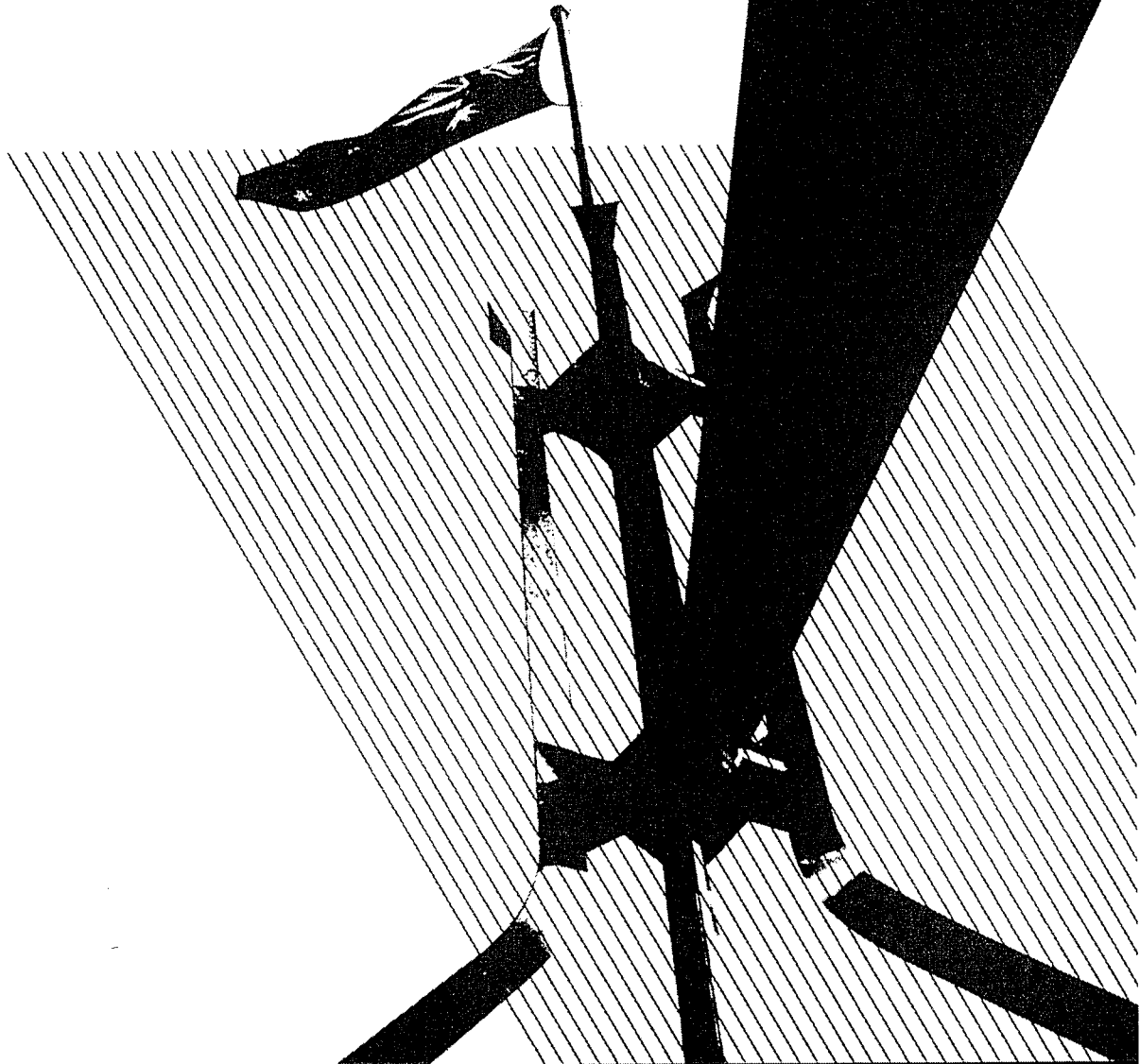




Australian Government

Department of the Prime Minister and Cabinet



# WHAT ARE THE STRATEGIC POLICY PRIORITIES TO COMMENCE POLICY DEVELOPMENT?

BRIEF TO THE PRIME MINISTER, THE HONOURABLE JULIA GILLARD MP

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# 1. INTRODUCTION



## Volume B

Volume B of your Incoming Government Brief provides an extension of Volume A. Each subject is covered more extensively here, with further analysis and recommendations provided. Consistent with the rest of the document, the material in Volume B is structured around four themes: economic prosperity, a fair and resilient society, a healthy environment and Australia's national security and international interests.

This volume melds your election commitments and strategic agenda with further complementary initiatives in a consolidated plan.

*Chapter 2: Major commitments and policy areas requiring early action* includes a one-page brief on each of your major election commitments and urgent policy matters with recommendations to take forward each of these issues.

*Chapter 3: Key strategic challenges facing Australia* describes in greater detail the strategic medium- to long-term challenges set out in Volume A, chapter 3 as well as some further challenges and recommendations.

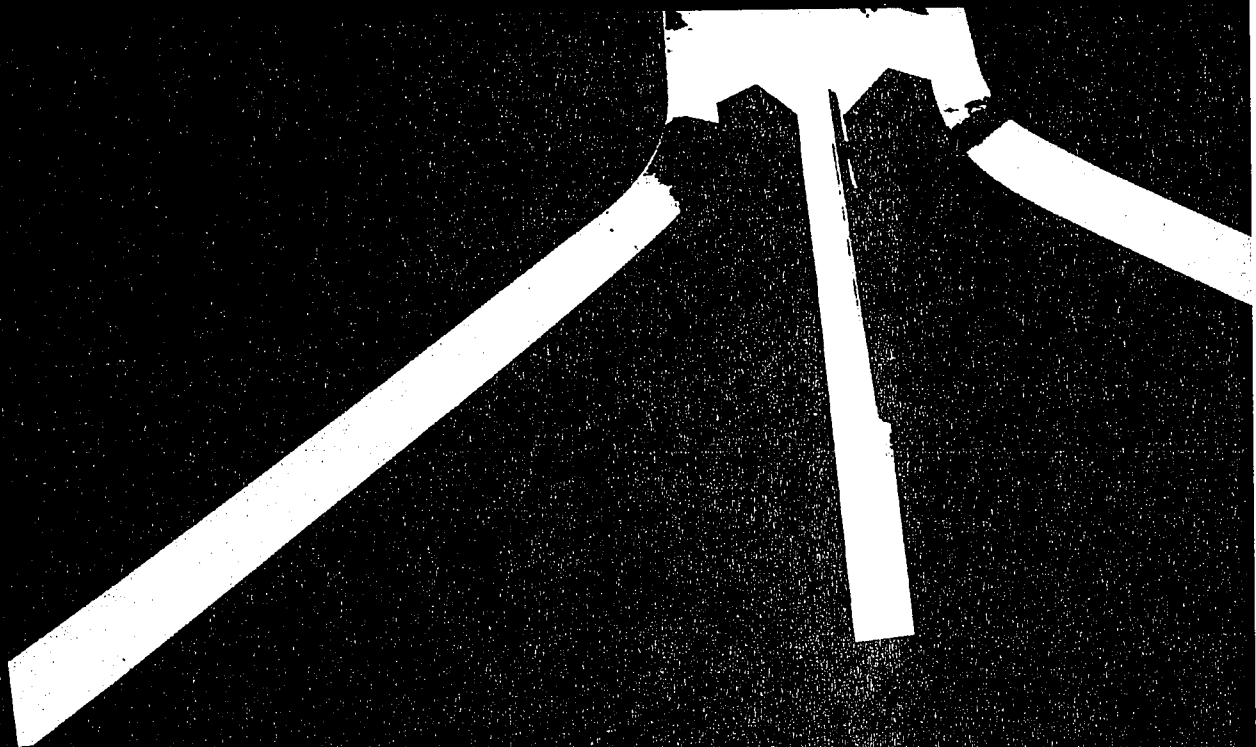
*Chapter 4: What is required to successfully deliver your agenda?* describes in greater detail those issues outlined in Volume A, chapter 4. It suggests a way to prioritise and plan your Government's agenda and

