

National Commission of Audit – Past and Present

May 2014

On 22 October 2013 the Treasurer, the Hon. Joe Hockey MP, and the Minister for Finance, Senator the Hon. Mathias Cormann, announced the establishment of the National Commission of Audit.

The Commission of Audit was an election commitment of the Coalition and involved a full-scale review of the activities of the Commonwealth government. The Commission of Audit provided an initial report to the Federal government on 14 February 2014.

On 1 May 2014 the Government released the Commission’s Report. The Government’s initial response will be detailed in the 2014–15 Federal Budget, to be handed down 13 May 2014.

Commissions of Audit have been used by incoming Coalition governments at a State and Federal level over the past two decades to implement substantial reform of the public sector and government operations. That being said, many significant recommendations from past Commissions of Audit have never been implemented. The very first Commission of Audit was established by the UK’s Thatcher Conservative Government in 1983.

This brief provides an overview of some of the more recent Commissions of Audit in Australia and further information on the recent National Commission of Audit.

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Commissions of Audit – an overview

Commissions of Audit review the role, functions and activities of government. Commissions of Audit are separate from government so benefit from independence and transparency, and are not bound by government policy. Though divergent in their specificities, past Commissions of Audit focused on privatization, outsourcing and scope reduction as a means of reducing the overall cost of Government.

In Australia, opportunities for Commissions of Audit arise infrequently and have typically been undertaken alongside a change of government. As such, Commissions of Audit are often used as a method for many incoming Coalition governments to implement policy changes and review the strategic objectives and direction of government not canvassed prior to the election. They have been used at a State and Federal level to propose new government strategic objectives and set governments' agendas for change over periods of up to 20 years.

Although a Commission of Audit may propose various wide-ranging and substantial reforms, it is up to the government to decide which recommendations are to be implemented.

Past Commissions of Audit include:

- New South Wales Commission of Audit (1988)
- Independent Commission to Review Tasmania's Public Sector Finances (1992)
- Victorian Commission of Audit (1993)
- Western Australian Independent Commission to Review Public Sector Finances (1993)
- South Australian Commission of Audit (1994)
- National Commission of Audit, Report to the Commonwealth Government (1996)
- Queensland Commission of Audit (1996)
- New South Wales Commission of Audit (2012)
- Victorian Commission of Audit (2012)
- Queensland Commission of Audit (2012)

National Commission of Audit 2013-14

The Commission of Audit announced on 22 October 2013 was given a broad remit to examine the scope for efficiency and productivity improvements across all areas of Commonwealth expenditure, and to make recommendations to achieve savings sufficient to deliver a surplus of 1 per cent of GDP prior to 2023–24.

Composition

The Commission was chaired by Tony Shepherd AO, President of the Business Council of Australia. The panel also included:

- Dr Peter Boxall AO, former Department of Finance Secretary and current Chairman of the Independent Pricing and Regulatory Tribunal;
- Mr Tony Cole AO, former Treasury Secretary, current National Practice Leader of William M. Mercer's Investment Consulting practice, and Chairman of the Melbourne Institute Economic Forums;

- Mr Robert Fisher AM, former Executive Director of the Western Australian Department of State Development; and
- The Hon. Amanda Vanstone, former Cabinet Minister in the Howard Government.

The Commission's Secretariat was headed by Peter Crone, Chief Economist and Director of Policy at the Business Council of Australia and former Economic Adviser to Prime Minister John Howard.

Terms of Reference

The Terms of Reference outlined that purpose of the Report was to undertake a full-scale review of the activities of the Commonwealth government in order to:

- ensure taxpayers are receiving value-for-money from each dollar spent;
- eliminate wasteful spending;
- identify areas of unnecessary duplication between the activities of the Commonwealth and other levels of government;
- identify areas or programs where Commonwealth involvement is inappropriate, no longer needed, or blurs lines of accountability; and
- improve the overall efficiency and effectiveness with which government services and policy advice are delivered.

The Terms of Reference are available [here](#).

Scope of Commission

The Commission was instructed to report in two phases.

The first phase was to be completed by the end of January 2014. In January 2014, the Commission was granted an extension of time for the phase one report until 14 February 2014. The phase one report focused on:

- the scope of government – including the current split of roles and responsibilities between Commonwealth, State and Territory governments, whether Commonwealth activities should be continued and if so, whether the responsibility could be more efficiently undertaken by the private sector, the not-for-profit sector, the States or local government;
- the efficiency and effectiveness of government expenditure – including increasing contestability of services, the consolidation of agencies and boards, the privatisation of Commonwealth assets, and other cost-saving measures;
- the state of the Commonwealth's finances and medium-term risks to the integrity of the budget Position; and
- the adequacy of existing budget controls and disciplines.

The second phase was delivered in March 2014 and provided a further report on:

- Commonwealth infrastructure; and
- public sector performance and accountability.

The Press Release on the announcement of the National Commission of Audit from the Minister for Finance, Senator the Hon. Mathias Cormann, is available [here](#).

The Report

On 1 May 2014 Treasury Hockey released the Report delivered to the Government by the National Commission of Audit in March. The full Report makes 86 policy recommendations, including:

- the introduction of \$15 co-payments for Medicare funded services;
- an increase to co-payments for all medicines under the PBS, including concessional medicines that are currently free;
- an increase in the pension age to 70 by 2053, inclusion of the family home in the pension assets test and an increase in the superannuation preservation age to 62 by 2027;
- a requirement that those aged 22–30 without dependents who have been on benefits for over 12 months to relocate to higher employment areas or lose access to benefits;
- a reduction in the minimum wage;
- the transfer of all policy and funding responsibilities for schools to the states;
- the consolidation of 150 indigenous-specific Commonwealth bodies into 6 or 7 programs; and
- the outsourcing of visa processing.

