

Recommendation 3: Better balance sheet management – unfunded superannuation liabilities

Unfunded superannuation liabilities on the Commonwealth's balance sheet represent a significant risk to the long-term financial position of the Commonwealth and should be better managed. The Commission recommends that the Government:

- a. close the Military Superannuation and Benefits Scheme to new entrants, with a new scheme established based on an accumulation plan opened for new Australian Defence Force members;
- b. as part of prudent financial management, move over time to a 'funded model' for existing defined benefit superannuation schemes; and
- c. in recognition of the upfront costs of a 'funded model' approach, consider allowing earlier drawdowns from the Future Fund to offset the costs of the new military accumulation scheme and future funding of existing defined benefit schemes. This would require amendments to the *Future Fund Act 2006*.

National Commission of Audit, Phase One Report, p.xxxiii

Recommendation 24: Defence

Ensuring the nation's defence and security is a core function of the Commonwealth Government. The Commission recommends a number of steps be taken to improve the efficiency, effectiveness, accountability and transparency of Defence spending through:

- a. ensuring preparation of the new Defence White Paper identifies capability options and associated costs for different sets of strategic risks. As part of this process, the Government should also assess the balance of strategic and fiscal priorities and how this compares with the commitment to increase Defence expenditure of 2 per cent of GDP within a decade;
- b. as a pre-condition for setting any new funding profile for Defence under the White Paper, the Government should ensure that Defence improves the effectiveness and transparency of expenditure by improving Defence budget arrangements and governance, capability development and delivery;
- c. transparency and control for government should be significantly improved by stronger budget processes including through the Expenditure Review Committee. For new capital, in particular new equipment projects, this would include holding funds in separate budget allocations and releasing them as projects are approved. Such expenditure should be treated as administered funding rather than departmental funding, so that there is greater financial control and scrutiny of this expenditure through established budget processes;

- d. a new ministerial directive to the Secretary of the Department of Defence and the Chief of the Defence Force specifying their separate and shared responsibilities and holding them individually accountable for Defence performance;
- e. reintegrating the Defence Materiel Organisation into the Department of Defence, with the size of the Defence Materiel Organisation being significantly reduced and with a renewed focus on contract management as opposed to project management;
- f. establishing a more professional Capability Development Group within Defence with an increased use of project development professionals skilled in cost and risk assessment;
- g. reducing the staffing size of Defence headquarters in Canberra, including senior staff, to 1998 levels; and
- h. Defence publishing performance indicators that reveal progress with reform, including the 'teeth to tail' ratio and the additional cost of unique and Australian built procurement decisions.

National Commission of Audit, Phase One Report, p.xlvi

Recommendation 57: Privatisations

Twenty years ago, the Hilmer report highlighted the gains to the community from opening up government enterprises to competition. The Commission considers that Commonwealth bodies that operate in contestable markets should be privatised. The Commission recommends that the following 10 bodies be privatised over the short, medium and long term, in accordance with established practice.

Short term

- a. Australian Hearing Services.
- b. Snowy Hydro Limited.
- c. Defence Housing Australia.
- d. ASC Pty Ltd.

Medium term

- a. Australian Postal Corporation.
- b. Moorebank Intermodal Company Limited.
- c. Australian Rail Track Corporation Limited.
- d. Royal Australian Mint.
- e. COMCAR.

Long term

- a. NBN Co Limited.

National Commission of Audit, Phase One Report, p.lxiv

Recommendation 12: Performance evaluation – rolling ‘audits’ of agencies

The performance of individual government agencies is central to delivering effective and efficient government. The Commission recommends:

- a. a small number of rolling Portfolio Agency Audits be undertaken each year, led by an independent person or panel, or the Department of Finance, to comprehensively assess efficiency and effectiveness across all aspects of an agency’s operations, programmes and administration, with:
 - i. results and any recommendations to be presented to the portfolio minister and the Minister for Finance, and considered as part of the annual Budget process; and
 - ii. agency heads to be responsible for implementing recommendations agreed by government; and
- b. that the Department of Defence be the subject of the first Portfolio Agency Audit, led by an independent person or panel.

National Commission of Audit, Phase Two Report, p.xxv

Recommendation 7: Public sector efficiency – improved spans of control

Average management structures in the Australian Public Service are top heavy, particularly at the Executive Level 1 and Executive Level 2 classifications. The Commission recommends that spans of management control be improved by requiring:

- a. eight major departments* and agencies to prepare plans that report on current management structures and spans of control, and opportunities for improvement, immediately for Cabinet consideration; and
- b. all portfolio secretaries and agency heads to prepare plans to improve management structures and spans of control for ministers within 12 months.

*Department of Defence, Department of Human Services, Australian Taxation Office, Department of Immigration and Border Protection, Department of Health, Department of Social Services, Australian Bureau of Statistics, and the Department of Agriculture.

National Commission of Audit, Phase Two Report, p.51

The Commission supports the Government's commitment to undertake a first-principles review of Defence's departmental structure and major processes. Opportunities for further rationalisation of 25 Defence non-principal bodies should be considered in this context.

The Defence Science and Technology Organisation should be assessed for its outsourcing potential.

National Commission of Audit, Phase Two Report, p.90

The Commission recommends the Defence Services Homes Insurance Scheme and its advisory board be abolished. There is an established and competitive insurance market. There is no compelling rationale for continued government involvement in this area. Further, noting the number of advisory bodies within the Veterans' Affairs portfolio, there is merit in identifying whether opportunities exist to share the resources of other Commonwealth departments, such as the Department of Health, Department of Human Services and Department of Defence.

National Commission of Audit, Phase Two Report, p.92

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National Commission of Audit, Phase Two Report, p.92

Since 2005 the Skilling Australia Defence Industry Program has provided funding to improve the quality and quantity of skills training in businesses that could seek defence contracts. The continued funding of this grants programme should cease, consistent with the Commission's recommendation in its Phase One Report to limit industry assistance to areas of genuine market failure.

National Commission of Audit, Phase Two Report, p.101