*Chapter 5: What changes are required to the structure of government?* describes in greater detail the machinery of government changes outlined in Volume A, chapter 5 that will assist in aligning the ministry and public service with your priorities and support the effective delivery of programs. It also makes a series of further minor machinery recommendations not set out in Volume A.

Volumes C, D, E and F offer more practical advice on the day-to-day running of your Government, official establishments and your relationship with the department.



## **2. MAJOR COMMITMENTS AND POLICY AREAS REQUIRING EARLY ACTION**



**b. Progressing the mining tax and related tax initiatives**

The Government indicated during the election campaign that its immediate focus for taxation reform would be consolidation and implementation of those initiatives announced prior to the 2010 election.

A related early priority is settling an approach for discussions with the states on the nature of the \$6 billion Regional Infrastructure Fund. The Government has announced that distribution of funds would recognise that resource-rich states face large infrastructure demands. The Government has also identified this fund as a funding source for several election commitments including the Building Better Regional Cities policy.

The Government has committed to additional measures in the areas of business taxation, personal income taxation and superannuation reform. One measure, the 50 per cent tax discount on savings income, is to commence from 1 July 2011.

**Contact:** Dom English  
Economic Division (6271 5506)

*Prioritisation of the COAG agenda*

The Government has pursued a range of service delivery and financial reforms in Commonwealth-state relations since 2008.

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**Contact: Dom English**  
Economic Division (6271 5506)



d. **Addressing key issues with Western Australia**

Five issues are currently under negotiation between the Commonwealth and Western Australia (WA).

**Contact: Dom English**  
*Economic Division (6271 5506)*

e. **Developing a sustainable population strategy**

The Government has committed to developing Australia's first sustainable population strategy in the first term of a re-elected Government.

.. Further, the strategy will cover challenging issues and cut across a number of ministerial portfolios.

The Government has already taken steps to begin the development of a population strategy:

- the Minister for Sustainable Population has established three expert panels to provide input into the strategy: the Demographic Change and Liveability Panel; the Productivity and Prosperity Panel; and, the Sustainable Development Panel, and
- in the 2010-11 Budget, the Government provided the Treasury with \$1.3 million in 2010-11 to support its development.

f. National Broadband Network

*Contact: Paul Schreier  
Industry, Infrastructure and Environment Division (6271 5597)*

**g. National Health and Hospitals Network (NHHN)**

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**Contact:** Yael Cass  
Social Policy Division (6271 5266)

h. Next steps in school reform

Early action will be required to implement the *National School Reform Plan*.

**Contact:** Rebecca Cross  
*Office of Work and Family Division (6271 5400)*

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**i. Strengthening the non-profit sector**

The Government has committed to strengthening Australia's non-profit sector. This responds to the Productivity Commission's February 2010 Research Report on the Contribution of the Not-for-Profit Sector and the December 2009 Henry Tax Review.

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**Contact:** Paul Ronalds  
Executive Coordinator, Domestic Policy (6271 5955)

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j. **Climate change**

Early decisions will be required to implement your commitment to building community support for action on climate change, particularly to hold the first Citizens' Assembly before the end of 2010, establish a new Climate Change Commission and start the Cleaner Car Rebate on 1 January 2011.

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*Contact: Paul Schreier  
Industry, Infrastructure and Environment Division (6271 5597)*

k. Murray-Darling Basin water reform

The Murray-Darling Basin Authority will release the Guide to the Proposed Basin Plan shortly after the election.

The Government has committed to purchasing additional water entitlements to bridge any gap between entitlement purchases and water savings from current investments, and sustainable diversion limits under the Murray-Darling Basin Plan. The commitment also included continuing the Sustainable Rural Water Use and Infrastructure Program (SRWUIP).

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*Contact: Paul Schreier  
Industry, Infrastructure and Environment Division (6271 5597)*



**i. Strategy for marine protection**

The Government has committed to establishing a representative network of marine parks by 2012, including by releasing a draft plan for the South West Marine Bioregion and a draft policy for providing assistance for displaced activities within three months of the election.

*Contact: Paul Schreier  
Industry, Infrastructure and Environment Division (6271 5597)*

m. **People smuggling and irregular maritime arrivals**

The major commitments and issues requiring early consideration are:

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**A further and more substantive brief will be provided shortly.**

