

Dr Steven Kennedy PSM

Secretary to the Treasury

Emerging from the crisis: recovery and reform^{*}

Address to the Australian Business Economists

18 May 2021

Introduction

I would like to acknowledge the Gadigal people of the Eora nation who are the Traditional Custodians of the Land where we are meeting today. I would like to pay my respects to their Elders – past, present and emerging – and extend my respect to any Indigenous Australians who are with us today.

I would like to thank the Australian Business Economists for inviting me to speak today and provide a post-Budget briefing.

Today, I will talk about the strength of the economic recovery and Treasury's forecasts, then move to discussing changes in Australia's fiscal position and the fiscal policy framework.

I will conclude by discussing opportunities for reform in government services with a focus on the Budget announcements to reform Aged Care services.

The recovery

Australia's economic recovery from the pandemic has been stronger than we expected, stronger than we have seen from any downturn in recent history and ahead of any major advanced economy as at the end of 2020.

I see two reasons for this stronger-than-expected recovery.

First, Australia has had considerable success to date in suppressing COVID-19 and protecting the health of Australians. More success than we hoped for in the early days of the pandemic.

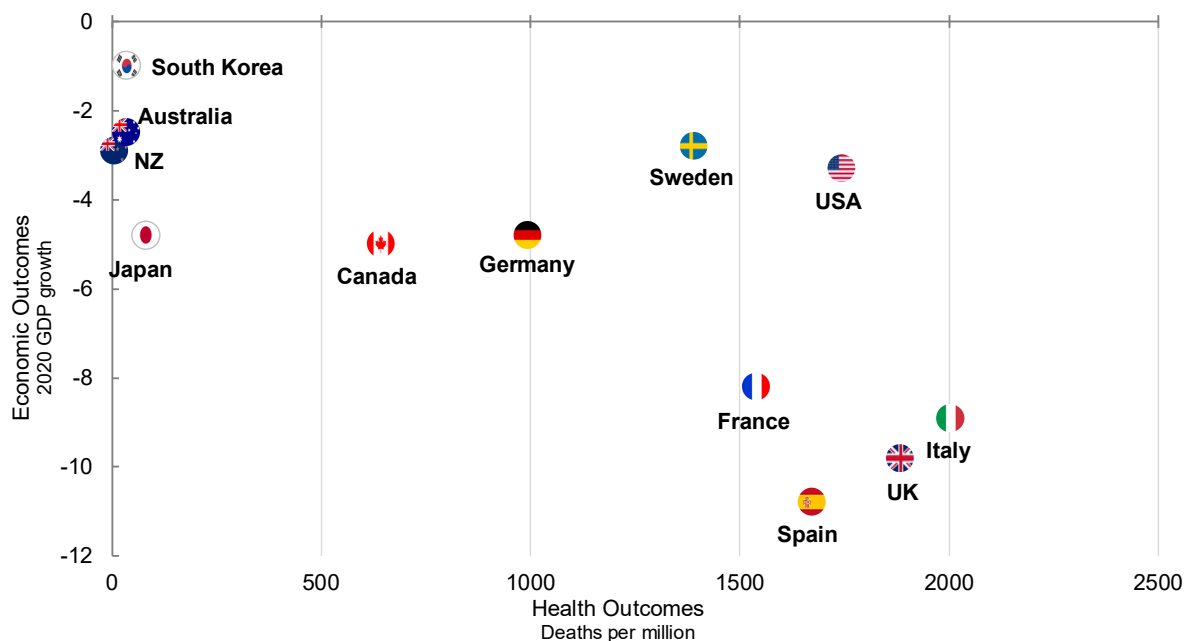
Australia chose to implement strong and targeted restrictions on activity early in the pandemic alongside the closure of international borders. While this led to the largest and sharpest fall in economic activity since the Great Depression, it allowed Australia to ease restrictions earlier than many international counterparts and despite some setbacks has seen the economy less restrained than other countries.

This, coupled with strong fiscal support, has resulted in Australia's economic and health outcomes comparing favourably with other countries.

We can see this in Chart 1 which shows deaths per million set against falls in activity between 2020 and 2019 for select OECD countries.

^{**}I would like to express my appreciation to Philip Harslett and Crystal Ossolinski for their assistance in preparing this address.

Chart 1 – COVID-19 health and economic outcomes



Note: GDP data compares 2020 annual growth compared to 2019 annual growth. Data for the United Kingdom and New Zealand are seasonally adjusted.

Source: Johns Hopkins University, UN Population, national statistical agencies.

Australia and other countries' experiences demonstrate that there has not been a linear trade-off between economic activity and COVID-19 deaths (Chart 1).

A number of studies show that even without restrictions on activity the fear of contracting COVID-19 led people to withdraw from the workforce and activity fell anyway.¹

We can see that in some countries that did not restrict activity as much as we did, such as Sweden and the US, GDP fell by a similar amount to Australia but with much higher death rates. Sadly, some countries have experienced relatively high death rates coupled with significant economic loss.

Australia's success has been in achieving suppression of the virus at relatively low economic cost.

The second reason for a stronger than expected recovery is that fiscal policy has been more effective than we expected in maintaining economic and social relationships and is now contributing to growth. This was supported by expansionary monetary policy settings and the flexibility provided in financial markets and rental markets.

The JobKeeper Payment was a key part of the policy response that not only supported household and business income, but ensured employees retained relationships with their employer, even when they were stood down. Many workers have returned to their previous jobs as restrictions eased, facilitating a fast economic recovery.

In fact, during COVID-19 a record number of workers were able to return to their previous jobs in the same firm, in part because the firm survived the shutdown. This made up a particularly large share of