The Government's response will be detailed in the Federal Budget, to be handed down on 13 May 2014. It is expected that the Government will adopt some of the Report's recommendations, while others may be modified, placed into a longer-term planning framework or rejected outright.

The full Report is available [here](#).

The Commission's recommendations are available [here](#).

The Minister's press release is available [here](#).

Past Commissions

i. National Commission of Audit 1996

The National Commission of Audit was established immediately after the election of the Coalition government in 1996. The Commission was charged with the task of reporting to the Government on the finances of the Commonwealth and measures to improve its fiscal position.

The Terms of Reference for the 1996 Commission were substantially similar to those released for the 2013-14 Federal Commission of Audit and included an examination of Federal/State service overlap, cost-saving mechanisms and financial performance targets.

The following framework was employed by the Commission in reviewing the activities of the Commonwealth:

1. Assess whether or not there is a role for government.
2. Where there is, decide which level of government, and assess whether or not government objectives are clearly specified and effectively promoted.
3. Assess whether or not effective activities are being conducted on a 'best practice' basis.

The Commission's Report recommended that a number of programs should be transferred to the States in areas such as education, services to Aboriginals and Torres Strait Islanders, family services, housing, the environment, regional development, workers compensation and industrial relations. Despite these recommendations, Commonwealth activity in many of these areas has expanded over the past two decades.

The Commission also recommended in its Report that Commonwealth review the need for continuing government ownership of all government business enterprises and reconsider its involvement in the provision of services to other government agencies or to the public (such as the Defence Housing Authority and the Legal Practice of the Attorney-General's Department).

Another recommendation arising from the Report was an improved accounting framework for the Commonwealth sector and a Charter of Budget Honesty. The Charter was subsequently established in 1998 and is available [here](#).

The Final Report of the 1996 Commission of Audit is available [here](#).

The Terms of Reference for the Commission of Audit are available [here](#).

Recent State Commissions of Audit

State Government Commissions of Audit over the past two years have resulted in significant shifts in public expenditure and the roles provided by the public service, in particular front-line service delivery and corporate functions.

ii. New South Wales Commission of Audit 2012

NSW Commission of Audit Final Report was handed down on 4 May 2012 by an Advisory Board chaired by David Gonski AC and a small secretariat led by Kerry Schott.

The reform proposed by the Report covered six key areas:

- the devolution of government responsibilities, in particular through funding model changes to an activity base (in Health), to individual entitlements (in TAFE), and to a local school base (in Education);
- increased partnerships and outsourcing in several agencies, including electricity utilities, Roads and Maritime Services, Sydney Water, Railcorp and Corrective Services;
- increased workforce flexibility in the NSW public sector;
- increased transparency of government decision making;
- improved collaboration and coordination across government; and
- increased budget constraint in order for the NSW budget to be in surplus by \$500-900 million a year.

The first stage Financial Audit was convened by Acting Treasury Secretary Michael Lambert and included a comprehensive review of NSW's finances and the development of a NSW Financial Strategy.

The Expenditure and Management Audit examined public sector management and service delivery issues and identified systemic weaknesses in management and expenditure. It outlined performance objectives for public sector management and service delivery.

The Final Report of the NSW Commission of Audit is available [here](#).

The NSW Government's response to the Report is available [here](#).

iii. Victorian Commission of Audit 2012

The Victorian Independent Review of State Finances was undertaken in 2012, headed by former Victorian Treasury Secretary Mike Vertigan and included Ian Harper, former head of the Fair Pay Commission, and Don Challen, former secretary of Tasmania's Treasury.

Although the Review was never released, it was presented to key government decision-makers, including the Victorian Premier, Cabinet and senior public servants. The media has reported that some of the suggestions arising out of the report include:

- the discontinuation of direct delivery of services such as welfare, early childhood education and housing by the State government;
- the creation of competitive markets for charities and other private bodies to bid for government contracts to cover government functions, with the State government retaining only a residual capacity to provide services to cover a potential failure by a private provider;
- the establishment of 'individual benefit accounts' for clients of the Human Services Department, which would restrict benefit payments to services such as rent, public transport and health; and
- the establishment of a private consortium to manage the Supreme Court and greater financial accountability for the judiciary and the police.

iv. Queensland Commission of Audit 2013

The Queensland Commission of Audit was established to provide advice as to the State's current and forecast financial position and to recommend strategies to strengthen the economy, restore the State's financial position and to ensure value for money in service delivery.

The interim report was released on 15 June 2012 and the Final Report handed down on 30 April 2013.

The Final Report contained 155 separate recommendations, of which only six were rejected outright.

The Report called for the privatisation and involvement of the non-government sector in areas such as public hospital services, mental health and community health services, aged care facilities, disabilities, child safety, corrective services, social inclusion and public housing services.

The Report also called for increased devolution, autonomy and accountability across schools in Queensland, the establishment of a market for TAFE education and the separation of assets from TAFEs across the state.

The Report proposed changes to the Queensland public sector, including a rationalisation and consolidation of core public service employment conditions through the simplification and consolidation of awards and certificated agreements, the establishment of a new flexible broad-banded classification system for public service, and changes to the public sector performance management system.

The Government's Response to the Report represented the most significant transformation of the public sector in Queensland for four decades. The Queensland Government adopted the Commission's recommendations to privatise Government businesses and aged care services, outsource hospital services, limit state provision of primary health care, and outsource rail services and the corporate functions of public services.

Queensland Premier Campbell Newman has [called on the federal Coalition](#) to copy these austerity measures through its Commission of Audit.

The Final Report of the Queensland Commission of Audit is available [here](#).

The Queensland Government's Response *A Plan: Better Services for Queenslanders* (April 2013) is available [here](#).