**Contact: Tony Sh**  
**HBS Division (6271**

n. International engagement

*Contact: Patrick Suckling  
International Division (6271 5628)*

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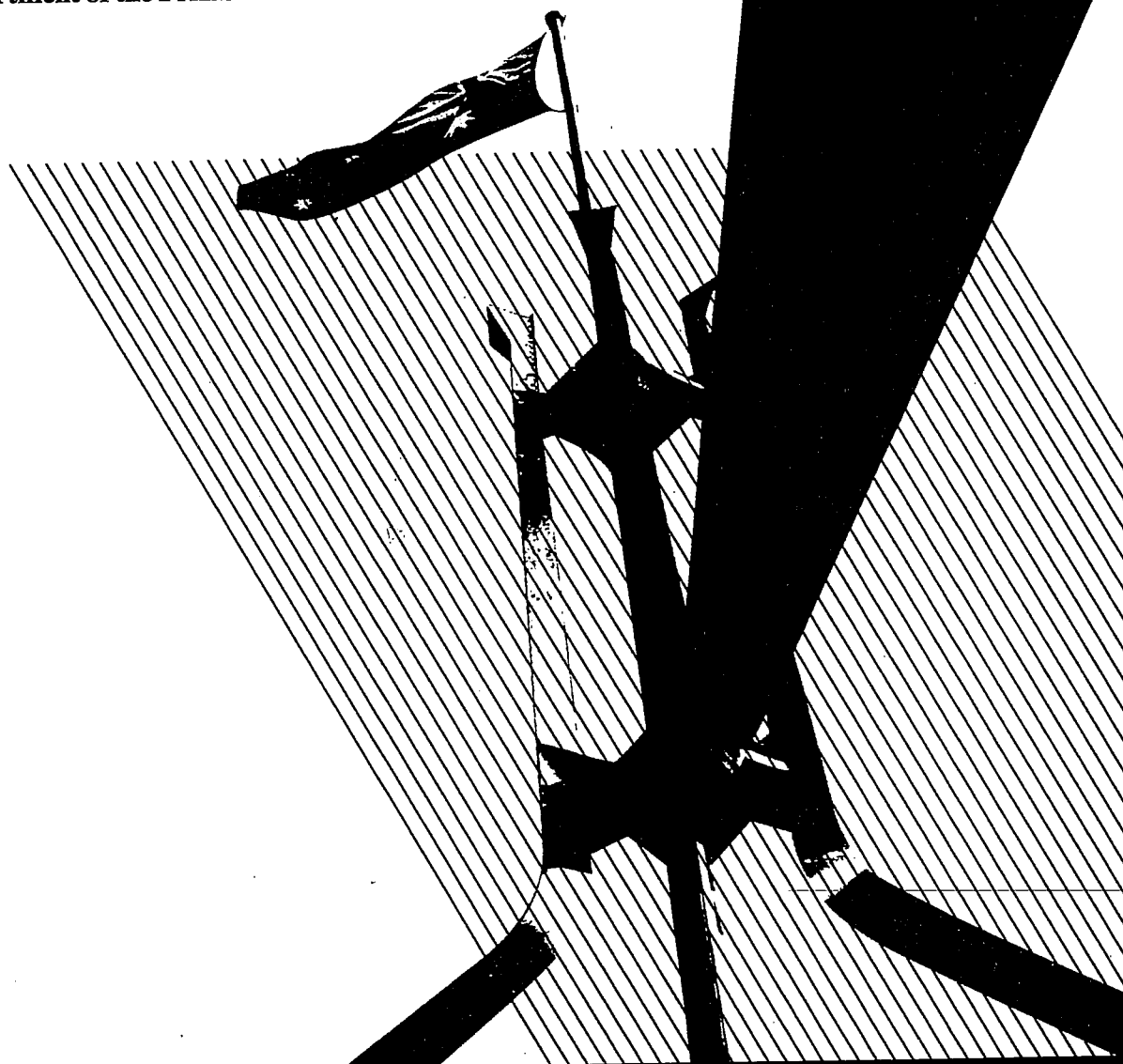
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o. Afghanistan

Afghanistan is Australia's most complex and pressing foreign and defence policy priority. An early visit by you to Afghanistan will be essential.

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p. G20

G20 is the premier leader-led forum for global economic cooperation. The G20 has demonstrated unprecedented coordination and cooperation in driving a coherent response to the global financial and economic crisis. Through the commitments made by leaders, the G20 is pursuing comprehensive reforms to transform the global economy by strengthening economic growth, regulation, markets, institutions and governance to more effectively minimise the risk of, and respond to, crises.

*Contact: Patrick Suckling  
International Division (6271 5628)*

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q. Cyber policy coordination

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r. **Security at the 2010 Commonwealth Games**

**Contact: Tony Sheehan**  
**HBS Division (6271 5917)**

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s. National security capability plan

**Contact: Tony She**  
HBS Division (6271

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### **3. KEY STRATEGIC CHALLENGES FACING AUSTRALIA**



a. **Overview**

The previous chapter summarises a number of urgent items that we suggest you consider immediately to progress your priorities. This chapter builds on your campaign and election commitments, by suggesting a number of complementary proposals to tackle medium-term policy challenges.

These proposals arise from a wide-ranging survey by the department of the strategic challenges that Australia faces. The survey was undertaken by teams of PM&C analysts under the direction of the department's senior executive. It represents the professional views of the department, reflecting our assessment of current public policy debates and your priorities.

These complementary proposals are structured around a framework of four strategic goals. For each goal, we have identified a small number of high priority initiatives to complement your current commitments. In this sense, the work is targeted, not exhaustive.

- **Promoting economic prosperity**
- **Promoting a fair and resilient society**
- **Promoting a healthy environment**
- **Promoting Australia's national security and global interests**

This advice recognises that it is not sufficient for a government just to have good policy ideas: an effective government also needs to be able to implement and deliver on its commitments. To support all these goals, it will be important to tackle constraints to services and programs being well planned, well governed and well delivered.

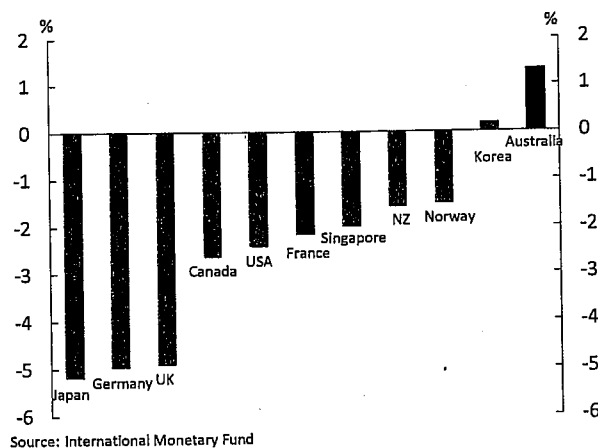
Recognising the constraints imposed by the fiscal environment, PM&C can work with other departments and agencies to develop and cost the initiatives proposed. PM&C's analysis can also be used as a starting point for a more comprehensive work program within government, developed through consultation with relevant ministers and departments.

**b. Promoting economic prosperity**

In recent decades, there have been deep structural shifts in the Australian economy. Previous governments have tackled these shifts by undertaking significant microeconomic reforms, developing strong regulatory frameworks and institutions and maintaining sound macroeconomic policy settings. These measures have improved productivity and promoted economic prosperity in the face of an ever-changing and volatile global economy.

In approaching this task, the Government has an opportunity both to continue existing reform efforts and to identify future reform directions. During the election campaign, you recognised the importance of increasing both productivity and participation. What follows below is our advice on how to build on existing initiatives and your election commitments to achieve those increases, while minimising the impact of and boosting our resilience to economic shocks.

Figure 1: Relative GDP growth (percent), 2009



Rapid fiscal and monetary policy responses, both in Australia and abroad, were essential in avoiding recession in Australia. But the foundation of Australia's success was the strong fiscal position at the start of the crisis and the far-reaching, often difficult economic reforms undertaken by successive Australian governments over the past four decades.

Those reforms largely had their genesis in significant government-directed inquiries:

- The 1965 Vernon Report, commissioned by the Menzies government, together with the 1975 Jackson Report and 1979 Crawford Report, led to a constant stream of government decisions in favour of **tariff reductions** under all subsequent governments.
- The 1975 Asprey Report, commissioned by the McMahon government, was the basis for **significant tax changes** undertaken by the Hawke, Keating and Howard governments.
- The 1981 Campbell Report, commissioned by the Fraser government and endorsed by the 1984 Martin Review, drove the **financial deregulation** enacted by the Hawke government.
- The 1993 Hilmer Report, commissioned by the Keating government, led to the **competition policy** reforms carried out by the Keating, Howard, Rudd and state governments.
- The 1996 Wallis Report, commissioned by the Howard government, set out his government's **financial sector** governance reforms.

