# GOVERNMENTS WORKING TOGETHER?

## ASSESSING SPECIFIC PURPOSE PAYMENT ARRANGEMENTS

Prepared by The Allen Consulting Group at the request of the Victorian Government as the basis for an improved national debate on federalism

June 2006

GOVERNMENTS WORKING TOGETHER? ASSESSING SPECIFIC PURPOSE PAYMENT ARRANGEMENTS
REPORT TO THE GOVERNMENT OF VICTORIA
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THIS REPORT WAS PREPARED BY THE ALLEN CONSULTING GROUP

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# PREMIER'S FOREWORD



Australia's future prosperity requires Commonwealth, State and Territory Governments to work together to achieve agreed outcomes.

Through the Council of Australian Governments (COAG), Australian governments have agreed that a healthy, skilled population – our nation's human capital – is critical to our economic and social future.

On balance, Australia's federal system has served us well. It has enabled our citizens to enjoy health and education outcomes that are among the world's best. But in a world where our competitors are making giant strides, we cannot afford to stand still.

We need to leverage the potential competitive advantage of our federal system. At its best, this would combine a legitimate Commonwealth Government interest in achieving minimum standards of access, with a diversity of policy approaches driving improvements over time. The Commonwealth is also best placed to drive improvement with information about best practice and financial incentives for innovation.

No other areas of government activity are more important to the well-being of Australians than health and education services. Our success or otherwise in these areas will go a long way to shaping our economic and social future.

The Commonwealth currently assists State and Territory Governments to meet their responsibilities in health and education largely through Specific Purpose Payments (SPPs).

This report asks whether SPPs are an effective way for governments to work together to improve outcomes for our citizens and our economy.

The report confirms what a series of reports have consistently found over the past decade – that SPPs are focused too much on administration and red tape, and not enough on the outcomes that really matter.

SPPs too often reflect a rigid, one size fits all approach. In a country as diverse and large as Australia, State and Territory Governments need more flexibility in policy development and service delivery if we are to respond to the varied needs of local communities and to adapt to a changing environment.

This July, COAG considers a new National Reform Agenda that has health and education at its heart. The full benefit of national reform will only reach ordinary Australians if governments seize this opportunity to work together.

This report makes a significant contribution to the national reform debate. I wish to thank Dr Vince Fitzgerald, and his team at The Allen Consulting Group, for the report. I commend it to all governments as they consider how we work together to build a better future.

Hon Steve Bracks MP
Premier of Victoria

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## SPPs and why they matter

This report examines Specific Purpose Payments (SPPs) – the primary vehicle used by the Commonwealth Government to help fund, and to pursue its policy objectives in areas that are constitutionally the responsibility of the States. There are at least 90 distinct SPP programs, providing an estimated $20.5 billion to the States in 2006-07 (plus another $7.4 billion 'through' the States to non-government schools and local governments; local governments receive a further $0.5 billion directly). In dollar terms, SPPs are predominantly in health and education.

No other areas of public services are more important to the wellbeing and opportunities of all Australians, and to building the nation's human capital, than health and education. Their importance in improving workforce participation and productivity has made them a key focus of the National Reform Agenda now being pursued by the Council of Australian Governments (COAG).

There is always scope for doing better, but Australia is already among the leaders in international rankings of performance in health and education:

- In the OECD 2004 Health project, Australia ranked third in life expectancy and overall health system effectiveness, and sixth in healthy life expectancy, among the 30 OECD countries. We perform at least as well as the US in specific health outcomes, but at about half the US cost as a percentage of GDP.
- In the 2003 OECD Program for International Student Assessment (PISA) Survey, covering 15 year old school students, only one other country (out of 41 surveyed) produced better literacy results than Australia; only three had better science results; and only four had better maths results.

These results can be attributed in large part to our federal system of government, within which the States[1] can each develop their own approaches to achieving good outcomes, and can learn from each other, within a broad national framework. This is a system which has strong inherent potential for innovation and service improvement. The challenge is to continue to realise that potential to the fullest.

This is the context in which SPPs have come under the spotlight, since it has become clear that SPP arrangements, as they have evolved, are in many respects an impediment to meeting that challenge. As this report will demonstrate:

- instead of being focused on achieving agreed outcomes, in many cases they centre on inputs and bureaucratic processes and controls;
- they are typically burdensome and impede efficiency;
- they have tended to create tension between governments rather than promoting collaboration or partnership; and
- they lack incentives or frameworks for pursuing improvement.

1. THE DETAILS OF THE PRELIMINARY MODELLING CONDUCTED BY DTF CAN BE FOUND AT THE DEPARTMENT'S WEBSITE, AT WWW.DTF.VIC.GOV.AU

This report examines a range of SPP programs in health and in education in detail so as to identify impediments within those programs, to make an overall assessment of the current SPP model and to point the way to reforms that would achieve better outcomes.

Most Australians would not be familiar with SPP arrangements – nor would they wish to be. They simply want governments to work together to deliver better health and education (and other) services. As general guides to reforming SPPs, therefore:

- Governments should focus on what really matters to the community – *better outcomes*, not bureaucratic arrangements between themselves.
- State governments should have the fullest scope for developing *diverse ways* to *deliver improved services* for their own communities and in their own circumstances, within a broad national framework.
- SPP arrangements should be reformed in the mould of *a partnership* in which governments ensure that all of the related programs contributing to, say, health outcomes are well coordinated and complementary.

## What are the yardsticks?

As a basis for assessing current SPP programs in health and education, the report lays out some best practice principles or yardsticks for assessing intergovernmental arrangements in a federal system like ours – particularly in the core areas of health and education. They reflect the following key considerations, along with general good practice principles for the design of arrangements for two parties to work together collaboratively to achieve common ends:

- Health and education (broadly defined), are now effectively areas of shared involvement between the Commonwealth and the States.
- The Commonwealth has a legitimate and important role on national aspects, including helping ensure that all Australians can access services in these areas to at least a minimum national standard, but not on a 'one size fits all' basis. The States also have key roles in policy and program development, administration and service provision that is responsive to local circumstances, needs and priorities. Each level of government can take credit for improved outcomes.
- Diversity in the ways that outcomes are achieved among the States is a fundamental driver of policy, program and service innovation – a key spur to improved effectiveness and efficiency.

Accordingly, the assessment criteria proposed are:

- Degree of *strategic outcomes focus*, including identification of agreed strategic outcomes (also reflected in related programs), and agreed measures of progress;
- Degree of *coordination of related programs* bearing on the agreed outcomes, including targeting these outcomes, coordination of policies and planning, minimisation of inconsistencies and overlaps;
- Degree of *intergovernmental collaboration* – extent to which arrangements are in essence a partnership, involving balancing obligations and contributions, risk sharing, and cooperation in resolving 'boundary issues';
- *Promotion of efficiency* – absence of input controls and 'micro-management', maximum scope for diverse responses, positive incentives, and minimal administrative and reporting burdens; and
- *Dynamic improvement stimulated by diversity* – is there active commitment to sharing and reviewing experiences, learning, innovation and improvement?

## Overall assessment of the current SPP model

In most cases, and particularly in the major health and education SPPs, there is *limited focus on strategic outcomes*. A number of the features of current arrangements, rather than being designed to optimise achievement of agreed outcomes, inhibit or set up barriers to efficient achievement of best outcomes.

