

Mitchell Institute Comment:

The National Commission of Audit, May 2014



The Commission of Audit was given a clear, defined and narrow brief to find options for savings in the context of the Commonwealth's fiscal position.

Any Commission of Audit, including this one, cannot be considered a full reform agenda in its own right, although it may be informed by an underlying philosophy, as this one has been. A full reform agenda recognises and addresses the complex interplay between economic and social systems and drivers such as labour markets, welfare, and industry, not just fiscal imperatives. A full reform agenda also demands wider consideration of how to provide contemporary, high quality services and opportunities for citizens through the combined and complementary activities of communities, businesses and governments. In many cases, reform will provide budget savings. In all cases it should increase productivity in the sector concerned and provide better social and economic returns for public and private investment.

Hopefully, the Audit will prove to be part of a coherent and detailed program of reform for service delivery and governance in the interests of improved productivity and better outcomes. Other reviews, such as the Kemp/Norton review in higher education, the review of the Federation being conducted in the Prime Minister's department, and reviews foreshadowed by the Commission itself, will need to be considered as part of a full reform package.

Where it is strong, the Commission of Audit's report has achieved the kind of cut-through that a dispassionate, high-level review can achieve, and it has some valuable ideas for reform. It is weak when it skates the surface of a policy area and/or it is not informed by deep and important content knowledge. There is much that it has missed. Better quality delivery and big productivity breakthroughs could be found through a more informed, deeper dive into areas of service delivery than has been achieved in the report. (Our work with Ross Garnaut on productivity opportunities in health and education flagged some of these and our projects on new models in schooling and health will identify these in greater detail.)

Perhaps the report's greatest strength is its focus on Commonwealth-State/Territory relations as a critical enabler or impediment to reform, which level of government should take responsibility for policy and service delivery, and the need for system architecture rationalisation as a key area for reform. (We have highlighted these as reform opportunities [in our media commentary on school and tertiary education funding](#), as one example.) Paradoxically, the report's greatest weaknesses are apparent when it fails to understand the specifics of **how to progress real reform** in these areas. In some cases its ideas are only general pointers to reform that need more work (for example, health architecture) but in other cases it is poorly informed, lacking an understanding of good governance principles and just plain wrong (for example, vocational education).

Our initial comments on specific areas of concern for the Mitchell Institute are set out on the following pages.

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Health care reforms

- It's timely that we have an audit of expenditure focussed on value for money – but the considerations of the Commission need to be further developed with reference to the national health needs that require urgent attention, and of the value based purchasing options that should be considered.
- Mitchell Institute agrees with the Commission that Australia's health 'system' is not well equipped to face future challenges, and is poorly equipped to address the current challenges of chronic disease and an ageing population. However, the recommendation that the Commonwealth Government should pursue reforms to improve "Australia's health care system" is inadequate and potentially likely to deliver more of the same. Australia does not have a "health care system" but rather multiple systems involving Commonwealth, state and territory governments, private health providers, and insurers. The Commission's recommendation fails to acknowledge this fundamental issue.
- Preventable chronic diseases and conditions affect a substantial and growing proportion of the Australian population and are consuming an increasing proportion of national health expenditure. But Australia's health policy priorities and funding and service models continue to focus on treating illness, with lower than OECD average investment in the prevention and treatment of preventable chronic disease. Any further health reform must be focussed on redressing Australia's continuing fragmentation of policies, funding and services in order to rapidly improve the national capacity to reduce preventable chronic disease, to intervene early, and to greatly improve the capacity of health services.
- Co-payments for users of health services (GPs and public hospital EDs) should be considered in the context of national objectives for health reform, and on the basis of population health needs. But careful consideration needs to be given to the impact of co-payments on access to health care that will prevent and reduce chronic disease – and any co-payments introduced should not inhibit access to health care by the most disadvantaged and at-risk populations.
- We would support a national reform approach to health services, facilitated by the Commonwealth but with all major funders and providers participating, and utilising the principles on which the Commission has based its considerations, including responsible Federation; protection of the truly disadvantaged; assuring value for taxpayers' money and ministerial responsibility; reducing complexity; acting in the public interest and recognising the benefits of markets – where they are applicable – and provision of services by those best placed to do so.