The reforms generated from these inquiries, along with labour market deregulation and superannuation reform, made Australia's economy more efficient and flexible and strengthened its economic institutions. Combined with strong policy responses, these reforms enabled Australia to grow, not contract, through the global financial crisis, as it also did during the 1997-98 Asian financial crisis and 2001 dot-com crash. The reforms also contributed to strong productivity growth in the 1990s and early 2000s, boosting national per capita income.

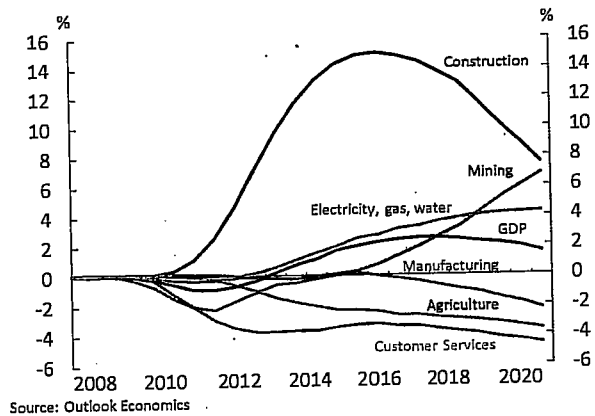
i. *What are Australia's economic challenges?*

*Increasing productivity growth*

Increased demand for Australia's natural resources has been a major driver of growth in the broader economy. This demand is likely to keep growing as China and India continue to industrialise. But we face a challenge in maximising and ensuring broad distribution of the benefits of the resources boom.

Strong growth in the resources sector is increasing Australia's terms of trade—the price of exports compared with imports—and boosting national income. It is, however, imposing pressures on other parts of the economy. Workers are moving to the resource-rich states, Western Australia and Queensland, leading to skills shortages in other states and non-resources industries, and creating the risk of wage pressures and inflation. The flow of capital into the resources sector is pushing up the Australian dollar, reducing returns in other export sectors. Exchange rate-sensitive industries such as agriculture, education, tourism services and manufacturing are under pressure (Figure 2).

Figure 2: Impact on industry output of sustained higher terms of trade (per cent deviat



In its previous term, the Government commenced several measures designed to boost productivity that are not yet complete. These include the national partnership to create a seamless national economy, changes to national infrastructure planning, the adoption of national criteria for capital city strategic planning, and national partnerships on early childhood development and schools.

During the Government's previous term, you were strongly committed to important education reforms. You have committed during the election campaign to build on these reforms, which will drive future productivity.

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VOLUME B:

*International education sector in challenging times*

Australia's international education industry has suffered a sharp slowdown in growth over the past year, and faces further challenges from cyclical factors, safety concerns and changes to migration policy. There was a significant decline in the growth rate of international student enrolments from 19.1 per cent in 2009 to 2.3 per cent in 2010. This issue is broader than the decline in the number of Indian students, with an overall decline in the number of students coming from Asian markets. The United States and United Kingdom have emerged as stronger competitors in the international education sector.

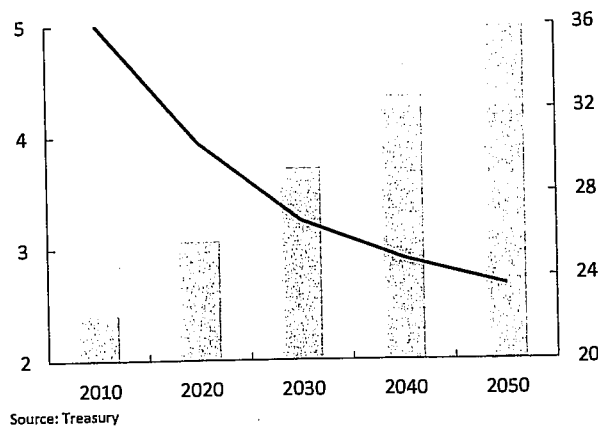
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*Lifting workforce participation*

In coming decades, slower population growth and increased life expectancy will reduce the proportion of the population in the workforce. Today there are five working age people supporting each retiree. This ratio will fall to four by 2020 and below three by 2050, while the population continues to grow (Figure 3). Though our capacity to support an ageing population has grown over time, it is important to ensure that this remains the case.

*Figure 3: Projected aged-dependency ratio & population  
(LHS: ratio working age population to 65+, RHS: million people)*



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As the population ages, the cost of providing health care and aged care services will increase. As the population grows, pressure on cities and regional centres will increase. Planning arrangements, private incentives and government investment strategies will need to adapt to cope with these pressures.

Although the costs of infrastructure and services will rise, an ageing population has relatively fewer taxpayers. Policies that enhance productivity will improve the economy's capacity to support the ageing population. In particular, policies that lift productivity in service delivery sectors such as education and health minimise the pressure on the Government to divert resources from other priorities or increase taxes to meet increasing service demands.

Policies that increase the proportion of the population in work will also be important. While overall workforce participation is high, Australia lags other developed nations on labour utilisation measures such as average annual hours worked per worker and the share of the working age population on disability support. There is significant scope for improvement. Lower than optimal participation constrains national output, as it raises the costs of labour and distorts investment into more capital intensive sectors. Increasing workforce participation can provide economic benefits by alleviating labour shortages and social benefits to individuals who experience greater self-worth through meaningful employment.

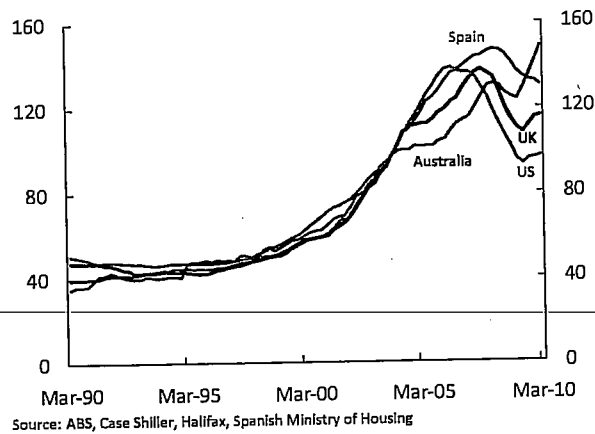
During the election campaign, you recognised the importance of participation, including through your commitments on workplace-based training for older workers and the work bonus for aged pensioners.

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*Building resilience to economic shocks*

Australia has benefitted from access to global capital markets to fund our investment and from higher commodity prices to boost our national income.