The Commonwealth-State Agreement on Skilling Australia's Workforce is intended to support documented national goals for vocational education and training, but in fact

- it provides little additional funding (and much less than the States do);
- there is nothing in the agreement to encourage or reward improvement in the quality of training;
- it imposes maintenance of effort requirements in both activity and spending which are disincentives to better efficiency; in fact it builds in rewards for States which are inefficient; and
- it imposes highly prescriptive requirements in matters, notably industrial relations arrangements at provider level, which have nothing to do with training outcomes.

Some of the funding is quarantined: Subject to matching, Victoria will receive approx. $240,000 p.a. for three years for the Joint Indigenous Funding (JIF) pool. Involving as many as six senior meetings, the administrative set-up costs to the State are disproportionate to the funding made available for training. Commonwealth requirements are detailed and prescriptive, including requiring representation on panels to select local providers.

Many SPP programs sit alongside closely related programs operated separately by one or other level of government, often having a major concurrent influence on the same outcomes. Typically, however, there is *inadequate coordination* across related programs in policy development and planning, giving rise to 'cost shifting' and other boundary issues, and sub-optimal achievement of outcomes.

A number of distinct but interdependent programs jointly contribute to health outcomes – including Medicare, the Pharmaceutical Benefits Scheme and support for private health insurance (all Commonwealth), and public hospital services and public health programs (the States). The Commonwealth contributes to the funding of various of the State programs – notably public hospitals, via the Australian Health Care Agreements. Yet there is no framework for ensuring that the outcomes being targeted by this spectrum of programs are the same, or at least complementary.

The current SPP model is *far from the ideal of a partnership*. Any SPPs that resemble a partnership at all are at best an unequal one, with an imbalance between respective contributions and respective obligations. Most are unequivocally one-sided, with obligations and risks falling on one side, and increasing inclusion of provisions for penalties.

> The Australian Health Care Agreements were conceived on the basis that funding would be shared 50:50. However, while the States must match growth in Commonwealth funding, the States also bear the full risk and burden of increases in costs or demand that were either not foreseen or not provided for. There is no obligation on the Commonwealth to match increases in State spending for those reasons, or to improve services. As a result, the Commonwealth contribution has fallen to 40 per cent. Notwithstanding this increasingly imbalanced arrangement, the Commonwealth can unilaterally impose penalties up to 4 per cent of the Commonwealth grant.



Current arrangements are in most cases *inimical to efficiency*. Accountabilities are generally framed in terms of inputs rather than achievement of outcomes (or even outputs). Arrangements often deny flexibility (e.g. by quarantining funding allocations into rigid 'compartments') and so inhibit diversity of responses – potentially the major driver of program and service improvement in a federation. Application and reporting arrangements are typically premised on centralised, monolithic administration in the States, and are strongly flavoured with micro-management – e.g. in requiring detailed breakdowns by area and service element that have no valid policy relevance or use at the national level. All of this imposes heavy administrative burdens. The effect is to increase bureaucracy at *both* levels of government.

> The Australian Government Quality Teacher Program (AGQTP) is extremely prescriptive in administration and reporting requirements, despite offering only modest funding compared to what the Sates themselves fund in an area which is essentially one for management at school level. A State Coordinating Committee must be established, comprising representatives of all school sectors and stakeholder groups. The duties of the cross-sectoral committee must include (among other requirements):
>
> - approving a four year cross-sectoral strategic plan before it is provided to the Commonwealth Department of Education, Science and Training (DEST), and considering the annual activity plans for all education authorities in the State before they are provided to DEST;
> - consulting on the priority areas that will be targeted by each project; and
> - consulting on the types of activities that will be offered under the projects.
>
> DEST requires extensive reporting of such fine details as participation numbers and breakdown by role or position; names and addresses of participating schools; description of each specific activity, its duration and cost, and reports against program performance indicators, and so on.

> Similar 'micro-management' occurs with the Home and Community Care (HACC) program. In this program, the Commonwealth requires detailed plans and reporting across a dozen different services types (e.g. meals on wheels) by regions within States – a level of detail that has no conceivable national policy use. The process of Commonwealth vetting of plans can take several months, and queries relating to very small amounts of money have delayed for months approvals of plans and release of funds to providers. Moreover, the requirement to plan and report at this level of detail assumes that the types of services funded will always be the same inhibiting State's capacity to innovate in tailoring service responses to people's needs and preferences, and in their delivery.

There is little in the arrangements to promote joint review of how we are progressing as a nation in these key areas for Australians' wellbeing and for the nation's human capital building; to share experiences and lessons that flow from them; and above all there is little in them to express and apply a shared *commitment to dynamic improvement*.

> Skilling Australia's Workforce is a 'one size fits all' agreement under which the Commonwealth applies a single model across the country with no bilateral negotiation. This is despite the fact that, for example, New South Wales has significantly more centralised decision-making in respect of its vocational education and training system than Victoria or Western Australia. In Victoria, detailed decisions on courses to offer are left to local Institutes to determine in response to local demand and skill needs. DEST is seeking plans and reporting by detailed courses – which would significantly inhibit the system's responsiveness and ability to adapt dynamically to evolving skill needs.

Overall, the current SPP model does not rate highly against any of the posited criteria, and seems almost designed to inhibit realisation of one of the greatest strengths of a federal system – that it allows, and can be structured to actively promote, diversity, a major driver of responsiveness, innovation and improvement. Those benefits are being sought in the UK, for example, by devolution of much of the responsibility for health and education to the sub-national level of government.

## Duplication? Or excellence through diversity?

There have been proposals put forward which, far from recognising those dynamic benefits, would eliminate the States, claiming that doing so would avoid duplication to the extent of $20 billion or more per annum. Such estimates are overblown by more than an order of magnitude: Commonwealth Grants Commission calculations put the overhead or fixed costs of the State level of government at less than $1 billion – about one quarter of a cent for every dollar that the Commonwealth and the States spend on public services. Accordingly, proposals for a single major level of government (plus local authorities) which are based on claimed large duplication costs miss the essence of the issue of reform of our federal arrangements.

The *real* reform issue is how to maintain the already excellent performance delivered by our federal system, in world terms. As well as our high ranking in OECD surveys of performance in health and education, Australia ranked in the top ten out of 209 countries in the World Bank's Government Effectiveness Index for 2004.

Reform should seek to maximise the potential for continuous improvement that is inherent in a federal system in which each State can develop the best approaches for its circumstances and the needs and preferences of its own community, within a broad national framework. It is that system which has produced our excellent public service performance in world terms – for which a fraction of a cent per dollar of public spending on services is a very small outlay indeed. The increasingly prescriptive SPP model that has emerged in recent times is a significant impediment to continuing to realise those benefits to the full.

## Directions for reform

In practice, section 96 of the Constitution will continue to be utilised by the Commonwealth to provide funding for programs – especially in health and education – which are constitutionally the States' but in which both levels of government are now jointly involved. What can and should be reformed is the whole *structure of arrangements* within which funds are provided – i.e. the present SPP model.

There are excellent existing proposals which would bring about very substantial reform in federal arrangements, notably the best practice principles proposed ten years ago by the Commonwealth Commission of Audit, and those put forward seven years ago by senior Commonwealth and State officials comprising the Heads of Treasury SPP Working Group.