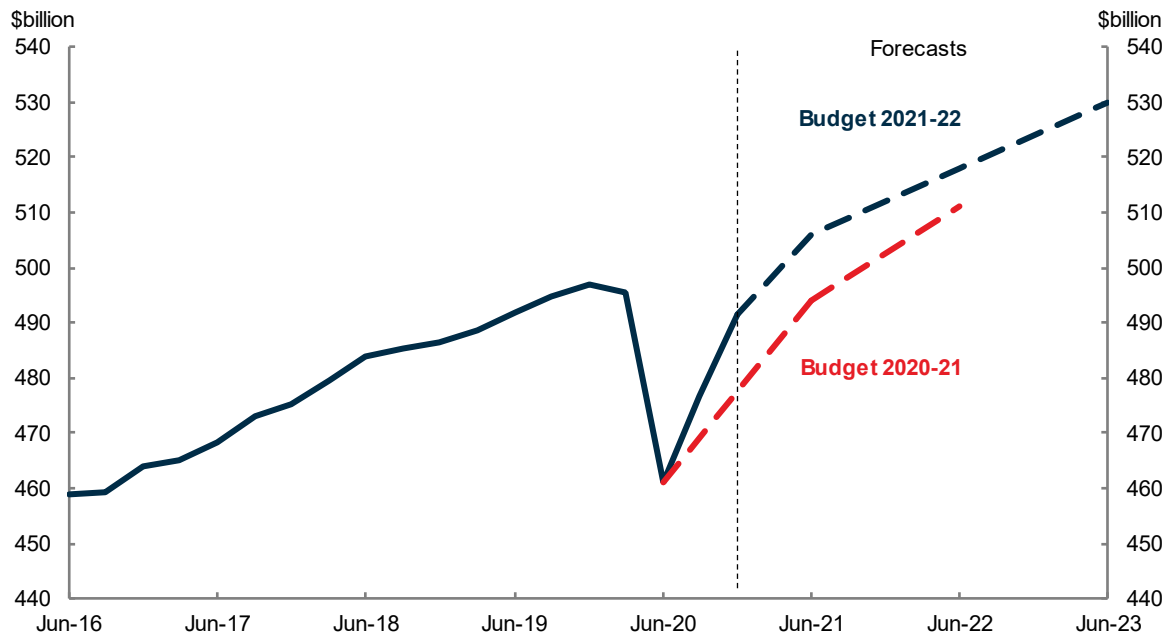
¹ Maloney, W. and Taskin, T. (2020). 'Determinants of Social Distancing and Economic Activity during COVID-19'. The World Bank Policy Research Working Paper Series 9242.

Andersen, A.L., Hansen, E.T., Johannesen, N. and Sheridan, A. (2020). 'Pandemic, Shutdown and Consumer Spending: Lessons from Scandinavian Policy Responses to COVID-19'. arXiv:2005.04630.

the recovery in sectors that were more heavily affected by temporary COVID-19 restrictions, such as accommodation and food services, and arts and recreation services.

The twin outcomes of more effective health policy and more effective fiscal policy have led us to significantly upgrade our expectations for the economic recovery.

Chart2: GDP forecasts



Source: ABS National Accounts: National Income, Expenditure and Product and Treasury.

After falling by 2.5 per cent in 2020, we now expect the economy to grow by 5¼ per cent in 2021, and by 2¾ per cent in 2022. This compares with last year’s Budget forecasts for a fall of 3¾ per cent in 2020, and growth of 4¼ per cent in 2021 (Chart 2).

Ongoing momentum in the economy, the rollout of the vaccine and continued fiscal and monetary policy support are expected to continue to drive and facilitate the transition to private-sector led growth over the forecast period.

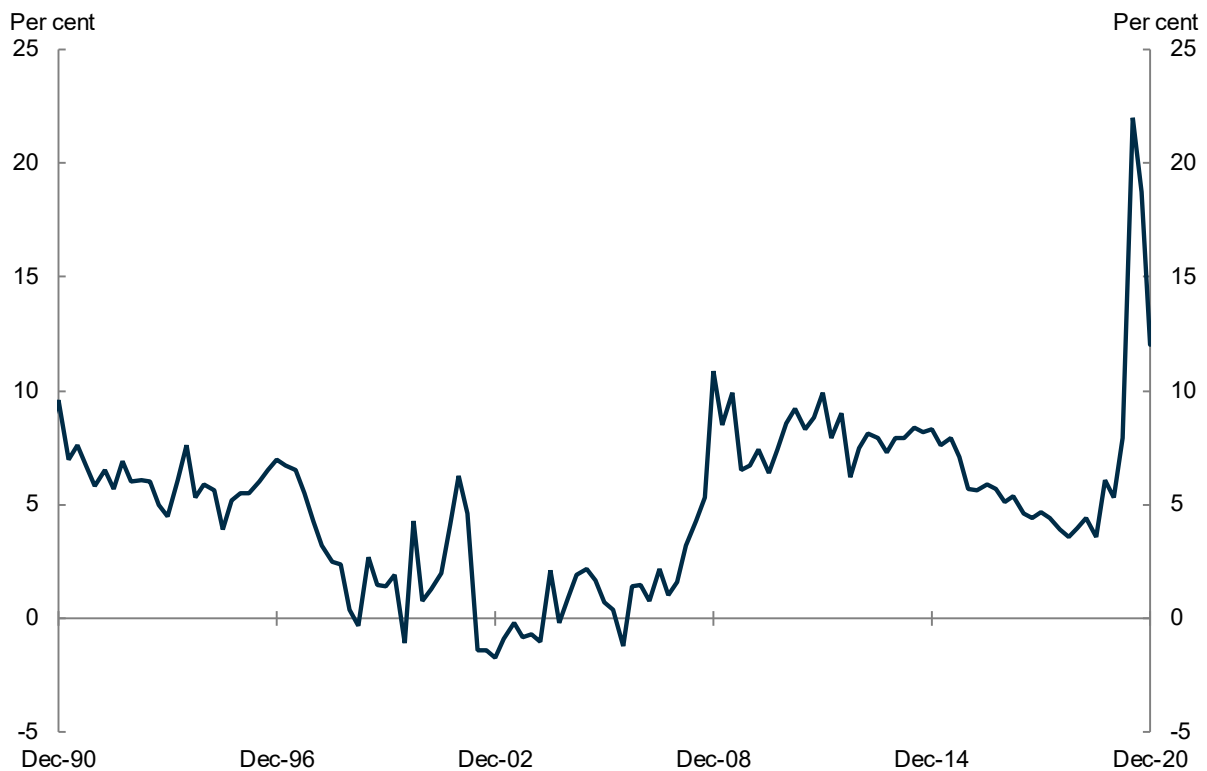
The prospects for this are sound given the strong state of domestic balance sheets, job vacancies and confidence.

By late 2020, consumption had already recovered around 80 per cent of the fall since the onset of the pandemic. We are now forecasting consumption to increase by 1¼ per cent in 2020-21, and by a strong 5½ per cent in 2021-22.

A key factor supporting above-trend growth in consumption is the strength of household balance sheets, reflecting the high saving rates in 2020 and the recent house price growth (Chart 3).

And given strong consumer confidence, we are expecting households to continue to consume more of their income over the next few quarters.

Chart 3: Household saving ratio



Source: ABS National Accounts: National Income, Expenditure and Product.

Another factor driving growth is investment – both public and private. There is a large pipeline of public investment driving public demand growth of 5½ per cent in 2020-21 and 5 per cent in 2021-22.

In the private sector, the investment outlook has improved considerably. In the early stages of the crisis, investment was expected to be hit hard, with new private business investment forecast to fall by more than 12 per cent in 2020-21.

However, we saw a stronger-than-expected pick-up in late 2020 and firms' expectations for near-term capital expenditure have strengthened. Non-mining business investment is now forecast to fall by 6½ per cent in 2020-21 before rising by 1½ per cent in 2021-22 and by 12½ per cent in 2022-23.