Figure 4: House Price Index International Comparison (Index, 2003-04=100)



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**c. Promoting a fair and resilient society**

Australia is a prosperous country with highly developed social infrastructure. It rates well on many social measures in international comparisons. Yet the nation faces many challenges. As the population ages, its social infrastructure will come under greater pressure. And Australia still suffers from pockets of disadvantage, particularly among Indigenous Australians, people with severe mental illness and households experiencing long-term joblessness.

The Government's key goals in social policy are to work with the states, non-government service providers and communities to: set up systems that ensure education, health and other services are delivered to citizens effectively, to ensure government services build the capacity of disadvantaged Australians, and to maintain the liveability of cities through better planning and investment.

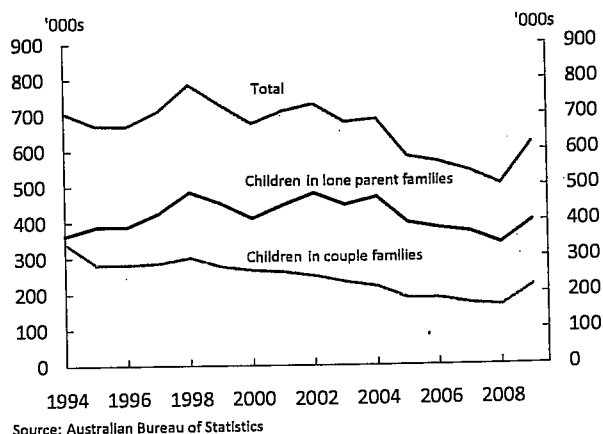
During the election campaign you acknowledged the need to combine reforms to close the gap in Indigenous disadvantage, improve education and health outcomes for citizens, and address concerns about liveability. Below is our advice on how to build on your commitments, to help deliver a fair and resilient society with a high quality of life.

By international standards, Australia has strong social outcomes. Australians live longer than the citizens of almost all other countries. Our students perform well by international standards and have high rates of tertiary education attainment. Our cities are ranked among the most liveable in the world, and the Australian lifestyle is widely envied.

Yet citizen expectations of government service delivery in areas such as education and health are growing. Without disciplined planning for growth, demographic pressures will negatively affect living standards, particularly in cities, as housing prices rise, congestion increases and it becomes more difficult to access services. There will be fewer taxpayers to support increased government spending. Governments must therefore generate better outcomes at current levels of spending.

In addition, Australia still suffers from pockets of disadvantage, including among Indigenous Australians, people with severe mental illness and households experiencing long-term joblessness (as shown below at Figure 5). The gap between these citizens and other Australians is substantial, increasing and becoming more entrenched as disadvantage is transferred from parents to children and becomes the norm in some communities.

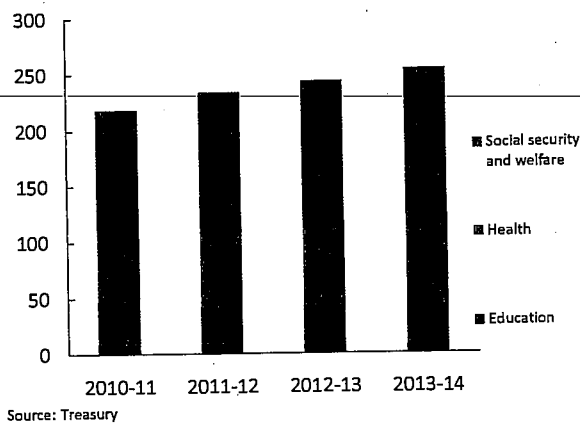
Figure 5: Number of children in jobless families ('000's of children)



i. What are the challenges to promoting a fair and resilient society?

Effective social policy design and delivery is critical to ensure governments achieve value for money. Over the next financial year, the Commonwealth will spend more than \$220 billion on social services, more than 62 per cent of total Commonwealth spending (Figure 6).

Figure 6: Forecast Commonwealth social policy expenditure (\$ billions)



*Pockets of entrenched disadvantage remain*

Despite persistent economic growth, there remain significant pockets of entrenched disadvantage including people who are unable to participate meaningfully in society or the economy. Particularly concerning is the 15 per cent of children who grow up in households where neither parent works; these children are much more likely than their peers to rely on welfare during their adult life.

This disadvantage is often: amplified by economic downturns; geographically concentrated; transferred from parents to children; and characterised by a combination of health, education and employment problems.

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*Supporting communities to target disadvantage*

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Entrenched Indigenous disadvantage remains a serious challenge. Commonwealth and state governments agreed in 2008 to a set of national targets to close the gap in life expectancy, infant mortality, education and employment outcomes. While the impact of these recent policy interventions is not clear, there is concern at the rate of progress, particularly on education and employment, all of which contribute to improving life expectancy.

*Quality of life is under stress*

More than four in every five Australians live in cities, so quality of life often means quality of city life. In the face of substantial population growth, there is a widespread perception that

the quality of life in cities is declining. Concern about this issue is reflected in your commitment to develop Australia's first sustainable population strategy.

The perception that the quality of city life is declining is supported by declining measures of liveability (including from greater congestion and longer commuting times), declining efficiency (such as land use planning and infrastructure that do not support business collaboration and innovation) and a lack of affordable housing.

State governments have primary responsibility for investment infrastructure. Evidence from a range of sources indicates that state government investment in infrastructure has not kept pace with demand for infrastructure services. For example, the economic cost of congestion – including from longer journey times and fuel use – was estimated at \$9.4 billion in 2005 and is projected to reach \$20.4 billion in 2020. Over 20 per cent of full-time workers in Sydney and Melbourne commute for more than two hours a day.

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In its first term, the Government made a significant start on planning reform;

*Housing affordability under pressure*

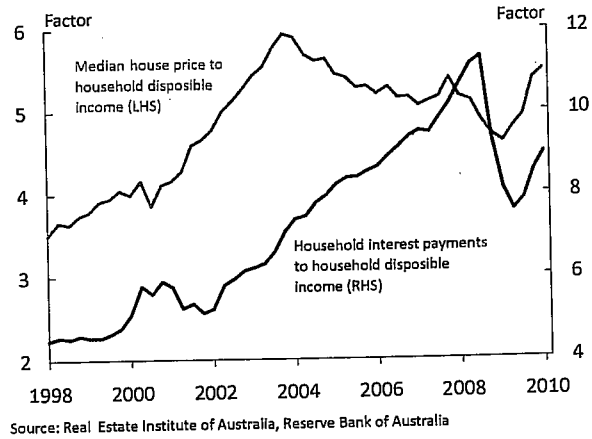
Australian housing demand has been strong over the past decade, boosting house prices. Income growth, easier access to credit, favourable Commonwealth tax treatment and lower average interest rates have underpinned this demand and encouraged households to invest in higher quality housing. Inflated price expectations may have also led to speculative activity, further driving up