We endorse those proposals as going a long way in the direction of reform implied by the assessment criteria set out earlier in this report. In essence, a new model would strongly embody:

- a strategic outcomes focus with agreed outcome objectives and progress measures;
- arrangements designed as a true partnership model with mutually balanced obligations and contributions;
- emphasis on efficiency, flexibility, and minimal administrative burdens; and
- a major focus on dynamic improvement, stimulated by diversity.

More recently, the Premier of Victoria, in his proposals to COAG for a New National Reform Initiative, set out governance principles for reform of federal arrangements generally (not just SPPs) which embody essentially the same concepts.

To signal a fresh start in intergovernmental arrangements, we propose that new terminology be adopted, such as

- 'Federal Partnership Agreements', or
- 'Australian Partnership Agreements'.

# SUMMARY OF ASSESSMENTS OF HEALTH AND EDUCATION SPPS



## 1. Health and related Human Services

### Australian Health Care Agreements (AHCA)

The requirement on a State to provide at least the same range of services as was provided at 1 July 1998 reduces the flexibility of the States to introduce new models of care that may achieve better outcomes for patients.

However in recent times the Commonwealth, while remaining sensitive to any potential for 'cost shifting', has, in a limited way, become more receptive to alternative delivery approaches, such as co-location of GP clinics with public hospitals.

The adequacy of the funding provided under AHCA is contingent on the level of Commonwealth provision of substitutable primary care and other services to which the States have little or no input. Yet the States are solely responsible for providing any additional public hospital funding, i.e. carry the full risk of demand or cost increases that are not foreseen or not provided for, and must report to the Commonwealth on waiting times, which in turn are published by the Commonwealth in the 'State of our Public Hospitals' report.

These aspects of AHCA point to a general lack of coordination in planning for health services and flexibility in delivery across the spectrum from prevention to primary and acute care.

Inadequate arrangements have contributed to a growing disparity between State and Commonwealth funding contributions – originally to be 50:50, now 60:40.

Reporting requirements under AHCA are onerous, although many of the measures are of use in State administration; a number do relate to efficiency or outputs, but few to ultimate outcomes, which are not the basis of accountabilities or incentives.

The Commonwealth Minister can unilaterally impose financial penalties on the States for breaching the Agreement, without an appeal process or decision rules.

### Home and Community Care Agreement (HACC)

HACC has a broad target group and funds a broad range of community-based services. Both levels of government provide parallel services to subgroups of the HACC target population, resulting in inefficiencies and confusion for clients and providers.

The Commonwealth and the States share a policy and financial objective of shifting the 'balance of care' towards supporting people at home rather than in residential care or hospital. The Commonwealth has committed to annual real growth in funding (6 per cent nationally, net of indexation) that must be matched 60:40 by States.

The HACC agreement provides States with flexibility to tailor their administration of the program to improve consistency with other programs and reduce costs. However approval and reporting requirements are particularly detailed (by service type and area) and burdensome, and limit States' capacity to redirect service delivery to meet client needs.

The draft of the new HACC Agreement includes scope for penalties on and bonuses to the States. Some penalties relate to relatively trivial matters with risks that could be difficult for the States to avoid.

### Commonwealth State and Territory Disability Agreement (CSTDA)

The CSTDA provides considerable flexibility for the Commonwealth and States to provide services according to their own requirements within the broad framework provided by five outcome-focused policy priorities.

The lack of a clearly articulated relationship between the CSTDA and the HACC Agreement has led to overlap in function between services funded under each agreement, generating confusion for clients and providers.

The States bear the risks associated with growth in demand for CSTDA services. Together with inadequate indexation arrangements, this has contributed to a growing disparity between State and Commonwealth funding contributions.

Reporting requirements on the States are onerous, although they fall within the scope of CSTDA activities. The Victorian Department of Human Services reports that reporting arrangements do not impact greatly upon its ability to utilise funding in accordance with Victorian needs. Nevertheless, reporting regimes that require reporting outside program scope or overly detailed information (as in HACC) can inhibit flexibility.

### Public Health Outcomes Funding Agreements (PHOFA)

The PHOFAs are 'broadbanded' agreements which give States the flexibility to use Agreement funding to focus on specific local needs and priorities within some broad objectives.

The funding provided under the PHOFAs is not clearly linked to any projections of need or targets, leaving the risks and responsibilities for management of the program with the States.

Indexation arrangements do not adequately capture the change in public health costs, which exposes the States to financial risk.

The Agreements place onerous reporting requirements on the States, including reporting on programs that are not funded through the PHOFAs.

### Australian Immunisation Agreements (AIA)

The AIA is strongly focused on outcomes. The Commonwealth and States have a common view on the objectives of the program, and these are clearly reflected in the Agreement.

Commonwealth and State responsibilities are clearly defined.

In the event of unavoidable changes in the cost of the program, there is scope for a review of the funding provided under the Agreement by both the Commonwealth and the States, which should allow this risk to be shared by each jurisdiction.

States are required to provide annual reports against performance indicators as well as reports on expenditure of AIA funding.

## 2. Education and Training

### Schools Quadrennial Funding Agreement: Grants for Government Schools

Broad recurrent funding provided under this Agreement and a range of separate targeted programs represent only a relatively small supplement to State funding of government schools, yet come with a range of prescriptive and burdensome requirements.

The specific allocations to targeted programs take little account of States' particular circumstances, priorities and own efforts across the areas concerned, and so inhibit flexibility in responding to needs and achieving best outcomes.

Currently, the Commonwealth's requirements reflect a thrust for national uniformity, or at least consistency. While there is some alignment with key Victorian directions or initiatives, in most cases requirements are unilaterally imposed by the Commonwealth (e.g. reporting on teacher professional development, erecting flagpoles).

Administrative and reporting requirements are focused on process and inputs rather than outcomes achieved, and impose burdens out of proportion to funding provided. They are premised on centralised decision-making in States and are thus particularly onerous in Victoria's largely decentralised system, the administrative and reporting burdens falling both on individual schools and centrally as responses are collated.

### Schools funding target programs

The fragmentation of a significant component of Commonwealth funding for schools into quarantined allocations to specific targeted programs:

- ignores differences across States in circumstances and priorities, and in States' own efforts (to which the Commonwealth funding is only a supplement) – both across and within the activities targeted;
- imposes administrative and reporting requirements that focus largely on process and inputs rather than outcomes, and are out of proportion to the funding provided – particularly in Victoria's decentralised system where much of the burden falls on individual schools; and
- constitutes a very prescriptive and one-sided approach, not recognising or endeavouring to complement and coordinate with State activities in the same areas.

### Skilling Australia's Workforce

Compared to the previous Agreement, the new Agreement provides little additional Commonwealth funding, but imposes more onerous conditions on the States, including a number of prescriptive conditions that are not related to training outcomes.

The allocation of the national pool by working age population provides no incentive for improvement, and the distribution of growth funding across States provides no incentive to States to deliver vocational education and training more efficiently. Maintenance of effort requirements also fail to promote efficiency or improvement in outcomes (e.g. concerning industrial relations at provider level).

The Agreement is applied uniformly, with Commonwealth officials having no scope to make bilateral agreements reflecting differences in circumstances, needs, priorities or effort.

As with other SPP programs in education and training, administrative and reporting requirements pre-suppose a centralised VET (and in particular, TAFE) system, as in NSW; whereas Victoria has a largely devolved system.

The Agreement's reporting requirements put pressure on Victoria to move towards much more prescriptive purchasing of training from TAFE Institutes, which would restrict their ability to respond to local needs and would thus be detrimental to good training outcomes.

# CHAPTER 1: INTRODUCTION



## 1.1 Focus of this report

Specific Purpose Payment (SPP) agreements are the principal mechanism via which the Commonwealth provides money to (or in some cases through) the States in areas that are constitutionally the responsibility of the States, but which over the decades have come to be jointly funded, to varying degrees. Commonwealth SPP programs are predominantly, in terms of aggregate funding provided, in the major social policy, and human capital building, areas – health and education.

These are of course areas of the greatest importance to all Australians, in terms of their opportunities in life and their wellbeing – as well as being key foundations for improving participation and productivity in the workforce. Improving health and education services, and achieving better outcomes for the community in these areas, is a key priority for all Australian governments.

### The challenge to maintain excellence in public services

Health and education are already areas in which Australia's federal system of government has been delivering excellent results, measured against world benchmarks. Australia is ranked among the top group of nations in terms of both health system effectiveness and the effectiveness of our school education system in the OECD's major world surveys of performance in delivering public services in those areas.

Australia is also near the top in the World Bank's overall measure of *government effectiveness*. Moreover, Australia ranks high on *efficiency* (e.g. delivering as good or better health outcomes than the US but at half the US level of expenditure, relative to GDP).[2]

These results clearly owe much to Australia's federal system of government, within which each State can pursue the best approach to achieving good outcomes in public services for its own community's needs, preferences and circumstances – within a broad national framework. The diversity inherent in our system is a key driver of the continuous improvement in effectiveness in public services that has kept Australia among the top performers.[3] A key challenge is to ensure that our federal arrangements provide the maximum potential for that to continue. That brings SPPs into prime focus, as the main mechanism for structuring the joint involvement of the Commonwealth and States in public service programs, especially in health and education.

2. SEE SECTION 6.6 BELOW.

3. SEE FOR EXAMPLE PRODUCTIVITY COMMISSION 2006, *PRODUCTIVE REFORM IN A FEDERAL SYSTEM: ROUNDTABLE PROCEEDINGS*, ESPECIALLY PART A, "INSTITUTIONAL FRAMEWORKS TO PROMOTE PRODUCTIVE OUTCOMES".

4. THE HON. STEVE BRACKS, PREMIER OF VICTORIA, AUGUST 2005.

5. COUNCIL OF AUSTRALIAN GOVERNMENTS (COAG), *COMMUNIQUÉ*, 3 JUNE 2005.

6. THE NRI WORKING GROUP HAS IN TURN DRAWN ON THE WORK OF SPECIFIC WORKING GROUPS IN HEALTH AND SKILLS.

### The challenge to maintain economic performance

A second key challenge in these areas is to help sustain national economic performance. All Australian governments are currently working together (see under next heading below) to continue the process of reform that has underpinned Australia's prosperity and growth over the past two decades, but to expand it into new areas, particularly so as to promote higher productivity and greater participation in the workforce. This has made *human capital building* a major focus of the national reform agenda, a strong case for which was set out in the Victorian Premier's proposals to the Council of Australian Governments (COAG) in 2005, entitled *A Third Wave of National Reform: A New National Reform Initiative for COAG*.[4] This second key challenge also brings SPPs under examination: are they the best way to achieve optimal economic, as well as social, outcomes?

This report examines the SPP mechanism, and particularly SPPs in health and education (broadly defined), to assess what impediments there may be within them to achieving the best human capital outcomes in the most efficient way – i.e. to meet both of those challenges. It concludes with a very brief discussion, at the level of principles and broad reform directions, of how intergovernmental arrangements might be reformed so as to better achieve strategically important outcomes, in terms of both the quality of services that Australians receive and the contribution to economic performance.

## 1.2 The National Reform Agenda Context

At its meeting on 3 June 2005, COAG recognised that to maintain and increase national prosperity requires governments to work together to pursue a new *National Reform Agenda*, and that this agenda requires, as central elements, policies to boost workforce participation and productivity:

> **"Our future prosperity will depend on the ability of all governments – Commonwealth, State, Territory and local – to embrace reforms to address the key areas of productivity and participation".[5]**

Senior officials were tasked to develop the new national reform agenda, and two working groups were formed to advance it: the National Competition Policy (NCP) Working Group and the National Reform Initiative (NRI) Working Group. The former focused on expanding competition and improving regulation across the economy, and on further reforms in energy and transport. The NRI Working Group, whose work is the immediate context for this report, has focused on boosting workforce participation and productivity by building the nation's human capital – through improvements in health, education and training and work incentives.[6]

The NRI Working Group reported to the 10 February 2006 COAG meeting, which in response to its recommendations:

> **" • agreed that the priority areas of reform in the human capital component of the new national reform agenda are health, education and training, and work incentives;**
>
> **• agreed that the new national reform agenda be based on the principles of improving outcomes in the priority areas of reform; ... [and]**
>
> **• agreed that the performance of all governments in pursuing these outcomes will be subject to measurement and reporting against appropriate progress measures."**[7]

COAG recognised that SPP arrangements have an important bearing on how well the desired strategic outcomes can be achieved. COAG agreed that

> **" • Commonwealth-State specific purpose payments (SPPs) that impact significantly on the health system should be reviewed prior to their renegotiation. Such reviews should consider the appropriateness of SPPs as a mechanism to improve the health outcomes [identified by COAG] ... To this end, reviews should identify any elements of agreements that, if changed, could contribute to improved outcomes ... [and]**
>
> **• in light of the experience of reviews of SPPs in health, consideration be given to whether the design of major SPPs in other areas would benefit from a similar process before their renegotiation."**

As highlighted in section 1.1 above, improvement of outcomes in health and education is not only, or even primarily, a means of achieving improved workforce participation and productivity. Maintaining Australia's excellent performance in health and education services, and the outcomes they achieve, is of high importance in its own right for improving the wellbeing of all Australians. The issue then is whether SPPs on the current model are the best way to achieve those things.

## 1.3 This report

Against the above background, this report assesses the appropriateness of current SPP arrangements as a mechanism to achieve desired outcomes in jointly funded areas of public services, particularly in health and education, and the kinds of changes to intergovernmental arrangements that could contribute to improved outcomes.

- Chapter 2 gives a brief outline of existing SPP arrangements generally.
- Chapter 3 discusses, as a basis for assessing existing SPP arrangements, particularly in health and education, criteria for intergovernmental arrangements to best achieve agreed outcomes.
- Chapters 4 and 5 examine and assess major existing SPPs in health (including closely related human services) and in education and training respectively.
- Chapter 6 draws together common themes from the assessment of SPPs in the two sectors to draw conclusions about the SPP mechanism generally. It also briefly canvasses the extent of duplication in our federal arrangements, in the context of benefits from those arrangements.
- Chapter 7 very briefly discusses how intergovernmental arrangements could be reformed with view to achieving agreed outcomes more effectively and efficiently.

The Executive Overview (above) presents the report's key conclusions, and is accompanied by a Summary of Assessments of individual SPP programs.

7. THIS IS ONLY A SELECTION FROM A LONGER LIST OF AGREEMENTS SET OUT AT ATTACHMENT A TO THE COAG *COMMUNIQUÉ* FROM THE 10 FEBRUARY 2006 MEETING.

# CHAPTER 2: EXISTING SPP ARRANGEMENTS

**Key Points**

- SPPs (or tied grants) are provided under section 96 of the Constitution on terms decided by the Commonwealth. They have come to be widely used by the Commonwealth to provide funding, and pursue its policy objectives, in areas that are constitutionally the States' responsibility.
- SPPs are, in dollar terms, predominantly in *health and education*, which are now effectively areas of *joint* policy involvement and joint funding. In 2006-07, a total of $20.5 billion will be provided via over 90 SPP programs 'to' the States, almost half of that in health; and another $7.4 billion 'through' the States to non-government schools and local authorities. (Local authorities receive another $0.5 billion directly.)
- SPPs received are taken into account in determining States' shares of the net proceeds of the GST, distributed as untied grants; therefore over time they may be, at the margin, 'equalised away'. Questions of how SPPs (and other grants) are allocated among the States are not, however, canvassed in this report.
- A number of concerns have been identified with SPPs, particularly from the States' perspective. These include:
  - States' concerns about the Commonwealth's use of SPPs to direct State government activities; and
  - the efficiency and effectiveness of SPP programs, including allocation rigidities, administrative burdens and boundary issues.

## 2.1 Introduction

In 2006-07, it is estimated that $20.5 billion will be provided to the States via SPPs i.e. tied grants. Another $7.4 billion will be provided 'through' the States to non-government schools and local authorities, with the latter also receiving $0.5 billion directly. The total of these payments accounts for 42 per cent of total payments made by the Commonwealth to the States. SPPs have a constitutional basis (see next section) and are likely to remain a central feature of Commonwealth-State financial relations for the foreseeable future.

The purpose of this chapter is to provide background on SPP arrangements, and identify issues with their use. The chapter is structured as follows:

- Section 2.2 summarises the general features of SPPs, their changing importance over time, and provides an overview of current funding of SPPs.
- Section 2.3 introduces various issues that have been raised about the use of SPPs as a funding mechanism – including distribution of funding across States, issues with the States' reliance on SPP funding and efficiency and effectiveness of SPPs. Later chapters pursue these issues.

8. CONSTITUTIONALLY, THERE ARE ONLY TWO LEVELS OF GOVERNMENT: LOCAL AUTHORITIES OPERATE UNDER JURISDICTION OF THE STATES, ALTHOUGH IN PRACTICAL TERMS THEY REPRESENT A THIRD LEVEL OF GOVERNMENT.
9. AUSTRALIAN GOVERNMENT 2006, *FEDERAL FINANCIAL RELATIONS* 2006-07, 2006-07 BUDGET PAPER NO. 3, WWW.BUDGET.GOV.AU, P. 1.
10. VERY SMALL AMOUNTS ARE PROVIDED UNDER OTHER HEADINGS, OR HAVE BEEN IN THE RECENT PAST, E.G. NATIONAL COMPETITION POLICY PAYMENTS (NOW TERMINATED).
11. R. GARNAUT AND V. FITZGERALD 2001, *BACKGROUND PAPER: A REVIEW OF THE ALLOCATION OF COMMONWEALTH GRANTS TO THE STATES AND TERRITORIES*, REVIEW OF COMMONWEALTH-STATE FUNDING, MELBOURNE, WWW.REVIEWCOMMSTATEFUNDING.COM.AU, P. 24.
12. GARNAUT AND FITZGERALD 2001, P. 60; NORTHERN TERRITORY GOVERNMENT 2002, CHAPTER 5, P. 48.
13. AUSTRALIAN GOVERNMENT 2006, FEDERAL FINANCIAL RELATIONS 2006-07, 2006-07 BUDGET PAPER NO. 3, WWW.BUDGET.GOV.AU, P. 1.

## 2.2 General features of SPPs

Australia is a federation with a large 'vertical fiscal imbalance' i.e. a large disparity between the revenue raising capacity and service delivery responsibilities of the three levels of government.[8] The Commonwealth Government has the greatest capacity to raise revenue while the State governments have major policy and program responsibilities, including for education and health, whose cost exceeds their own revenue-raising capacity. To help redress the imbalance, and to pursue its own policy objectives, the Commonwealth distributes funding to the States, predominantly via:[9]

- SPPs – these are tied grants made by the Commonwealth Government to State governments for the delivery of specified services, predominantly (in dollar terms) in the areas of health and education; and
- provision of GST net revenue from the Commonwealth Government to State governments. This money is untied, i.e. provided to States to use as they see fit.[10]

SPPs are made under section 96 of the Constitution, which provides that the Commonwealth Parliament may grant financial assistance to any State on such terms as it thinks fit. SPPs are typically provided under or authorised by Commonwealth legislation, usually after political negotiations and agreement between the two levels of government. Agreements between the Commonwealth and the States do not impinge on their respective constitutional powers and are not legally binding contracts. The Commonwealth has been providing funding to the States via SPPs since the 1920s.[11]

There are a number of reasons that the Commonwealth Government uses SPPs rather than 'untied' funding mechanisms, including:[12]

- to pursue Commonwealth policy objectives where the Commonwealth does not have constitutional power to legislate;
- to meet joint Commonwealth-State policy objectives in areas that are constitutionally a State responsibility;
- to promote national standards, for example in public health and vocational education and training;
- to pay States for the delivery of Commonwealth programs or initiatives; and
- to comply with international obligations, for example management of World Heritage areas.

The size, and hence importance of SPPs in Commonwealth-State financial relations has varied over time, but has increased considerably over the past three decades.

SPPs can be classified into three groups:[13]

- SPPs paid 'to' the States – payments direct to State governments, estimated at $20.5 billion for 2006-07;
- SPPs 'through' the States – payments to State governments to be passed on to local government, other bodies and individuals, estimated at $7.4 billion for 2006-07. The main payments in this category relate to non-government schools and local government Financial Assistance Grants; and
- SPPs made direct to local government, estimated to be $497.1 million in 2006-07. The main payments in this category relate to the funding of roads, child care and disability programs administered by local governments.

SPP funding is linked to the untied funding that the States receive from the Commonwealth. The Commonwealth Grants Commission (CGC) is responsible for providing advice to the Commonwealth Government on per capita relativities to be used to distribute the pool of GST net revenue across the States. The distribution of this pool aims to equalise States' fiscal capacity to provide services.

The process of determining how the GST revenue will be distributed incorporates an assessment of most SPP payments received by States. The CGC argues that SPPs are a relevant consideration because they contribute to each State's capacity to provide services. States' own source revenues are also included in the CGC assessment process.[14] Thus, States that receive a relatively high level of SPP funding could expect to have a lower share of revenue from the GST pool, all else being equal, although this takes some years, given time lags in the process. That is, at the margin, SPPs may be 'equalised away' over time.

## Current SPPs

There are currently around 90 separate SPPs providing capital or current funding for a broad range of services (see Table 2.1). SPP agreements are highly diverse in terms of their size, and the details of the arrangements between the Commonwealth and States. In 2006-07, the smallest value SPP is around $50,000 for the refurbishment of buildings in the Low Head Historic Precinct of Tasmania and the largest value SPP is the $8.8 billion for Health Care Grants.[15]

Table 2.1 shows the concentration of SPPs in the areas of health and education.

