

**Submission No. 11  
Inquiry into National Funding Agreements**

**COAG  
Reform Council**

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Mr David Brunoro  
Committee Secretary  
Joint Committee of Public Accounts and Audit  
PO Box 6021  
Parliament House  
Canberra ACT 2600

Dear Mr Brunoro

Thank you for your letter regarding the Joint Committee of Public Accounts and Audit's Inquiry into National Funding Agreements and inviting a submission from the COAG Reform Council.

The COAG Reform Council (the council) welcomes the work being undertaken by the Joint Committee on the operation of funding agreements between the Commonwealth and State and Territory Governments, including the National Agreements entered into under the Intergovernmental Agreement on Federal Financial Relations.

The council appreciates your invitation to provide a written submission to the inquiry, and has prepared the attached paper in response. The council's submission focuses on the inquiry's third term of reference, and highlights areas of the council's work most pertinent to the question of balancing the flexibility to allow States and Territories to determine their own priorities with mechanisms for monitoring accountability and ensuring that the objectives of funding agreements are being achieved.

I hope that the attached submission is of interest and use to the inquiry, and look forward to the Joint Committee's final report and findings in due course.

Yours sincerely

Mr Paul McClintock AO  
Chairman  
COAG Reform Council

## Submission to Joint Committee on Public Accounts and Audit

### Overview

The COAG Reform Council (the council) welcomes the opportunity to provide a submission to the Joint Committee on Public Accounts and Audit to inform its review and report on the operation of funding agreements between the Commonwealth and State and Territory Governments.

The council's submission will address the third point of the Committee's terms of reference:

The need to balance the flexibility to allow states and territories to determine their own priorities with mechanisms for monitoring accountability and ensuring that the objectives of funding agreements are being achieved, noting the role of the COAG Reform Council.

While this point refers specifically to a balance between flexibility and accountability, the council notes that there are also additional principles underpinning the institutional arrangements for federal financial relations. In addition to the principles of flexibility (through an outcomes-based framework) and accountability (through performance reporting), additional principles to note are fair and sustainable financial arrangements, clearly defined roles and responsibilities, and incentives for reform. The Committee may wish to consider these interrelated features as part of its review given they may all be important foundations for successful reform.

The council's submission is structured in two parts. The submission first looks at how flexibility and accountability have been incorporated within the institutional framework established by the Intergovernmental Agreement on Federal Financial Relations (IGA). The council suggests, however, that it is currently too early to determine whether the balance between flexibility and accountability envisaged under these arrangements has been achieved.

Second, the submission reflects on the role assigned to the council by the IGA of monitoring and reporting on the performance of governments under National Agreements and National Partnership Agreements, and the need for a workable balance between flexibility and accountability in performing this task. In making comments on the performance reporting framework of these agreements, the council is conscious that COAG has decided to review the performance frameworks of each National Agreement to ensure progress is measured and all jurisdictions are clearly accountable to the public and COAG for their efforts (COAG 2011, p. 2).

### The Intergovernmental Agreement on Federal Financial Relations

Funding arrangements between the Commonwealth and State and Territory Governments were significantly amended with the introduction of the Intergovernmental Agreement on Federal Financial Relations (IGA) on 1 January 2009. The previous agreement—the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations—was strictly a fiscal agreement between the Commonwealth and States and Territories, focused on GST transfers and related taxation reforms. In contrast, the IGA establishes an institutional framework that includes and builds on agreed financial arrangements.

The new institutional arrangements articulated in the IGA are characterised by the acknowledgement that collaboration and coordinated action are necessary to facilitate economic and social reforms of national

importance. A commitment by governments to cooperative federalism is explicitly made in clause 11 of the IGA, which states that financial relations ‘will be underpinned by a shared commitment to genuinely cooperative working arrangements’ (COAG 2008, p.5).