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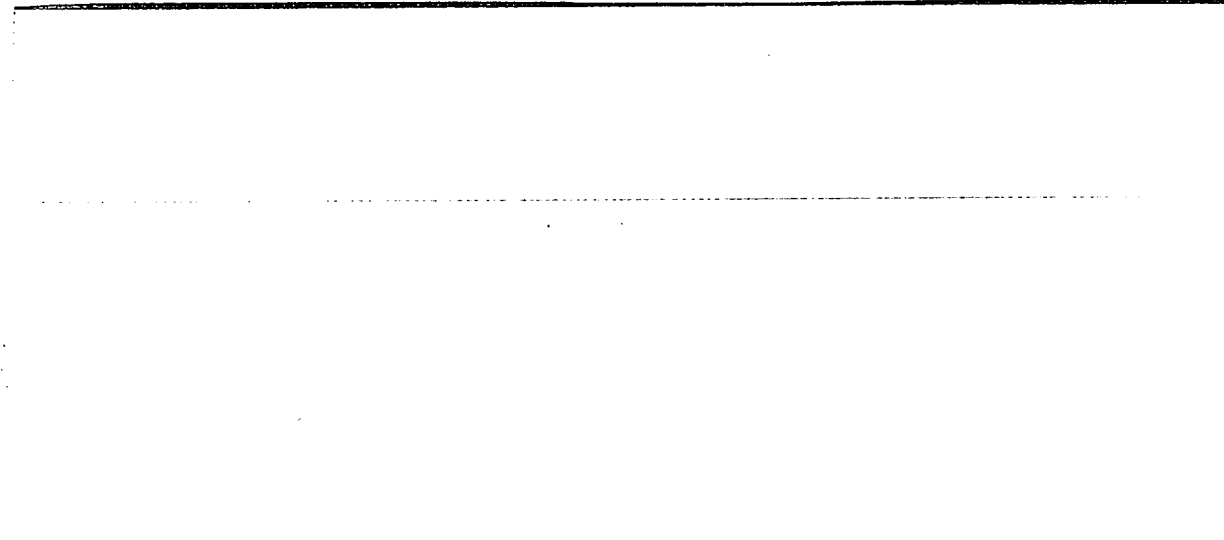
VOLUME B:

prices. Yet despite this demand, the supply of new homes has actually fallen and is running below average levels. As a result, housing affordability for both owners and renters is deteriorating (as shown at Figure 7 below).

Figure 7: House prices and interest payments as a factor of disposable income

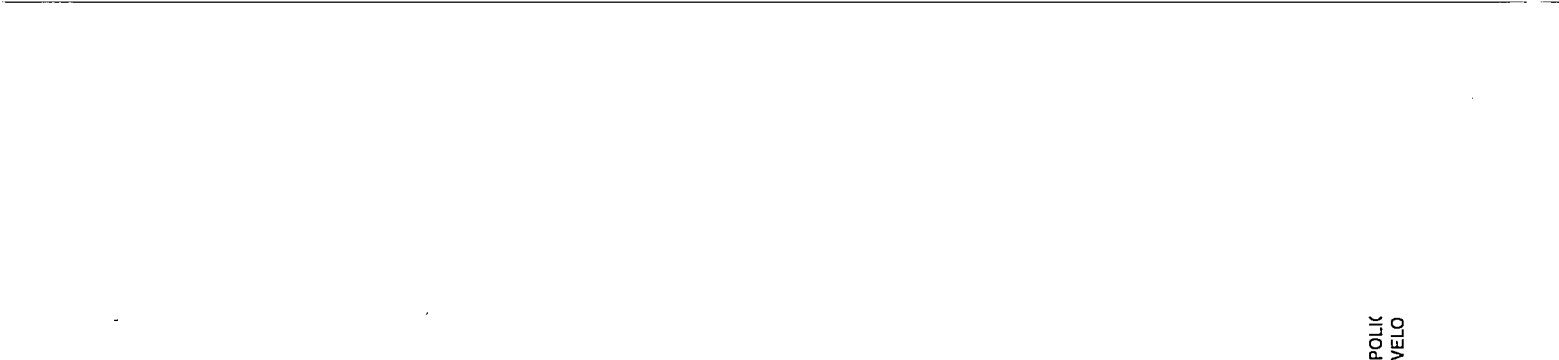


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**d. Promoting a healthy environment**

Over the past four decades environmental issues have received increasing public and government attention. Although states and local governments have primary responsibility for environmental issues, there are two critical matters in which the Commonwealth Government has a key stake. The first is climate change, which requires a national effort as part of a global response. The second is management of the Murray-Darling Basin, which is a critical natural resource that spans four states. The Government has taken on a growing role in addressing these matters, facilitating coordination between different levels of government and participating in international climate negotiations.



Australia has a unique and fragile ecosystem. It is the driest inhabited continent on the planet and has extreme weather patterns such as bushfires, cyclones, droughts, floods, storms and volatile temperatures. While land and natural resources are abundant, the availability of water varies greatly. With the population projected to increase from 22 million now to 26 million in 2020, with growing demand for resources, and with probable continuing global climate change, environmental sustainability will remain of critical concern.

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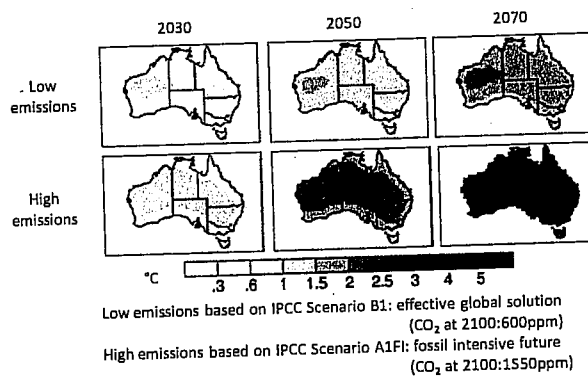


i. *What should Australia do to combat climate change?*

The most credible scientific evidence strongly suggests that climate change is occurring, is primarily caused by human activity, and will significantly damage Australia's and the world's environment.

Australia is highly exposed to the effects of climate change, including higher temperatures, more frequent and severe natural disasters (including droughts), sea level rises resulting in coastal erosion, loss of biodiversity and reduced agricultural production. It may also have national security implications, including the potential impact on refugee flows and food and water security. Without a rapid and sustained global reduction in greenhouse gas emissions, it is likely that in the second half of this century irrigated agriculture will become increasingly unviable in some regions of Australia, including the Murray-Darling Basin. Figure 8 illustrates the impacts on Australian temperatures of various climate change scenarios to 2070.

Figure 8: Climate change scenarios to 2070



Graphs represent mean model result

Sources: Australian Greenhouse Office, Bureau of Meteorology, CSIRO

To meet the global goal of limiting global warming to below two degrees Celsius above pre-industrial levels, domestic and international emissions need to fall significantly. But emissions are currently growing. Australia's economy is one of the most carbon-intensive advanced economies in the world (50 per cent more carbon intensive than the OECD average, Figure 9). Although the Government has committed to reduce emissions by at least 5 per cent of 2000 levels by 2020, Australia's current trajectory without further abatement will lead to a 21 per cent increase in emissions (as shown below at Figure 10).