Turning to housing, low interest rates and the strong response to federal and state government incentives – including HomeBuilder – have supported a surge in dwelling approvals. The pipeline of work is expected to generate growth in dwelling investment of 2½ per cent over 2020-21, with activity to remain at this elevated level over subsequent years.

The international outlook, while highly uncertain, has improved with announcements of progress of vaccine rollouts and major fiscal policy support. Global GDP is now expected to grow by 6 per cent in 2021.

We are experiencing a period of elevated commodity prices, with iron ore prices elevated at around US\$160 per tonne since December 2020. Prices have been volatile and are a key uncertainty looking forward. Our current assumption is that prices will gradually return to US\$55 per tonne FOB by the end of the March quarter 2022, three quarters later than last year's Budget.

Exports are expected to fall by 8 per cent in 2020-21, before growing by 4 per cent in 2021-22 and a further 3 per cent in 2022-23.

Yet the global recovery is uneven and there are still significant risks around the world, highlighted by the major outbreak in India and the move back into recession in the Euro area.

Labour market

The labour market recovery has surpassed most analysts' expectations. Employment and the participation rate are both at a record high and the unemployment rate has fallen to 5.6 per cent.

In line with our upgrade to the GDP forecast, we now expect the unemployment rate to fall steadily in the near term to reach 5 per cent by the end of 2022, and beyond this to 4½ per cent in 2023-24.

I have two observations I would like to share on the labour market outlook.

First, the JobKeeper Payment ended on 28 March with over one million individuals still receiving the payment.

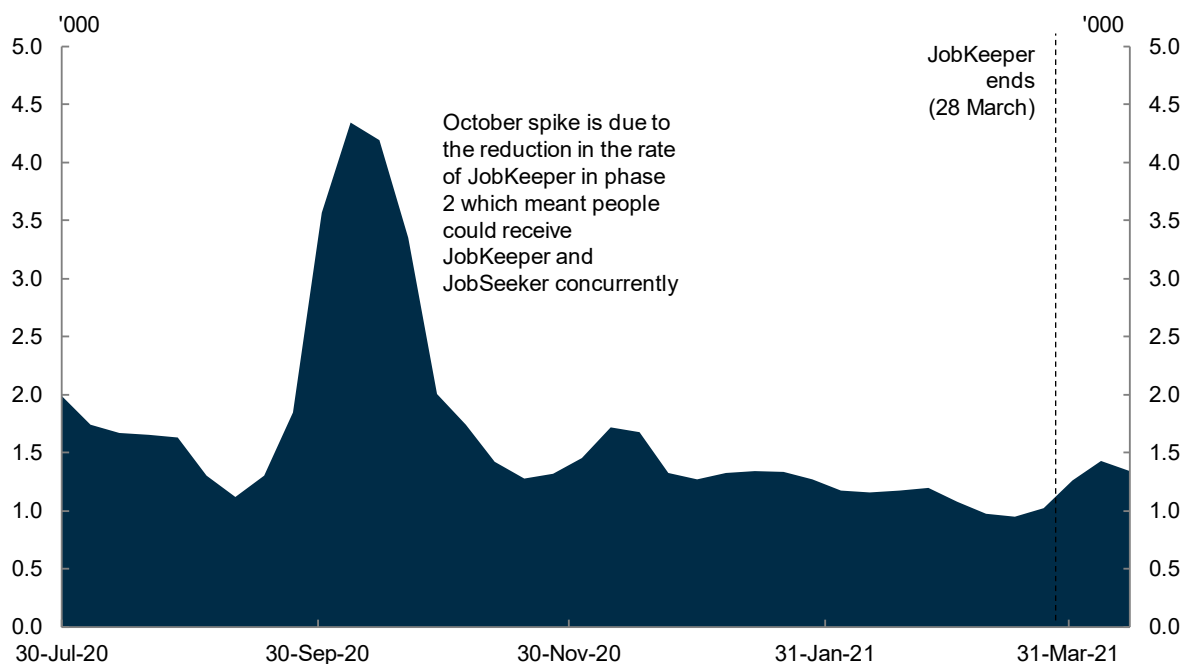
The early indicators suggest that while there have been job losses associated with the end of the program, many of these workers appear to have found, or already had, other jobs and have benefited from the broader strength of the labour market. The transition appears to be similar to that experienced last year in October at the end of the first phase of the program.

Estimates from Single Touch Payroll microdata for the fortnight ending 11 April indicate that between 16,000 and 40,000 former JobKeeper workers had lost employment.

In addition, the number of ex-JobKeeper workers flowing on to JobSeeker and Youth Allowance has not increased substantially (Chart 4). These early data appear to confirm that the employment losses associated with the end of JobKeeper won't derail the broader labour market recovery.

Treasury will continue to monitor both of these metrics going forward.

Chart 4: Income support flows and JobKeeper
Two-week moving average



Note: Income support includes JobSeeker Payment and Youth Allowance (Other). Flows onto income support includes flows from nil rate recipient status to being in receipt of payment. Two week moving average.
Source: Treasury analysis of tax and welfare payment microdata.

The second observation is that fiscal policy has played a large role in driving down the unemployment rate to date and we expect this to continue with the additional stimulus coming through this Budget. This should in turn provide greater impetus for real wage growth.

The forecast falls in unemployment represents a much faster closure of the output gap than expected at last Budget.

There is naturally a lot of interest in how far the unemployment rate can fall and remain low without generating unsustainable wage and price pressures.

A recently released Treasury working paper by Ruberl, Ball, Lucas and Williamson estimates that based upon the economic relationship prior to COVID-19, the Non-Accelerating Inflation Rate of Unemployment (NAIRU) is lower than previously estimated at between 4½ to 5 per cent.²

However, estimates of the NAIRU are highly uncertain and it is not known whether the COVID-19 pandemic will result in a higher or lower estimate of the NAIRU.

Nevertheless, as the unemployment rate falls we expect wage and price growth to begin to pick up.³

An important component of this pick up will be a strengthening in inflation expectations.

This lift is expected to be gradual with inflation reaching the mid-point of the RBA's target band by 2024.

² Ruberl, H., Ball, M., Lucas, L. and Williamson, T. (2021), 'Estimating the NAIRU in Australia', Treasury working paper, April 2021.

³ We also expect to see the underemployment rate continue declining.

Real wages are expected to grow consistent with productivity over the long term. In recent years, low nominal wage growth has reflected low inflation, falling inflation expectations and low productivity growth.