**TABLE 2.1**
**SPP FUNDING TO AND THROUGH THE STATES BY PROGRAM AREA, 2006-07**

| AREA | CURRENT ($M) | CAPITAL ($M) | TOTAL ($M) | % OF TOTAL |
|---|---|---|---|---|
| **SPPS 'TO' THE STATES** | | | | |
| HEALTH | 9 774.2 | 0.2 | 9 774.4 | 46.6 |
| EDUCATION | 3 623.6 | 689.4 | 4 312.9 | 20.6 |
| SOCIAL SECURITY AND WELFARE | 2 015.9 | 41.2 | 2 057.1 | 9.8 |
| TRANSPORT AND COMMUNICATION | 48.8 | 1 791.1 | 1 839.9 | 8.8 |
| HOUSING AND COMMUNITY AMENITIES | 109.6 | 915.5 | 1 025.1 | 4.9 |
| OTHER PURPOSES | 1 505.7 | 0.0 | 1 505.7 | 7.2 |
| AGRICULTURE, FORESTRY AND FISHING | 374.6 | 1.1 | 375.7 | 1.8 |
| PUBLIC ORDER AND SAFETY | 40.3 | 0.0 | 40.4 | 0.2 |
| FUEL AND ENERGY | 0.0 | 27.9 | 27.9 | 0.1 |
| RECREATION AND CULTURE | 20.5 | 0.0 | 20.5 | 0.1 |
| **TOTAL SPPS 'TO' THE STATES** | **17 513.3** | **3 466.3** | **20 979.6** | **100.0** |
| **SPPS 'THROUGH' THE STATES** | | | | |
| EDUCATION | 5 431.6 | 207.9 | 5 639.5 | 82.3 |
| HOUSING AND COMMUNITY AMENITIES | 0.0 | 29.8 | 29.8 | 0.4 |
| TRANSPORT AND COMMUNICATION | 13.0 | 0.0 | 13.0 | 0.2 |
| FUEL AND ENERGY | 0.0 | 6.0 | 6.0 | 0.1 |
| OTHER PURPOSES – FINANCIAL ASSISTANCE GRANTS TO LOCAL GOVERNMENTS | 1 160.7 | 0.0 | 1 160.7 | 16.9 |
| **TOTAL SPPS 'THROUGH' THE STATES** | **6 605.3** | **243.7** | **6 849.0** | **100.0** |
| **TOTAL SPPS 'TO' AND 'THROUGH' THE STATES** | **24 117.5** | **3 709.8** | **27 827.3** | |

NOTE: TABLE CELLS MAY NOT ADD TO TOTALS DUE TO ROUNDING. LOCAL AUTHORITIES WILL ALSO RECEIVE APPROX. $0.5 BILLION DIRECTLY.

SOURCE: AUSTRALIAN GOVERNMENT 2006, *FEDERAL FINANCIAL RELATIONS 2006-07*, 2006-07 BUDGET PAPER NO. 3, WWW.BUDGET.GOV.AU, TABLE B3.

14. COMMONWEALTH GRANTS COMMISSION 2002, GUIDELINES FOR IMPLEMENTING HORIZONTAL FISCAL EQUALISATION, INFORMATION PAPER CGC 2002/1, WWW.CGC.GOV.AU.

15. AUSTRALIAN GOVERNMENT 2006, *FEDERAL FINANCIAL RELATIONS 2006-07*, 2006-07 BUDGET PAPER NO. 3, WWW.BUDGET.GOV.AU, PP. 46-65. THERE ARE ALSO A NUMBER OF OTHER SPPS IN HEALTH TOTALLING APPROXIMATELY $1 BILLION IN 2006-07.

16. GARNAUT AND FITZGERALD 2001, P. 70; AND NORTHERN TERRITORY 2002A, *ISSUES IN PUBLIC FINANCE*, 2002-03 BUDGET PAPER NO 6, DARWIN, HTTP://WWW.NT.GOV.AU/NTT/FINANCIAL/BUDGET02-03/#BP6.

17. AUSTRALIAN GOVERNMENT 2004, *FEDERAL FINANCIAL RELATIONS* 2004-05, 2004-05 BUDGET PAPER NO. 3, P. 23.

18. NORTHERN TERRITORY GOVERNMENT 2002B, *FISCAL AND ECONOMIC OUTLOOK*, 2002-03 BUDGET PAPER NO. 2, HTTP://WWW.NT.GOV.AU/NTT/FINANCIAL/BUDGET02-03/#BP2, P. 64.

## 2.3 Issues that have been identified with SPP arrangements

Any arrangement where one level of government distributes funding to another level of government, and distributes funding across governments, is going to be the subject of much debate. Australia's SPP arrangements are no exception. Particular issues include: [16]

- the distribution of SPP funding across States (an issue which will not be pursued in this report);
- States' concerns about the Commonwealth's use of SPPs to direct State government activities; and
- the efficiency and effectiveness of SPP programs, including allocation rigidities, administrative burdens and boundary issues.

As noted above, in recent years SPPs as a proportion of Commonwealth funding provided to the States have been at historically high levels. This could be interpreted as the Commonwealth exerting historically high levels of influence over the States. The Commonwealth Government has stated, however, that in providing SPP funding it does not seek State responsibilities:

> **"SPP agreements often include agreed national objectives. However, in making these payments, the Australian Government does not seek to take over responsibility for State functions."** [17]

States also acknowledge the benefits of SPPs for funding joint initiatives, while recognising that as the source of funding, the Commonwealth has a strong position of influence:

> **"Potentially, SPPs provide significant opportunities for collaboration between the Commonwealth and the States in areas of shared responsibility or interest. However, there is a general concern among the States that the Commonwealth is becoming increasingly unilateral in its approach to SPPs."** [18]

Setting aside the issue of the extent of Commonwealth influence on State activities, there are a number of consequences and risks for States in accepting SPPs, including lack of flexibility, focus on inputs , distortion of State priorities, financial risk exposures, uncertainties about continuity, blurred accountabilities, and generally, about whether they are the best way to achieve desired outcomes most effectively and efficiently. Of course most if not all of these are issues for the Commonwealth as well.

Exploring these issues is the subject of the rest of this paper.

# CHAPTER 3: PRINCIPLES FOR BEST PRACTICE INTERGOVERNMENTAL ARRANGEMENTS

**Key Points**

- The major human capital building areas, health and education (broadly defined), are now effectively areas of shared involvement between the Commonwealth and the States.
- The Commonwealth has a legitimate and important role on national aspects, including helping ensure that all Australians can access services in these areas to at least a minimum national standard, but not on a 'one size fits all' basis. The States also have key roles in policy and program development, administration and service provision that is responsive to local circumstances, needs and priorities. Each level of government can take credit for improved outcomes.
- Diversity in ways that outcomes are achieved among the States is a fundamental driver of policy, program and service innovation – a key spur to improved effectiveness and efficiency.
- Given longstanding concerns about aspects of SPPs that appear to conflict with maximising effectiveness and efficiency, some principles or criteria are needed, describing good intergovernmental arrangements – to provide a basis for assessing the current SPP model, and particularly, SPPs in health and education.
- There have been excellent analyses of the problems with current SPP arrangements over the years, including by the Commonwealth Commission of Audit set up by the present Government on taking office, by Parliamentary Committees, and a Working Group of Commonwealth and State officials. All of these, and authors of other studies, have canvassed principles for effective, outcomes focused arrangements, which are drawn upon here.
- Key criteria for assessing SPP programs, and the current SPP model in general, fall under a number of headings, each of which can be 'unpacked' into subsidiary criteria:
  - Degree of *strategic outcomes focus*, including identification of agreed strategic outcomes (also reflected in related programs), and agreed measures of progress;
  - Degree of *coordination of related programs* bearing on the agreed outcomes, including targeting these outcomes, coordination of policies and planning, minimisation of inconsistencies and overlaps;
  - Degree of *intergovernmental collaboration* – including the extent to which arrangements are in essence a partnership, involving balancing obligations and contributions, risk sharing, and cooperation in resolving 'boundary issues';
  - *Promotion of efficiency* – absence of input controls and 'micro-management', maximum scope for diverse responses, positive incentives, and minimal administrative and reporting burdens;
  - *Dynamic improvement stimulated by diversity* – is there active commitment to sharing and reviewing experiences, learning, innovation and improvement?