Figure 9: CO2 emissions from consumption of fossil fuels (2006, metrics tons of CO2 per thousand US dollars)

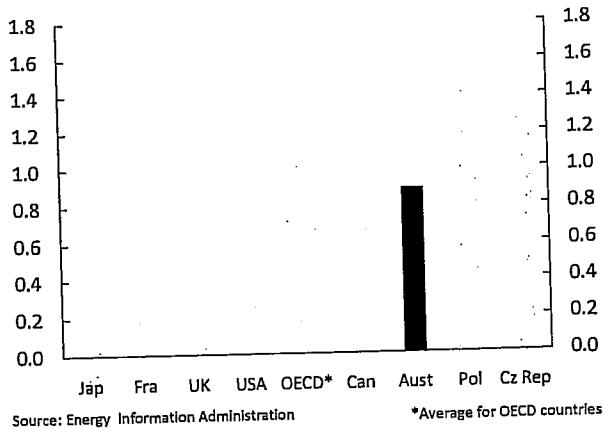
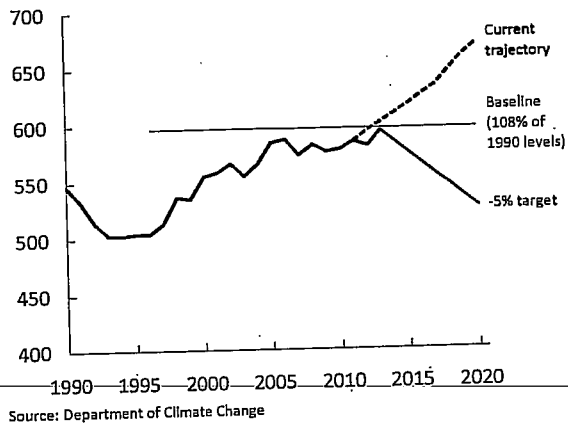


Figure 10: Australia's emissions projections (metric tons of carbon dioxide equivalent)

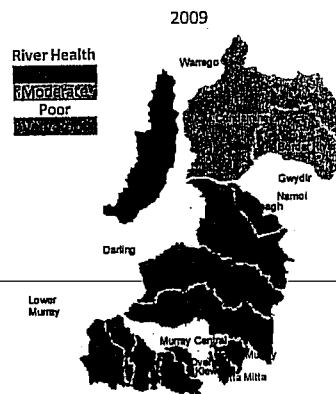


ii. *How can Australia best manage the Murray-Darling Basin?*

In many parts of Australia rural industries, cities and towns are competing with the environment for declining water supplies after many years of over allocation of water right and prolonged drought. Over coming years, population and industry will continue to grow and environmental demands will remain, but water availability will fall, driven by over allocation and climate change. This will place a growing strain on Australia's water resource and supply infrastructure.

These pressures are particularly acute in the Murray-Darling Basin (MDB), which produces one-third of Australia's food supply and spans four states.

Figure 11: Murray Darling Basin ecological health (2009)



Source: CSIRO, Murray-Darling Basin Authority

The Government has made progress in managing MDB water resources, including by reforming water markets, establishing an independent Murray-Darling Basin Authority, buying back water entitlements from irrigators and improving water infrastructure.

WHAT ARE THE STRATEGIC POLICY PRIORITIES TO COMMENCE POLICY DEVELOPMENT?



e. **Promoting Australia's national security and global interests**

National security and foreign policy have two fundamental aims: meeting the expectations of Australian citizens for homeland security, and engaging with the rapidly evolving regional and global environment to protect our interests overseas.

The key challenges in national security and foreign policy are to ensure that priorities are clear and explicit, that all elements of national security are well integrated to maximise efficiency and effectiveness, and that future plans are realistic and affordable.

During the election you noted your intention to personally engage with a number of important national security and international policy priorities. The Prime Minister's leadership has historically been essential to delivering an effective national security and foreign policy. Counterparts around the world will want to work with you on global issues, and there are several leader-led international forums, such as the G20, where your personal engagement is essential to advancing Australia's interests.

i. *Maximising Australia's diplomatic effectiveness*

ii. *Meeting our Defence needs*

The 2009 Defence White Paper, *Force 2030*, proposed an ambitious build-up of high-end warfare capabilities over the period to 2030 – in particular, naval and air capabilities – to be funded by a growing real Defence budget and internal efficiencies.

f. **Critical enablers for success**

WHAT ARE THE STRATEGIC POLICY PRIORITIES  
TO COMMENCE POLICY DEVELOPMENT?

i. *Delivering results in a constrained fiscal environment*

During the election campaign you reaffirmed the Government's commitment to a fiscal strategy designed to achieve budget surpluses from 2012-13 and to reduce public debt.

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VOLUME B: WHAT ARE THE STRATEGIC POLICY PRIORITIES  
TO COMMENCE POLICY DEVELOPMENT?

ii. *Building a strong federal partnership*

iii. *Better delivery of government services, policies and programs*

With growing recognition of the interconnectedness of community needs, the policy solutions attempted by government have grown increasingly complex and multi-faceted.

VOLUME B: WHAT ARE THE STRATEGIC POLICY PRIORITIES  
TO COMMENCE POLICY DEVELOPMENT?

iv. *Citizen and community engagement*

Recent Commonwealth governments have taken steps to engage more directly with local communities and citizens.

WHAT ARE THE STRATEGIC POLICY PRIORITIES  
TO COMMENCE POLICY DEVELOPMENT?

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**4. WHAT IS REQUIRED TO  
SUCCESSFULLY MOVE AHEAD WITH  
YOUR AGENDA?**



a. Overview

This chapter brings the preceding two chapters of this brief together by describing how you might deliver your agenda. The preceding sections identify significant policy commitments that must be progressed over the short term as well a number of initiatives that the Government could undertake to address the strategic challenges facing Australia.

WHAT ARE THE STRATEGIC POLICY PRIORITIES  
TO COMMENCE POLICY DEVELOPMENT?

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Table 2: Signature Initiatives

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WHAT ARE THE STRATEGIC POLICY PRIORITIES  
TO COMMENCE POLICY DEVELOPMENT?

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WHAT ARE THE STRATEGIC POLICY PRIORITIES  
TO COMMENCE POLICY DEVELOPMENT?

- c. **Sequencing and staging of government activity**

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- d. Strengthening the delivery of programs

WHAT ARE THE STRATEGIC POLICY PRIORITIES  
TO COMMENCE POLICY DEVELOPMENT?

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## **5. STRUCTURING GOVERNMENT TO FACILITATE SUSTAINABLE REFORM**



a. Overview

There are strong links between the machinery of government proposals outlined in this section and your Government's major policy commitments and strategic direction. Each proposal is a considered view of how machinery of government arrangements can support implementation of your government's agenda set against principles for machinery of government changes (set out in Attachment B to this volume). The need for reform to embed policy direction and make operational improvements has been carefully balanced against the cost and potential disruption to services caused by new machinery of government arrangements.