A significant feature of the institutional framework established under the IGA is the balance established between flexibility and accountability. The IGA recognises that States and Territories need the flexibility to innovate in order to find the best means of facilitating reforms of national importance. The move towards outcomes-based financial arrangements for intergovernmental relations is a key component of the new institutional arrangements and provides governments with the flexibility to determine their own priorities while committing to achieve a set of high-level outcomes.

In terms of accountability, a crucial element of the reform of federal financial relations under the IGA is COAG’s commitment to enhancing the accountability of governments through public monitoring and reporting. The public reporting and accountability element of the federal financial relations reform has established, for the first time, an independent body at the intergovernmental level—the COAG Reform Council—reporting back to COAG on a comprehensive reform agenda.

The new institutional arrangements articulated in the IGA—characterised by a commitment to cooperative federalism, a focus on outcomes, and the establishment of an independent accountability body—represent a significant foundational achievement. The COAG Reform Council’s first report on progress towards the COAG reform agenda, publicly released in September 2010, highlights this observation.

However, like all major public policy reform, the institutional reforms set out under the COAG reform agenda challenge conventional practices. Many of the key features of the new framework will require cultural change in the way governments approach intergovernmental relations, policy development and service delivery—both across and within governments. Achieving a workable balance between flexibility and accountability will be an important factor in bringing about this cultural change and realising the promise of institutional reform. Genuine cooperation, a commitment to outcomes, respect for roles and responsibilities, and real accountability will also be crucial.

It is important to note that it is still relatively early days in the changed environment of federal financial relations established by the IGA. The cultural changes and shifts in intergovernmental relations needed to achieve the reforms envisaged are ongoing endeavours and will develop over time. As such, it is currently too early to determine whether the balance between flexibility and accountability envisaged under the new institutional arrangements has been achieved.

The Committee may wish to note that the council will be examining the extent to which the institutional features of the federal financial relations framework are being realised in its second report on progress towards the COAG reform agenda, which will be submitted to COAG in September 2011 and publicly released in November 2011.

#### The experience of the COAG Reform Council

The council is tasked under the IGA with monitoring and reporting on the accountability of governments under two types of agreements linked to funding—National Agreements and National Partnership Agreements. Through its experience reporting on these agreements to date, the council has identified in some instances a tension between the goals of flexibility and accountability as engendered by the new institutional arrangements. This has presented challenges for the council in effectively performing its role.

## National Agreements

National Agreements are outcomes-focused agreements that entail a high degree of flexibility for State and Territory governments to direct resources to areas which they consider will produce the best results for their State. Under National Agreements, governments are accountable for the achievement of agreed objectives and outcomes, and high-level performance indicators provide the mechanism for measuring and comparing performance. National Agreements do not include financial or input controls on the service delivery of the States and Territories.

The funding associated with National Agreements is in the form of national specific purpose payments (SPPs). For example, the National Education Agreement is linked to the National Schools SPP, via which the Commonwealth provides \$56 billion over five years from 2009-10 to the States and Territories. While the State and Territory governments are required to spend this funding within the education sector, they have full budget flexibility to allocate funds within that sector in order to achieve the mutually agreed objectives and outcomes of the National Agreement.

To ensure accountability under National Agreements, the COAG Reform Council is tasked with conducting a comparative analysis of the performance of governments against indicators and publishing the analysis and data annually. However, the ability of the council to effectively report on government performance under National Agreements is dependent on the robustness of the performance indicators and benchmarks agreed by governments as part of the National Agreements, as these form the basis of public reporting.

As the council has highlighted in its reports on National Agreements—and as emphasised by the Chairman in his address to the NatStats 2010 Conference on 16 September 2010—the extent to which the council is able to meaningfully report on the achievement of outcomes year-on-year is significantly constrained by the availability and quality of nationally comparable data. Without quality data, accountability and transparency fail.

The council has called for significant improvements in two main areas in order to more effectively undertake its task of comparative performance reporting under the National Agreements; these are:

1. Strengthened conceptual frameworks linking performance indicators with objectives and outcomes
2. Improved availability and timeliness of robust and nationally comparable data.