GDP per capita

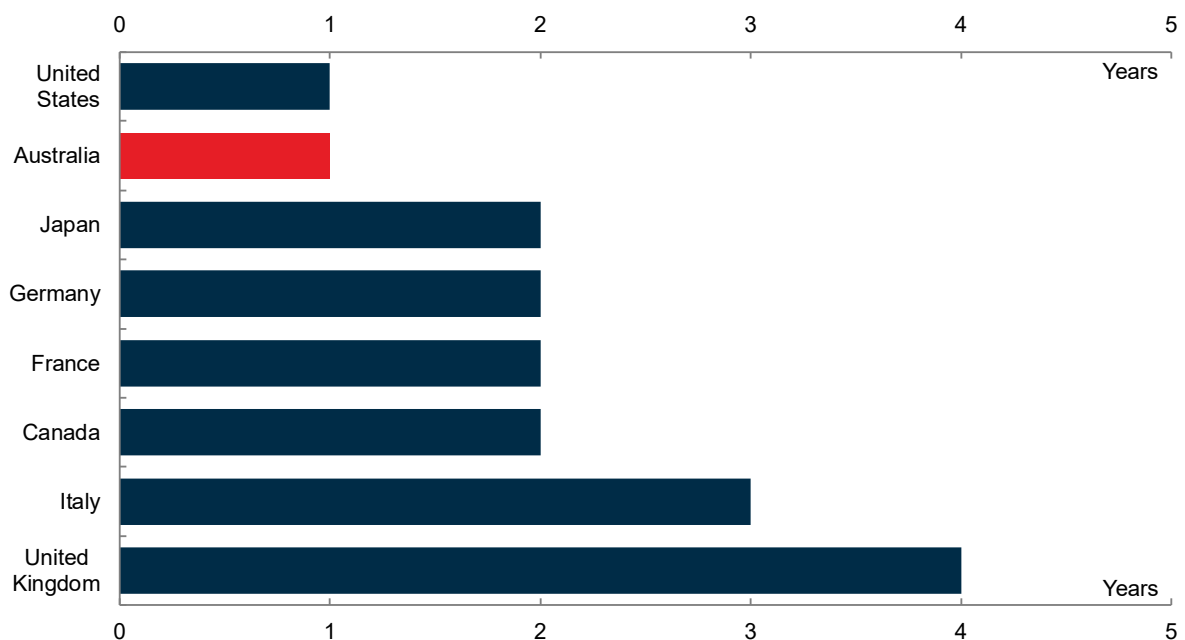
One downward revision in the Budget was our expectations around population growth based on updated assumptions about when borders might open. This is an area in which Australia has experienced one of the largest changes compared to other advanced economies, through lower net overseas migration.

While this downward revision to population growth will affect the size of the economy, it need not impact GDP per capita if the pandemic and economic consequences of the pandemic are well managed.

In fact, comparing GDP per person demonstrates just how well Australia has recovered.

In per capita terms, according to the IMF, Australian GDP is expected to recover as fast as any major advanced economy (Chart 5).

Chart5: Years to recover GDP per capita



Note: Treasury calculations of IMF projections in reference to base year 2019.
Source: IMF World Economic Outlook, April 2021.

Nevertheless, a return to open international borders and stable, well-balanced migration at an appropriate level remains in Australia's interests. Migrants – particularly skilled, working age migrants – deliver an economic dividend for Australia, raising workforce participation in the longer term and likely productivity growth.

Open international borders also provide economic opportunities for specific sectors, such as tourism and education services, and provide broader benefits that flow from being able to travel and connect with others in person rather than electronically.

COVID-19 is likely to be with us for many years. Therefore, preparing to live with COVID-19 seems to be the most likely future path for the globe and Australia. The effectiveness of vaccines to prevent serious death and disease provide confidence that once populations are sufficiently vaccinated, they will be well placed to live with COVID-19. Of course, this depends on many factors including future variants and the ongoing effectiveness of vaccines and their uptake.

Fiscal policy

I would like to turn to the Government's fiscal strategy and a discussion of fiscal sustainability.

The first phase of the Government's strategy is focused on achieving a strong economic recovery and returning unemployment to around or below pre-COVID-19 levels.

The second phase addresses longer-term fiscal sustainability by growing the economy to stabilise – and then reduce – gross and net debt as a share of the economy.

Fiscal policy continuing to support economic growth

While the recovery has been stronger than expected, there is still considerable slack in the labour market and few signs of wages and price pressures.

There is also a considerable degree of uncertainty about how the pandemic will continue to play out in Australia and internationally.

This means the Government remains well within the first phase of its fiscal strategy.

The strategy also recognises a necessary shift in the macroeconomic policy mix towards more active fiscal policy compared to previous economic recoveries. This is a global shift in policy that in part reflects the long-run decline in neutral interest rates.⁴

Monetary policy has provided important support during the pandemic, despite the cash rate reaching the zero lower bound.

But there are limitations on how much more support monetary policy can provide. This means fiscal policy needs to provide more support than is usually the case. It is also the case that in the current circumstances, fiscal policy is likely to be more effective in supporting demand.

Moreover, by continuing fiscal support to secure the recovery, the prospects of inflation and monetary policy settings normalising more quickly are increased.

To ensure fiscal policy remains effective, the Government is changing the nature of the support it provides in response to the state of the pandemic and economy.

Emergency support is now more targeted to sectors such as aviation, tourism and the arts.

Support for aggregate demand is being delivered primarily through incentives for the private sector to spend, hire and invest.

Fiscal sustainability

The 2002 Intergenerational Report defined fiscal sustainability as:

the government's ability to manage its finances so it can meet its spending commitments, both now and in the future. It ensures future generations of taxpayers do not face an unmanageable bill for government services provided to the current generation.

⁴ Holston K., Laubach, T. and Williams, J.C. (2016). 'Measuring the Natural Rate of Interest: International Trends and Determinants'. Federal Reserve Bank of San Francisco Working Paper 2016-11.

Sustainable fiscal policy involves complex decisions to strike an appropriate balance in the use of our resources across time and generations. It involves consideration of the cost of servicing and paying down debt in the future versus the benefits of deploying those resources today.

With this in mind, the fiscal strategy contains some important principles to guide decision makers, such as support being temporary, proportionate and targeted, and positive for long-term economic growth.

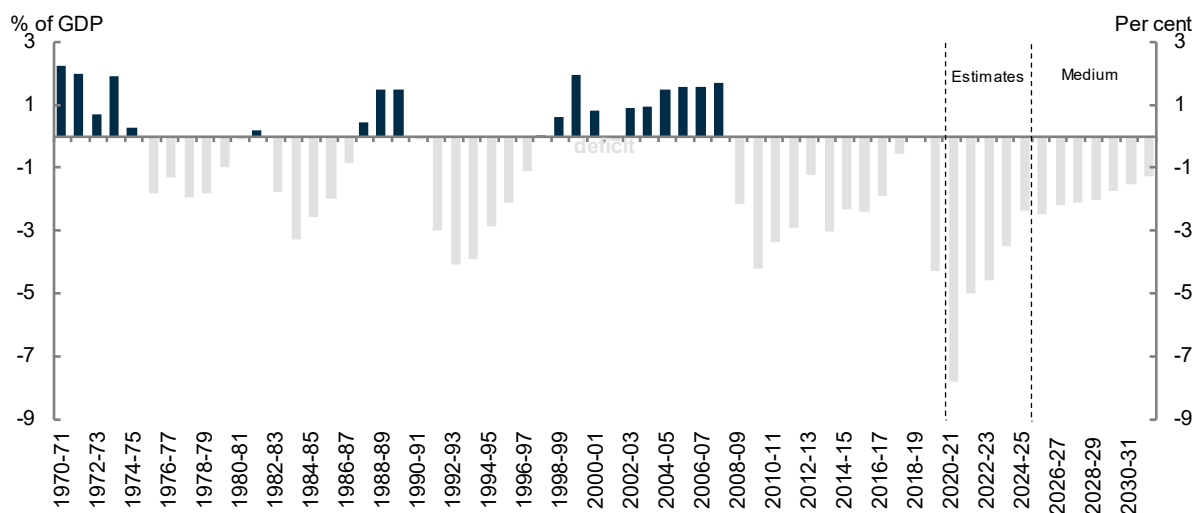
The three standard lenses for considering fiscal sustainability are deficits, debt, and debt servicing costs – all of which I think are best considered relative to the size of the overall economy.

The budget deficit

The underlying cash balance deteriorated markedly in 2019-20 and in 2020-21 as the economy contracted, tax receipts fell and emergency support was introduced. In 2020-21, it is expected to be \$161.0 billion or 7.8 per cent of GDP. This is an improvement of \$52.7 billion since last year’s Budget (Chart 6), largely on account of an improvement in the economic outlook and tax receipts.

The underlying cash balance is expected to improve to a deficit of \$57.0 billion in 2024-25, or 2.4 per cent of GDP.

Chart 6: Budget balance as a share of GDP



Source: Treasury.

The relatively quick strengthening of the fiscal position over the forward estimates reflects the unwinding of temporary support.

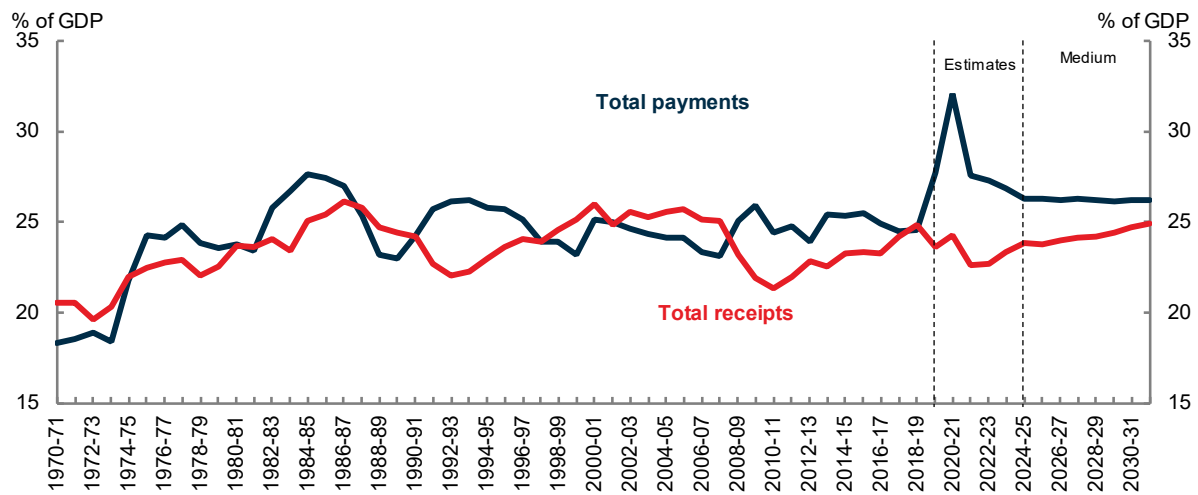
This is expected to occur despite the conservative iron ore price assumption discussed earlier and its impact on revenue.

At this stage, the deficit is expected to persist through the medium term. This persistence is not surprising given the size of shock - the largest since the Great Depression - and features of the shock - lower population growth leading to a smaller economy.

The persistence of the deficit reflects both the slow recovery of receipts and the significant portion of government spending which is of a fixed nature and thus remains higher as a proportion of GDP for longer. It also reflects the structural increases in spending the Government has committed to essential services, particularly to Aged Care, NDIS and JobSeeker payments.

We can see this in Chart 7 where payments as a share of GDP are projected to fall from a COVID-19 peak of 32.1 per cent of GDP in 2020-21 and remain flat across the medium term.

Chart 7: Payments and receipts as a share of GDP



Source: Treasury.

Receipts as a share of GDP are projected to increase from 2021-22 to the end of the medium term.

By the end of the medium term, the deficit is projected to be 1.3 per cent. This is on the basis of current circumstances and does not reflect any action Government could take in the second phase of the fiscal strategy.

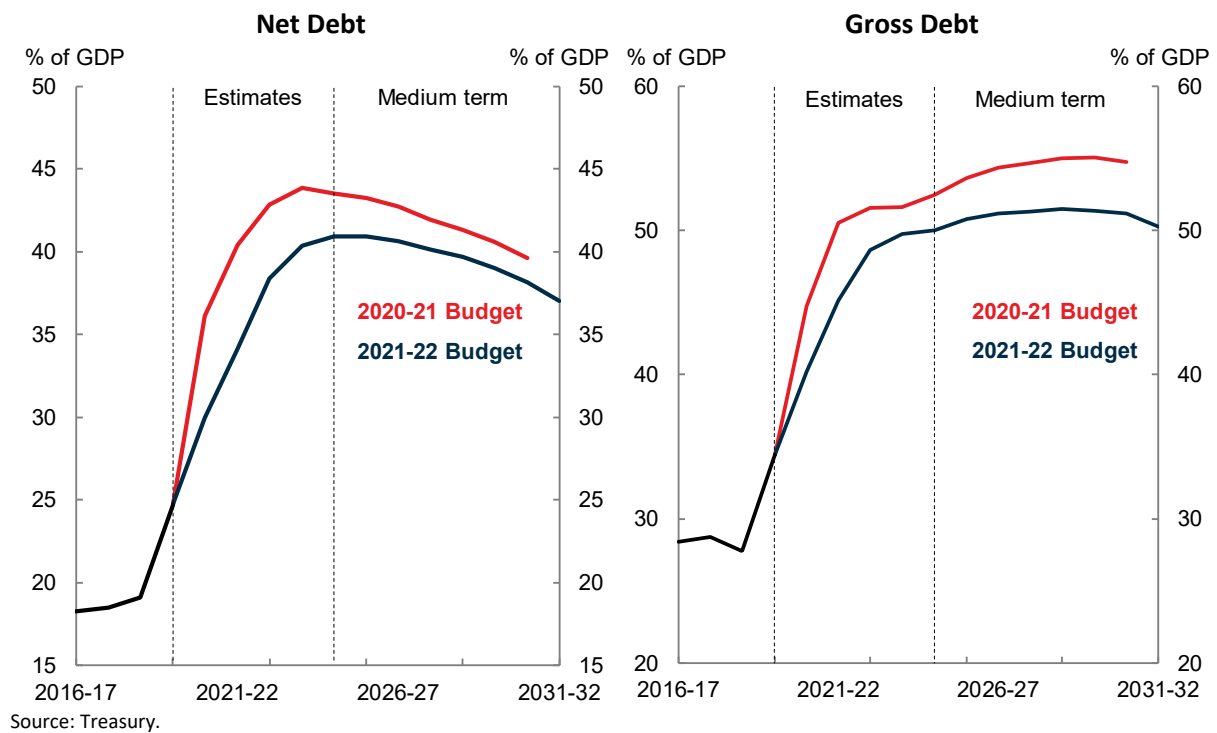
Government debt

The longer-term impacts of the budget balance on fiscal sustainability, as well as the positive dynamics associated with economic growth, are able to be illustrated by examining debt to GDP.

The Budget projections suggest that the Government is on track to stabilise and begin reducing debt as a share of GDP in the medium term, given the current economic outlook and policy settings.

Gross debt is expected to be 45.1 per cent of GDP at 30 June 2022, increasing to 50 per cent of GDP at 30 June 2025 before stabilising over the medium term at around 51 per cent of GDP (Chart 8).

Chart 8: Gross and net debt as a share of GDP



Net debt is expected to be 34.2 per cent of GDP at 30 June 2022, increasing to 40.9 per cent of GDP at 30 June 2025 before improving over the medium term to reach 37.0 per cent of GDP at 30 June 2032.

Net debt is projected to fall over the medium term more quickly than gross debt because net debt is based on the market value of AGS which falls as yields rise.

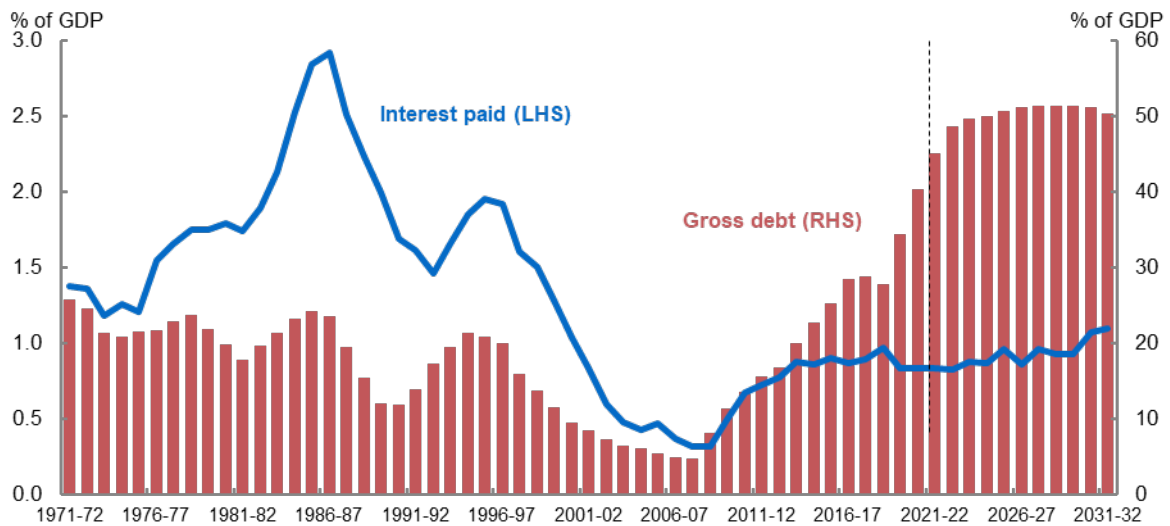
While stabilising and then reducing debt as a share of GDP is an objective of the second phase of the Government’s fiscal strategy, the nature of the decisions in the first phase means that the Government is well placed to further this objective since debt is already stabilising as a share of GDP.

Debt servicing costs

One shortcoming of debt to GDP as a measure of fiscal sustainability is that it does not capture the impact of changes in interest rates and implications for servicing debt.

It is worth noting that even with the large fiscal response, Australia’s debt servicing costs as a percentage of GDP are projected to remain low by historical standards at around 1 per cent of GDP over the medium term (Chart 9).

Chart 9: Gross debt and interest paid as a share of GDP



Source: Treasury.

This projection captures the increase to yields earlier this year, which has been tempered by the AOFM’s prudent decision to extend the yield curve over the past decade.

In 2010, the weighted average term to maturity was 5 years and the longest maturity available was only 12 years. The weighted average term to maturity is now 7.6 years and the yield curve extends to June 2051. Debt issued since the pandemic has had a weighted average tenor of 9.4 years.

Extending the yield curve has had the benefit of reducing the refinancing risk of existing debt and increasing the range of issuance options available.

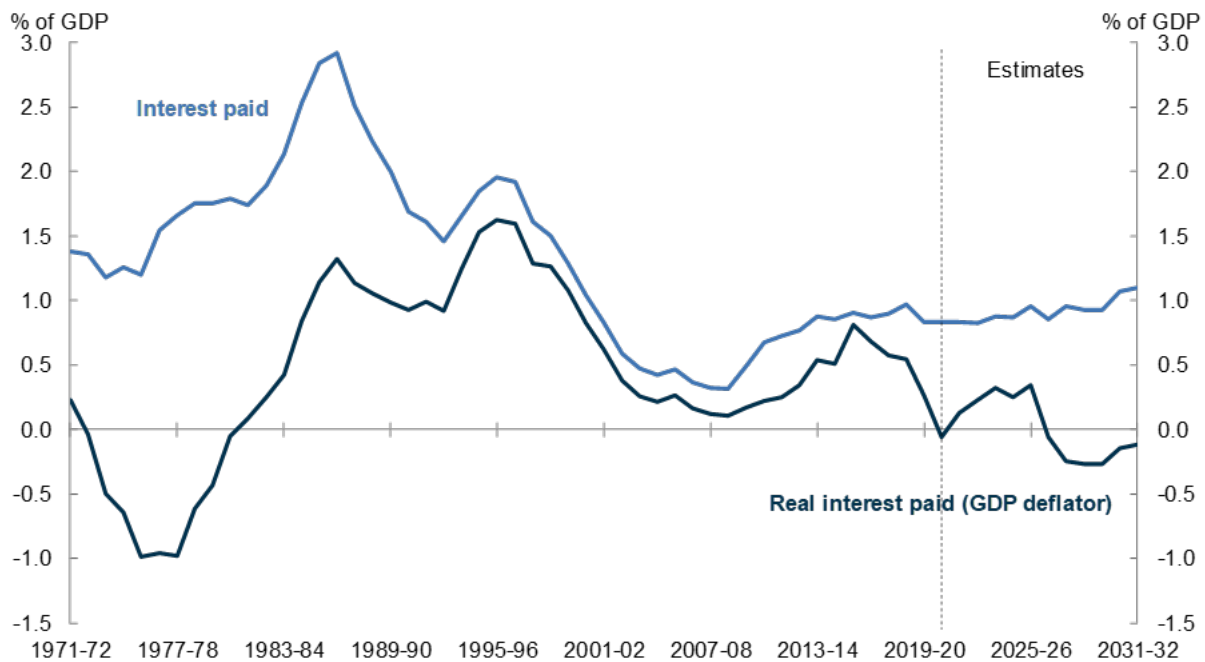
Jason Furman and Larry Summers in a 2020 paper argue that the better measure of fiscal sustainability is *real* interest payments to GDP as it more directly incorporates the positive effect prices growth can have on debt sustainability.

In the US context they suggest that keeping real interest payments below 2 per cent of GDP might be a useful fiscal sustainability guideline.

For illustrative purposes I have included a calculation of real interest payments as a share of GDP in this chart (Chart 10). You can see that we remain well below 2 per cent of GDP.

This is another way of showing that projected prices growth is sufficient to outweigh the effect on debt of our nominal interest payments in coming years.

Chart 10: Debt servicing costs



Note: A 5-year rolling average is used for the GDP deflator.
Source: Treasury.

Taken together, these metrics paint a positive picture of Australia's fiscal sustainability.

The Budget projections illustrate that the Government is on track to stabilise and reduce debt even though it remains firmly in the first phase of the fiscal strategy.

And coupled with Australia's debt to GDP being low by international standards, there remains fiscal space to respond again with fiscal policy if the need arose.

However, this doesn't mean there are not risks to the outlook.

Australia's relatively positive debt dynamics reflect the fact that nominal economic growth is expected to exceed the Government's cost of borrowing for at least the next decade.

This is a situation that has prevailed more often than not among developed countries and in Australia.⁵

However, it is not always the case, and certainly it may not be the case that the gap between these measures remains as large as it is currently.

The central Budget projections assume that the cost of borrowing remains around current levels over the forward estimates, and then rises to be equal to the nominal growth rate in the economy after about 15 years.

The Budget papers illustrate the risk of higher borrowing costs relative to economic growth through sensitivity analysis where interest rates begin to rise immediately, and converge to the expected nominal growth rate of about 5 per cent over only five years.

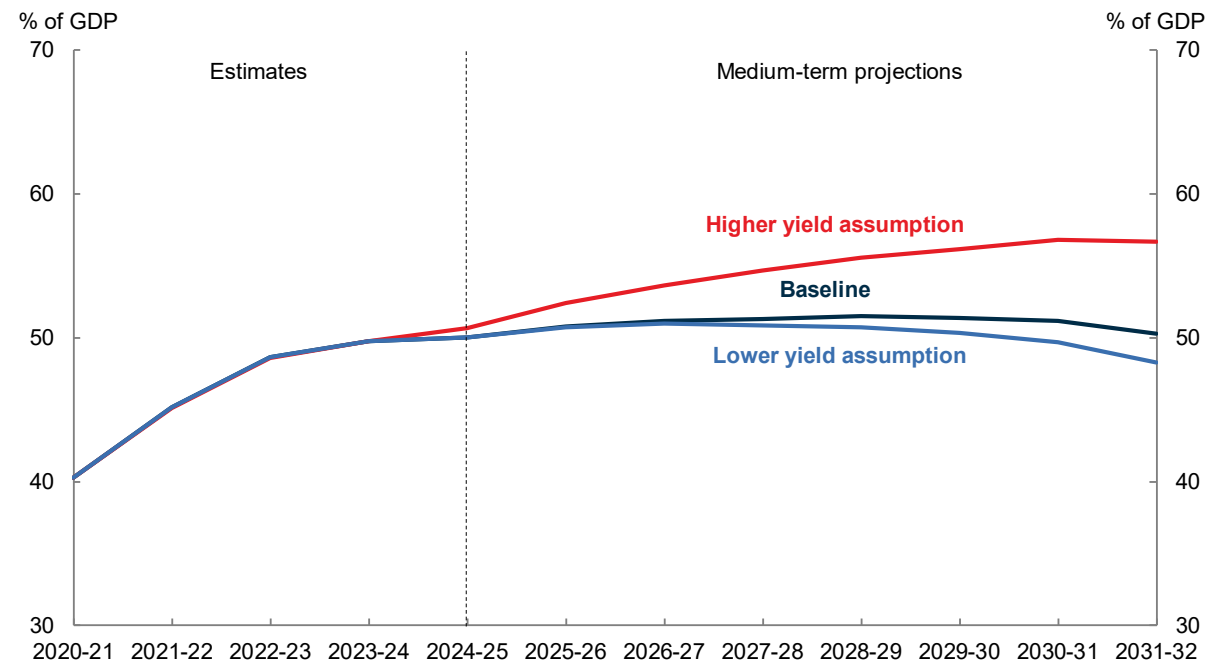
⁵ See for instance: Mauro, P. and Zhou, J. (2020). 'r-g<0: Can we sleep more soundly?'. IMF Working Paper WP/20/52.

Barro, R. J. (2020). 'R minus g'. NBER Working Paper 28002.

Blanchard, O. J. (2019). 'Public debt and low interest rates'. NBER Working Paper 25621.

This does make a noticeable difference to the projections of debt (Chart 11). However, not an unmanageable one.

Chart 11: Debt to GDP projections



There will come a time where it is prudent to accelerate the rebuilding of our fiscal buffers.

However, an aggressive tightening of fiscal policy in the current context would risk long lasting costs to the economy, and could be counterproductive in maintaining and building fiscal space.

We must manage public finances in a way that puts the highest priority on maximising the long-term performance of the economy.

Australia has reduced its debt-to-GDP ratio from higher levels in the past.

The key to doing so was a strong economy, restrained government spending and supportive economic reforms.

It is worth noting that even when deficits are being used to support economic growth, the quality of decision making is crucial. The cost of wasted spending is no less in a deficit than it is when a surplus is present.

Today I have been talking about debt sustainability in the medium term and have set aside some of the longer-term budgetary pressures, such as an ageing population.

I will discuss some of these issues in a speech for CEDA after the IGR is released before the end of June.

Reform of Government Services

The third topic that I would like to discuss today is the importance of reform to government services.

In this Budget, the Government has announced significant additional funding and reforms relating to the provision of mental health, aged care and employment services.

These sectors all fall under the umbrella of non-market services – services that are either provided by the government directly or where the government provides substantial funding.

Non-market services are a significant part of the economy, representing around 21 per cent of economic activity and 29 per cent of employment. They play a vital role in improving wellbeing and reducing inequality.

Confidence in the sustainability of government provision of services such as aged care can reduce uncertainty about the cost and availability of care services, which can itself raise welfare and increase economic growth.