The machinery of government proposals are not entirely modular. There are inter-relationships that we will work through with you depending on how much of the proposed machinery of government framing you accept as necessary or desirable to achieve your policy goals. To assist with your assessment, we have ranked proposals according to their impact and risks.

Systems and process reforms also support objectives of better connectivity between departments to achieve and monitor delivery of clear policy goals. These can progress with or without machinery of government changes.

WHAT ARE THE STRATEGIC POLICY PRIORITIES  
TO COMMENCE POLICY DEVELOPMENT?

VOLUME B:

b. Proposed portfolios and extent of change

c. Priority areas for change

WHAT ARE THE STRATEGIC POLICY PRIORITIES  
TO COMMENCE POLICY DEVELOPMENT?

VOLUME B:

d. Other processes to reinforce machinery of government changes

Making a small number of significant but well considered changes will ensure your Government is optimally positioned to address the key policy challenges it will face. To maximise their benefit, each machinery of government change should be bedded down and reinforced by one or more targeted reforms to processes and systems.

ii. *Managing complex cross-portfolio issues at the Departmental level*

iii. *Bedding down significant organisational change*

WHAT ARE THE STRATEGIC POLICY PRIORITIES  
TO COMMENCE POLICY DEVELOPMENT?

VOLUME B:



iv. *Process reforms as alternatives to machinery of government changes*

e. *Other machinery of government proposals*

We have reflected on arrangements for the PM&C portfolio and suggest some changes that will allow you to better focus Government priorities.

We also invited Secretaries to provide proposals for your consideration. Many of them are reflected in the key changes proposed above, but there are several smaller scale changes which offer efficiencies or clear operational benefits that could also be pursued.

i. *Prime Minister and Cabinet*

*Official Establishments*

Ownership, property management and operations for the Prime Minister's Official Establishments (i.e. The Lodge and Kirribilli House) currently sits with the Department of the Prime Minister and Cabinet. These heritage buildings require increasing specialised attention and significant expenditure.

WHAT ARE THE STRATEGIC POLICY PRIORITIES  
TO COMMENCE POLICY DEVELOPMENT?

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- f. Machinery of government changes in other portfolios
- i. *Environment, Water and Heritage Portfolio*

WHAT ARE THE STRATEGIC POLICY PRIORITIES  
TO COMMENCE POLICY DEVELOPMENT?

VOLUME B:

ii. *Families, Housing, Community Services and Indigenous Affairs Portfolio*

iii. *Health and Ageing Portfolio*

VOLUME B: WHAT ARE THE STRATEGIC POLICY PRIORITIES  
TO COMMENCE POLICY DEVELOPMENT?

iv. *Immigration and Citizenship*

v. *Infrastructure, Transport, Regional Development and Local Government Portfolio*

VOLUME B: WHAT ARE THE STRATEGIC POLICY PRIORITIES  
TO COMMENCE POLICY DEVELOPMENT?

g. Summary of ministerial arrangements

The *Ministers of State Act 1952* limits the total number of ministers to 30 and parliamentary secretaries to 12. It is, of course, for you to determine the number of ministers to be in the Cabinet and the allocation of portfolios. The list below proposes a structure that would support the machinery of government changes outlined above. To ensure clear lines of accountability, it is desirable to seek to avoid ministerial arrangements that would see ministers sworn across multiple portfolios. Further information on establishing the ministry is provided in Volume C.

Table 5: Proposed portfolio and ministerial arrangements

Portfolio	Cabinet ministers	Ministers	Parliamentary secretaries
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## 6. ATTACHMENTS



Attachment A: Creating fiscal space

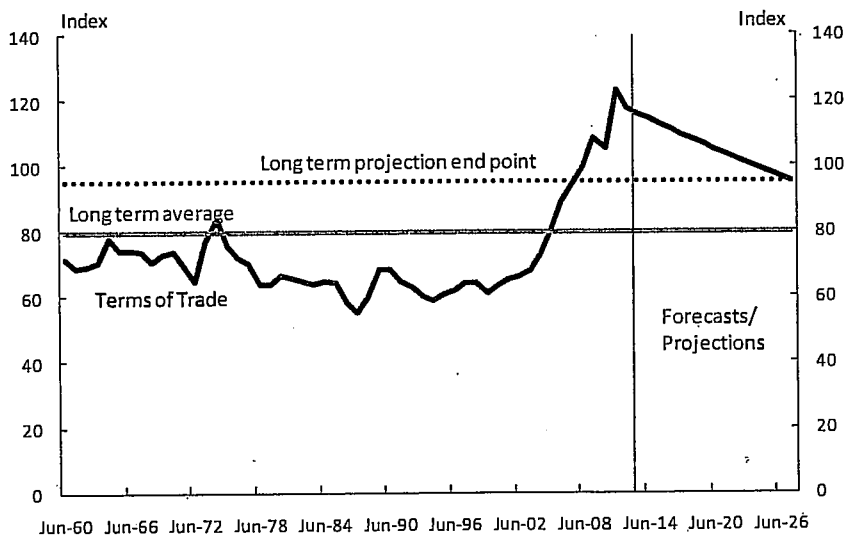
During the election campaign you reaffirmed the Government's commitment to a fiscal strategy designed to achieve budget surpluses from 2012-13 and to reduce public debt.

VOLUME B: WHAT ARE THE STRATEGIC POLICY PRIORITIES  
TO COMMENCE POLICY DEVELOPMENT?



The Pre-Election Economic and Fiscal Outlook (PEFO) forecasts the terms of trade to peak at a record high in 2010-11, before gradually falling over the next 15 years.

Figure 21: Terms of Trade



Attachment B: Principles and analysis informing machinery of government decisions

Structural change is expensive, disruptive and diverts resources from delivering government priorities. Therefore changes to machinery of government arrangements should:

- be kept to the minimum necessary to express the policy priorities and commitments of the government
- focus departments on a coherent suite of core functions, but balance the load between departments
- achieve economy and efficiency through grouping of like roles and related functions – except where there are genuine tensions between government objectives that should be tested at the Cabinet table
- recognise the differing functions of departments and portfolio agencies and ensure clear accountability, including through
  - a. providing that in general each department is led by a senior minister who is a member of Cabinet, supported as necessary by one or more junior ministers and/or parliamentary secretaries
  - b. limiting the number of departments to very close to the size of the Cabinet and keeping the size of Cabinet manageable
  - c. deploying ministers in a way that recognises the different workloads between departments and ensures each minister's responsibilities and lines of accountability are clear, and
  - d. minimising the number of complex dealings between line departments
- enhance or simplify the government's accessibility to the public and its ability to deliver citizen centred programs, and
- keep policy and delivery responsibility together except where there are clear gains (in efficiency and/or outcomes for people and communities) from coordinated delivery, or real efficiencies from purchaser/provider arrangements.

The key benefits that should drive machinery of government decisions are whether proposals deliver operational efficiencies (through better accountabilities, scale economies, clarity of strategic purpose) and/or shift policy directions to support government priorities. These must be weighed against the risks associated with costs and disruption. We have scored and ranked each of the major proposals to assist with decision making: