which could be avoided (hence "saved") by moving to a National-Local system.

56.   In a National-Local system, it is intended that regulatory overlap, duplication and lack of coordination, and its associated compliance cost burdens, would be reduced to such an extent that virtually the full extent of such burdens imposed by the State/Territory level could be eliminated. The tables above suggest that the private sector could save some $50 billion in this way. There is anecdotal and substantive evidence available, however, that suggests that local government – especially in areas relating to land taxation, land planning and building regulations, imposes disproportionately high regulatory and compliance cost burdens. Furthermore, with the Commonwealth government responsible for income tax and most business taxes besides payroll tax, there are solid grounds for believing that State/Territory government, in the present system, impose a lesser share of private sector regulatory cost burdens than is implied by either of the Tables presented in paragraphs 52 and 53 above. The following Table is a composite of those presented in paragraphs 52 and 53, taking the larger of the two figures for the commonwealth and local governments, and then assigning to the State/Territory level the residue needed to make up the total of $142.6 billion assumed here:

Level of Government	share of $142.56 billion private sector regulatory cost burden assuming in proportion to own purpose expenditure	share of $142.56 billion private sector regulatory cost burden assuming equal three way split	share of $142.56 billion private sector regulatory cost burden assumed
Commonwealth	**$76.18 billion**	**$47.52 billion**	**$76.18 billion**
State/Territory	**$56.85 billion**	**$47.52 billion**	**$18.86 billion**
Local	**$9.53 billion**	**$47.52 billion**	**$47.52 billion**
TOTAL	**$142.6 billion**	**$142.6 billion**	**$142.6 billion**

57.   If, instead of $142.6 billion, $100 billion (just above the lower limit shown in the paragraph 48 Table) was assumed to cover the full extent of the private sector regulatory cost burden of our present system, the Table above would become as follows (all figures being scaled down in the same proportions):

Level of Government	share of $100 billion private sector regulatory cost burden assuming in proportion to own purpose expenditure	share of $100 billion private sector regulatory cost burden assuming equal three way split	share of $100 billion private sector regulatory cost burden assumed
Commonwealth	**$53.4 billion**	**$33.3 billion**	**$53.4 billion**
State/Territory	**$39.9 billion**	**$33.3 billion**	**$13.2 billion**
Local	**$6.7 billion**	**$33.3 billion**	**$33.3 billion**
TOTAL	**$100 billion**	**$100 billion**	**$100 billion**

58.   The various Tables above attribute to the State/Territory government level a share of the private sector regulatory cost burden ranging from $13.2 billion to $56.85 billion.

59.   More work would be needed to confirm an accurate figure here, but for present purposes, the $13.2 billion figure, attributed to the State/Territory level in the Table directly above, shall be used as a minimum estimation for $S_{tot,priv}$, so that:

$$S_{tot,priv} > \$13.2 \text{ billion} \qquad [24]$$

60.   The $18.9 billion figure, attributed to the State/Territory level in the Table in paragraph 56, shall be used as a "best estimation" for $S_{tot,priv}$, so that:

$$S_{tot,priv} \bullet \$18.9 \text{ billion} \qquad [25]$$

61.   Substituting [20] and [24] into [1] gives that:

$$\mathbf{S_{tot} = S_{tot,pub} + S_{tot,priv}} > \$15.4 \text{ billion} + \$13.2 \text{ billion}$$

so that: $\mathbf{S_{tot}} > \$28.6$ billion   [26]

62.   Similarly, substituting [21] and [25] into [1] gives that:

$$\mathbf{S_{tot} = S_{tot,pub} + S_{tot,priv}} \bullet \$18.4 \text{ billion} + \$18.9 \text{ billion}$$

so that: $\mathbf{S_{tot}} \bullet \$37.3$ billion   [27]

63.   Noting paragraph 45 and results [22] and [23], it is conservatively estimated that if best practices were employed by National and local governments in a National-Local model we would at least obtain:

$$\mathbf{S_{totBP}} > \$30.0 \text{ billion} \qquad [26]$$

64.   Even ignoring the best practice considerations of paragraphs 45 and 63, it emerges above that a move to a National-Local system of government, comprising national and local tiers of government as set out in paragraph, should save Australia at least $30 billion per annum, and probably closer to $40 billion per annum, with:

64a.   the public sector expected to benefit to the value of at least $15.4 billion, and probably around $18.4 billion, per annum; and

64b.   the private sector expected to benefit to the value of at least $13.2 billion, and probably around $18.9 billion, per annum.

65.   Since 1981, the value of the Australian dollar, in US dollar terms, has slipped by an average of 4% per annum. So with our GDP now over $600 billion per annum, and 4% of GDP amounting to some $24 billion per annum, Australia apparently needs to implement changes conferring benefits of around about this $24 billion per annum figure, in order to hold its own against the American benchmark. The move to the

National-Local system as considered herein apparently offers one economically sustainable solution to this challenge, conferring annual benefits in excess of $24 billion per annum.

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