Health bodies

- We support the general direction of the recommendations regarding national health bodies. A National Health Services Commission, with membership of all governments and independent health funders and providers, would enable the development of nationally consistent policies, pricing and purchasing to deliver on the reform objectives we consider to be essential. The functions and number of Australian Government and national health boards and bodies that have been established over recent years should be consolidated.
- The recommendation for a national health and medical research institute is helpful but insufficient. Australia has a low level of investment in health services research, and the antiquated nature of health services reflects this. For Australia to reduce the growing burden of chronic disease, as well as maintain high quality and contemporary health services, investment in health services research and development is essential.

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School education

- We agree with the proposal that schools policy and funding be transferred to the states – this aligns with the principle that policy and service delivery should be delivered by the level of government closest to the people receiving those services.
- But the proposal that Commonwealth funding could be provided to states in three separate, non-transferable pools (government, Catholic and independent) is problematic. The Mitchell Institute argues that states must be given flexibility to direct funding to student need, and to delivering quality provision in all communities at the most efficient price. The recommendation to lock down funding in separate pools potentially restricts achieving value for money and addressing the equity issues that exist in education.
- Some further cost saving recommendations have been made in relation to rationalising the national architecture for school education. These recommendations appear opportunist rather than strategic. In rethinking Commonwealth-state/territory relations, we need to ask what national bodies are required that will provide good governance and when is it in the national interest to have a single authority. Areas of national interest include for example, a national teacher registration and standards authority and, like health, a national education performance commission. This would provide important public accountability and transparency by an independent authority and improve data collection, analysis and information to inform decisions on education-related measures.
- The Commission recommends that government rapidly improves the use of data in policy development, and accelerates the publication of anonymised administrative data. We fully support this as highlighted in the Mitchell Institute's forum report, [New Approaches to Persistent problems in Australian Schools](#). Big data has the potential to transform service delivery by tailoring services to need and improve outcomes.

Higher education arrangements

- The Commission's proposal to shift the balance between government and student contributions is required if we are to ensure the long term sustainability of demand driven funding. But the nominated average proportion of costs (from 41 per cent paid by students to 55 per cent) seems somewhat arbitrary. It also does not appear to consider the context of full or partial fee deregulation in terms of the extent to which deregulated fees would attract the same public subsidy or the extent to which institutions retain the additional revenue from the extra fees they charge.
- There is a strong case to reform Higher Education Loan Programs (HELP), in particular to reduce growing levels of student debt that will never be repaid. The various HELP programs should be rationalised and anomalies between them eliminated.
- The Commission recommends that HELP loan repayments kick in at the minimum wage level (\$32,354) as opposed to what happens now (repayment starts when a person earns \$51,309 p/annum). This is not supportable as it contradicts a fundamental principle in the design of HECS which was that graduates should pay when they begin to receive the benefit of their subsidized education relative to other people in the workforce. The use of minimum wages as a benchmark would mean that graduates would begin to pay before that receive any relative benefit and this position would be exacerbated over time as the relative value of the minimum wage declined if the Commission's recommendations to index the minimum wage was adopted.

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- The recommendation for HELP debts to be indexed at the cost of borrowing to government is reasonable as the current arrangements do provide an additional hidden subsidy to students from other taxpayers and government.
- That being said, there are genuine and significant problems that arise under the current student loan scheme in terms of incentives that affect students' decisions and behaviors (for example, non-completion). However, there is a complex interplay between subsidies and fees and the balance of benefits to students, institutions and the public needs to be carefully modeled.

Vocational education and training

- What was required from the Commission of Audit was a contemporary analysis of the role of VET in meeting national economic and social challenges facing Australia in 21st century in terms of competitiveness, productivity workforce participation and skills shortages and the role of the Commonwealth and the states. Instead we have a limited and superficial analysis based on a rear vision view of constitutional responsibilities.
- The Commission has proposed that VET funding and policy be handed back to the states. This is inconsistent given it does not extend this recommendation to include higher education which currently rests with the Commonwealth.
- Financial expenditure by the Commonwealth on VET appears to have been deliberately understated and the role of the Commonwealth in driving growth in VET and VET reform ignored. State expenditure on VET as a proportion of total government expenditure is falling except in Victoria and this trend is likely to continue.
- There is a real need for a major shakeout in Commonwealth\State responsibilities for VET to remove duplication and overlap and to reduce complexity. In fact the 1996 Commission of Audit Report recommended that VET should become a Commonwealth responsibility as did the Bradley Review.
- We think VET reforms should be undertaken with the objective of building a coherent tertiary education system in Australia across the VET and the higher education sectors.

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