And these services make up a significant proportion of government spending, which in total is projected to remain at around 26 per cent of GDP over the next 10 years.

Lifting the productivity of these sectors can lead to a higher-quality and quantity of services, as well as reduce demands on the budget.

In its 2017 *Shifting the Dial* report, the Productivity Commission estimated that adopting a set of productivity enhancing reforms would realise efficiency gains across the broader health system of \$23 billion over 20 years in net present value terms, and generate a health expenditure dividend of \$33 billion (in 2016 prices or 2 per cent of 2016 GDP) by 2040.⁶

In the light of significant increases in the provision of services delivered through the NDIS, aged care and mental health, the benefits of improved productivity are even more profound.

Historically, care sectors have experienced low productivity growth. In part this reflects the labour intensity of the services delivered and the challenges in measuring the quality of outcomes, however, there have also been failings in the design of policy and their implementation.

In their Final Report for the Royal Commission on Aged Care, the Commissioners noted that there are many missed opportunities for research and innovation gains in that sector.⁷

The Productivity Commission's Professor Stephen King in a 2019 address identified human services as the 'next wave of productivity reform'.⁸

The Government clearly has a role to play in incentivising greater productivity in these sectors, and can do so by applying sound economic principles when designing systems for funding and the provision of services, and encouraging innovation among providers to improve the quality and safety of care provided.

⁶ Productivity Commission (2017), *Impacts of Health Recommendations, Shifting the Dial: 5 year Productivity Review, Supporting Paper No. 6*, Canberra.

⁷ Royal Commission into Aged Care Quality and Safety (2021) Vol 1, p77. [Aged Care Royal Commission Final Report: Summary](#). Royal Commission into Aged Care Quality and Safety, Australian Government.

⁸ King, S. (2019). [Human Services: The next wave of productivity reform](#). Queensland Productivity Commission Productivity Lecture, Brisbane, 8 November.

Four principles for the effective and efficient delivery of government services

Using the announced aged care reforms as an example, I want to step through four general principles for improving the effectiveness of government services.

They are to provide users with more choice, improve competition, set efficient prices, and improve accountability and governance.

Provide users with more choice

As the Productivity Commission noted in its 2019 Report into Human Services, informed choice can improve outcomes for users because it enables people to make decisions that best meet their needs and preferences, generates incentives for providers to be more responsive to users' needs and drives innovation and efficiencies in service delivery.⁹

However, to be truly informed, choice must be accompanied by accurate and accessible information about what the user really cares about.

The Aged Care Royal Commissioners raised concerns that it is difficult for people to make informed decisions about aged care services on the information currently available.¹⁰

Reforms to introduce better consumer information, like the star rating system for residential care introduced in the 2021-22 Budget, are a notable step forward in this regard.

Giving consumers and their families' digestible information on metrics of care minutes delivered and consumer experience allows them to prioritise these metrics in choosing an aged care facility, and encourages competition amongst providers on the quality of care they provide.

But we need to be careful to ensure these metrics are robustly constructed and free of manipulation by providers, which has been a problem experienced in other countries that have adopted this approach. We also need to be careful to support those who are less able to make choices for themselves.

Competition and contestability

Policies to support choice are important enablers of effective competition in the aged care sector, but not enough in and of themselves.

To facilitate consumer mobility in the aged care sector, the 2021-22 Budget reforms will commence a process to assign residential care places, and the funding associated with them, directly to where they are demanded by consumers.

This contrasts with the current system where government subsidised places are allocated directly to providers through a determination of the Department of Health.

By delivering place subsidies to consumers instead of providers, older Australians seeking out an aged care facility will be able to steer the market in terms of the services provided and will encourage successful operators to expand their businesses.

While value for money is important, price competition at the expense of quality in a sector like aged care is clearly sub-optimal.

⁹ Productivity Commission (2017). 'Introducing Competition and Informed User Choice into Human Services: Reforms to Human Services'. Report No. 85, Canberra.

¹⁰ Royal Commission into Aged Care Quality and Safety (2021) Vol 1, p65. [Aged Care Royal Commission Final Report: Summary](#). Royal Commission into Aged Care Quality and Safety, Australian Government.

This is where we expect the relationship between reforms that deliver better consumer information and those that enhance competition to drive providers to respond to consumer preferences for quality services rather than low cost care.

Efficient pricing arrangements

The third key principle is to ensure that prices are set efficiently. This is important where government is the majority provider of funding but services are delivered by the private sector.

But – a key question is at what price government should fund, say, a residential care place. This is a complex question that involves a range of factors.

Efficient pricing – that is pricing that reflects all costs and clears the market– is important in sectors like aged care, particularly where the consequences of market failure means substandard care for vulnerable people.

Part of the reforms to aged care announced in the Budget involve commencing work to introduce more independent advice on pricing in the aged care sector – which is a significant step forward and will allow for the setting of more efficient prices.

Another key consideration is how much consumers are required to contribute towards the cost of care. This is important from an equity perspective and can affect how consumers engage with the service that is being provided.

With the maturing of the superannuation system, consumers of aged care services will have more capacity to contribute.

Accountability and governance

While pricing and competition are undoubtedly important drivers of improvements in aged care services, the Government has a direct role to play in assuring confidence in the quality, safety and sustainability of the sector. Reforms to accountability and governance structures announced in this Budget will play an important part in delivering these improvements.

Aged care providers and organisations will be subject to greater oversight through the new Inspector-General of Aged Care and the enhanced Aged Care Quality and Safety Commission. Increased focus will also be placed on the quality and quantity of care being provided under the home care program – which has expanded rapidly over the past decade.

A new Aged Care Act will be introduced, a suite of measures to upskill and train aged care workers will be begun, and a Council of Elders will ensure senior Australians will have a voice in the future direction of aged care services.

This is in response to the unacceptably high level of neglect and abuse uncovered through the Royal Commission into Aged Care Quality and Safety.

To complement changes to governance and standards, the Government requires a well-equipped regulator to undertake surveillance and enforcement of those standards across the sector.

Establishing a new independent regulatory authority, following a review of the current Aged Care Quality and Safety Commission, will support this goal.

Conclusion

Last year, my speech to this forum highlighted the significant uncertainty we faced.

The economic recovery we have seen since then has significantly exceeded our expectations.

Our success in managing the crisis to date is enabling us to look forward to the next set of challenges at a time when others around the world remain focused on the immediate threat.

We now have an opportunity to drive down the unemployment rate below its pre-COVID-19 level and to generate appropriate wages and price growth while maintaining fiscal sustainability.

We also have the opportunity to begin the large job of necessary and timely reforms to the aged care system. Reforms which have the potential to benefit millions of Australians in care and their families.

And we have the opportunity to reform government services more broadly to enable an increase in the quality and quantum of services while reducing pressure on the budget.

I thank you for the opportunity to speak with you today.