At its meeting on 13 February 2011, COAG announced that the performance frameworks of each National Agreement will be reviewed to ensure progress is measured and all jurisdictions are clearly accountable to the public and COAG for their efforts (COAG 2011, p.2). The challenge ahead will be addressing the issues highlighted by the council to improve public accountability while maintaining an appropriate level of flexibility in the outcomes-based structure of National Agreements.

## National Partnership Agreements

National Partnerships provide for Commonwealth payments to the States and Territories to drive reforms or improve service delivery. Under some agreements, the Commonwealth provides reward payments to those jurisdictions which achieve performance benchmarks or meet reform commitments. Each National Partnership Agreement is unique and contains a tailored approach to performance reporting. However, in the majority of National Partnerships, a multilateral framework is established by the agreement itself, which is supported by bilateral agreements and implementation plans agreed between the Commonwealth and individual States and Territories. These supporting agreements and plans are designed to provide flexibility for States and Territories in how the partnership is implemented in their jurisdiction.

For example, the National Partnership Agreement on Literacy and Numeracy aims to deliver sustained improvements in literacy and numeracy outcomes for all students. The agreement sets out the objectives, outcomes and outputs to which the National Partnership contributes. The total funding under this National Partnership is \$540 million from 2008–09 to 2011–12, including reward payments of \$350 million available in the last two years. Before reward payments are made, the council has the role of assessing and publicly reporting the achievement of agreed performance benchmarks. The final decision on reward payments lies with the Commonwealth.

The bilateral agreements and implementation plans which support this National Partnership allow States and Territories to implement literacy and numeracy strategies most appropriate to their governments' policy settings and circumstances, providing that high-level outcomes are achieved. The performance benchmarks linked to reward funding, in this instance, literacy and numeracy targets, reflect the differences in each State and Territory's implementation. However, the National Partnership also states that while targets may vary according to each State or Territory's implementation plans, there will be consistency where possible in the measurement of improvement.

In reporting on this National Partnership, the council notes the importance of allowing States and Territories flexibility in determining the most appropriate literacy and numeracy strategies for their circumstances. However, the public reporting of the achievement of targets is intended to transparently show the performance of all governments in meeting the high-level objectives and outcomes of the National Partnership.

The variation in the targets and ambition set by different governments has presented a challenge for the council in assessing and reporting the achievement of pre-determined performance benchmarks in a way that supports public accountability. In the case of the Literacy and Numeracy National Partnership, the council has found variation across jurisdictions including in:

- proportion of participating schools and students and the criteria for selecting participating schools
- domains, year levels, size of student cohort, student characteristics and sectors for measurement
- calculation of targets and methodologies for establishing baselines and the total number of targets.

The council considers that the level of variation in targets and variation of ambition between States and Territories in National Partnership Agreements has the potential to impede public understanding of the assessments made in the council's reporting. The tension between flexibility and accountability in these agreements may impact on the transparency of reporting progress towards outcomes.

## Conclusion

As the IGA makes clear, the new framework for federal financial relations replaces Commonwealth prescriptions on State and Territory service delivery with a new focus on the achievement by all levels of government of mutually agreed objectives and outcomes. This provides a greater degree of flexibility for State and Territory governments to tailor their approaches to meet the specific needs of their populations. This flexibility, however, creates the need for strong public accountability mechanisms so that the community can know which level of government is responsible for the delivery of a particular service, and whether that government's policies and programs are effective in contributing to the desired outcomes.

As the COAG Reform Council has noted, the balance between flexibility and accountability under the new institutional framework for federal financial relations is an ongoing challenge for all governments, requiring significant political commitment. Without public accountability for results, however, there may be a push to return to measuring and managing by inputs, or at best outputs. The improvement of the wellbeing of all Australians within a federal system will require a balance between flexibility for governments in achieving outcomes to reflect the wide range of circumstances across Australia, and strong public accountability to give the community confidence that governments are on track to achieve results.

Suzanne Varrall, Adviser  
1 April 2011