19. CONSTITUTIONALLY, OF COURSE, THE STATES HAVE THE POWER TO LEVY INCOME TAX, BUT SINCE WORLD WAR II IT HAS BEEN IN PRACTICE A COMMONWEALTH PRESERVE.
20. THE COMMONWEALTH DOES HAVE A SPECIALISED POLICING ROLE, BUT LOCAL POLICING IS A STATE MATTER.
21. FOR EXAMPLE, R. GARNAUT AND V. FITZGERALD 2002, *REVIEW OF COMMONWEALTH-STATE FUNDING: FINAL REPORT*; AND ALLEN CONSULTING GROUP 2004, *GOVERNMENTS WORKING TOGETHER: A BETTER FUTURE FOR ALL AUSTRALIANS*.
22. BY COMPARISON WITH OTHER FEDERATIONS, AUSTRALIA HAS AN EXTREME 'VERTICAL FISCAL IMBALANCE' (VFI), WITH COMMAND OVER REVENUES RELATIVE TO EXPENDITURE RESPONSIBILITIES TILTED HEAVILY TOWARD THE COMMONWEALTH.

## 3.1 The Roles of national and State governments

In our Federation the two major levels of government both have responsibilities for developing the major policies and programs that maintain and improve the nation's prosperity. Some of the most important policies and programs are the sole responsibility of one level of government or the other (e.g. the income tax and social security systems – the major systems of redistribution – are the Commonwealth's;[19] public transport and law and order[20] are the States').

However, although the Constitution generally assigns responsibilities to just one level of government exclusively, over the decades, the Commonwealth has come to play important roles in areas that the Constitution assigned to the States. As explained in Chapter 2 above, it does so by using the power given to the Commonwealth by section 96 of the Constitution to "grant financial assistance to any State on such terms and conditions as the Parliament thinks fit", i.e. via SPPs. In dollar terms, as described in Chapter 2 above, these are now predominantly in the major human capital building areas: health and education, making these effectively areas of shared responsibility for funding and policy development, although with the States generally remaining responsible for administration and program delivery.

As a number of reports have suggested,[21] the Commonwealth's involvement in these areas should not be regarded as an undesirable intrusion that the States must live with since it is a fait accompli, given that the Commonwealth collects the lion's share of overall public revenues.[22] Rather, there are legitimate roles for *both* levels of government:

- In health and education, which are not only critical to human capital building but to equality of opportunity and equity in social outcomes, it is a widely shared value that all Australians, wherever they live, should have access to services in these core areas to at least some minimum national standard. The Commonwealth has a legitimate and important role in ensuring that.
- However, that does not mean that people in every part of Australia want a 'one size fits all' approach. They want different ranges of services and ways of delivering them. They look to the government closer to them to be responsive to their particular needs and preferences, and for services and outcomes to be continually improved by that government – to levels *above* national minima.
- That it allows such *diversity and responsiveness* is a great strength of our Federation – not only because it makes policies and programs more responsive, but because diversity in public policy, program administration and service delivery is a key driver of policy and program innovation and service improvement, and, by the spread of innovations across borders, a key spur to national improvement in effectiveness
  and efficiency.

## 3.2 How should governments interact in areas of shared involvement?

As the case studies of SPPs in health and education examined in the next two chapters show, the way in which the two levels of government interact at present via SPP agreements does not fully realise the potential inherent in our Federation. There is in practice, albeit to varying degrees, lack of clarity or full concordance in the outcomes being sought by each level of government, too much focus on inputs and process, too much 'micro-management' and rigidity and as a result, inefficiency and impediments to achieving best outcomes, and blurred accountabilities.

Clearly, arrangements are likely to achieve best outcomes most efficiently if the two levels of government work in cooperation or indeed ideally, in close *collaboration*, agreeing on strategic outcomes sought and partnering in arrangements that give greatest scope and incentive to each to achieve the desired ends, and which strike a reasonable balance in sharing the costs and risks. As articulated in *Governments Working Together*,[23] some well accepted principles of good public administration apply to the issue of how the two levels of government should ideally divide roles in social policy between themselves. These include:

- the principle of *subsidiarity*, i.e. the principal that a function should be carried out by the lowest level of government able to exercise it effectively; and
- where both levels of government need to be involved in the same area of social policy, the Commonwealth is naturally best placed to handle aspects where a *national perspective* is required, whereas State Governments are more able to identify the needs of their *local communities* and to develop policy and program responses tailored to them. *Both* have roles in working collaboratively to develop a national response to issues in the interests of the Australian community as a whole. Each level of government can take credit for improved outcomes.

In respect of core *health and education* programs, seen currently in COAG as the key areas for collaboration in human capital building:

- there should be a collaborative approach to the national aspects of policy development, including setting shared strategic outcome goals, including minimum national standards of achievement against those; and an agreed national reporting framework for measuring and reporting progress;
- planning and budgeting should be well coordinated. Each level of government should bear a major share of costs, bear financial risks which it can influence, and share other risks with the other level of government;
- in terms of where respective efforts and resourcing should be directed, the Commonwealth should have the primary responsibility for ensuring that all Australians have equitable access to quality services at, at least, the minimum national standards; and
- in turn, the States should have primary responsibility for identifying local community needs and preferences, shaping responses and driving innovative policy and program solutions to them, spurred by encouraging diversity across States in those solutions. The States are generally best placed to administer programs 'on the ground'.

Considerations such as the above have long been recognised as having direct implications for the way SPP programs are developed and operated. Efforts have been made to develop better arrangements (see following section), although so far these efforts have not borne a great deal of fruit.

23. *OP. CIT.*, ESPECIALLY CH 7.
24. SPP WORKING GROUP 1999, *PRINCIPLES FOR SPECIFIC PURPOSE PAYMENT (SPP) AGREEMENTS*.
25. JOINT COMMITTEE OF PUBLIC ACCOUNTS 1995, *THE ADMINISTRATION OF SPECIFIC PURPOSE PAYMENTS: A FOCUS ON OUTCOMES*, PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA REPORT NO. 342, NOVEMBER, PP. XI-XII.
26. NATIONAL COMMISSION OF AUDIT 1996, *REPORT TO THE COMMONWEALTH GOVERNMENT*, AGPS, CANBERRA, PP. X-XI.
27. *OP. CIT.*, PP. XIII, XV.

## 3.3 Previous assessments of issues with SPPs

The last formal intergovernmental review before the current COAG work on national reforms was by an SPP Working Group established following a Heads of Treasury meeting in August 1999. The brief of the Working Group included identification of ways to achieve quality outcomes from SPP arrangements and to reform SPP arrangements. The basis on which this work was progressed was to recognise the need for SPP arrangements (including policy negotiation processes and monitoring):[24]

- to address all jurisdictions' flexibility and financial risk;
- to clearly identify the responsibilities of each party;
- to move to outcome based performance measures;
- to have Commonwealth central agency participation;
- to include development of a common financial database;
- to have common reporting; and
- to simplify the current legalistic approach to agreements.

Recognition of the need to move to outcomes focused (rather than input or process focused) arrangements goes back even further, of course. As acknowledged in a 1995 parliamentary committee review, an outcomes focus brings greater clarity of the respective responsibilities of the Commonwealth and the States:[25]

> **" ... it [the Commonwealth] should progressively disengage from SPP micro-management, leaving this task to State governments and the other non-Commonwealth parties to SPP arrangements. Primary accountability to the Commonwealth should increasingly be for outcomes achieved rather than for inputs and processes. In turn, this will require the state governments and non-Commonwealth parties to justify expenditure of Commonwealth funds in terms of their performance towards achieving agreed objectives."**

The National Commission of Audit set up by the present Federal Government after it took office came to similar conclusions and drew similar lessons. The Commission considered that

> **" ... the current financial arrangements between the Commonwealth and the States, in particular the proliferation of SPPs, are the source of:**
>
> - **an increasingly blurred allocation of roles and responsibilities between levels of government**
> - **duplication and overlap of administration**
> - **high costs of lengthy consultations/negotiations and reporting between levels of government**
> - **avenues for cost-shifting between levels of government."[26]**

The Commission advocated a 'best practice' federation – "outcome focused, input efficient" – and the supplementation of financial performance information (i.e. information on what was spent) with outcome focused performance information.[27]

We will return in Chapter 7 below, following our assessment of SPP arrangements as they exist now, in health and education in particular, to refer to the Commission's and the 1999 Working Group's ideas for directions for reform of SPP arrangements.

Here, we turn next to criteria for assessing current SPP arrangements. It is important to note that the Commonwealth's involvement in health and education is not restricted to joint funding via SPPs of programs administered by the States. SPPs should thus not be assessed in isolation from related policies and programs, particularly those operated by the Commonwealth alone. For example:

- In health, the Commonwealth administers Medicare (the national medical benefits scheme (MBS)) and the Pharmaceutical Benefits Scheme (PBS). It is also the predominant funder of residential aged care[28] and funds community aged care packages (to clients remaining in their own homes).
- In education, the Commonwealth provides the bulk of the public funding of non-government schools and higher education.

Clearly in health, achievement of best outcomes requires good coordination not only within the areas where there are SPPs – public hospital services, public health programs, home and community care and disability programs – but across the full spectrum of health programs, since all contribute to desired outcomes.

Similarly, in education, policies towards schooling need to be consistent and coordinated across sectors, and likewise among post-compulsory school education, technical and further education and training, and undergraduate higher education. This is particularly so as the demand for skills shifts to higher level technical skills, paraprofessional and professional level skills.

## 3.4 Criteria for assessing existing SPP programs

The foregoing discussion suggests the following criteria for assessing existing SPPs:

### (i) Strategic outcomes focus

(a) Does the program reflect jointly agreed policy objectives, expressed in terms of specific strategic outcomes?

(b) Are there agreed measures of progress towards the identified strategic outcome goals, which can be used as a basis for mutual accountabilities?

(c) Is there an agreed reporting framework, restricted to data items relevant to national policy analysis (including comparisons among States)?

### (ii) Coordination of related programs bearing on outcomes

(a) Are the agreed strategic outcome goals also reflected in related programs operated separately by either level of government?

(b) Are there efforts to coordinate policy development and planning across such program?

(c) Are there efforts to avoid 'boundary' problems, (inconsistencies, overlaps etc)?

28. ALTHOUGH SOME STATES, NOTABLY VICTORIA, UNDERTAKE OR FUND SOME AGED CARE PROVISION.

### (iii) Degree of intergovernmental collaboration

(a) Can the arrangements be characterised as a partnership, with a balance between obligations and contributions as between the two levels of government?

(b) This extends to

- degree of collaboration in planning and budgeting for the jointly funded program, having regard also to related programs operated separately;
- a reasonable balance between funding contributions;
- sharing of financial risks, including risks of unforeseen external changes in unit costs and in demand; continuity, predictability and reliability of the arrangements over time, etc; and
- cooperation in resolving boundary issues among related programs (overlaps; inconsistencies; substitution; 'cost shifting' etc).

### (iv) Promotion of efficiency

(a) Do the arrangements eschew input controls, micro-management etc and allow maximum scope for diverse program and service delivery responses (so long as the agreed outcomes are achieved)?

(b) Are there positive incentives for over-achievement of outcomes - and conversely, disincentives to underachievement?

(c) Are administrative and reporting requirements designed to minimise burdens on governments, their agencies and service providers?

### (v) Dynamic improvement, stimulated by diversity

(a) Are there processes in place to review and evaluate diverse experiences and progress and derive lessons for improving the arrangements?

(b) Is there commitment to seeking and implementing improvements?

# CHAPTER 4:
# ASSESSING SPPS: HEALTH AND HUMAN SERVICES



**Key Points**

*Australian Health Care Agreements (AHCA)*

- The requirement on a State to provide at least the same range of services as was provided at 1 July 1998 reduces the flexibility of the States to introduce new models of care that may achieve better outcomes for patients.
- However in recent times the Commonwealth, while remaining sensitive to any potential for 'cost shifting', has, in a limited way, become more receptive to alternative delivery approaches, such as co-location of GP clinics with public hospitals.
- The adequacy of the funding provided under AHCA is contingent on the level of Commonwealth provision of substitutable primary care and other services to which the States have little or no input. Yet the States are solely responsible for providing any additional public hospital funding, i.e. carry the full risk of demand or cost increases that are not foreseen or not provided for, and must report to the Commonwealth on waiting times, which in turn are published by the Commonwealth in the 'State of our Public Hospitals' report.
- These aspects of AHCA point to a general lack of coordination in planning for health services and flexibility in delivery across the spectrum from prevention to primary and acute care.
- Inadequate arrangements have contributed to a growing disparity between State and Commonwealth funding contributions – originally to be 50:50, now 60:40.
- Reporting requirements under AHCA are onerous, although many of the measures are of use in State administration; a number do relate to efficiency or outputs, but few to ultimate outcomes, which are not the basis of accountabilities or incentives.
- The Commonwealth Minister can unilaterally impose financial penalties on the States for breaching the Agreement, without an appeal process or decision rules.

*Home and Community Care Agreement (HACC)*

- HACC has a broad target group and funds a broad range of community-based services. Both levels of government provide parallel services to subgroups of the HACC target population, resulting in inefficiencies and confusion for clients and providers.
- The Commonwealth and the States share a policy and financial objective of shifting the 'balance of care' towards supporting people at home rather than in residential care or hospital. The Commonwealth has committed to annual real growth in funding (6 per cent nationally, net of indexation) that must be matched 60:40 by States.
- The HACC agreement provides States with flexibility to tailor their administration of the program to improve consistency with other programs and reduce costs. However approval and reporting requirements are particularly detailed (by service type and area) and burdensome, and limit States' capacity to redirect service delivery to meet client needs.

- The draft of the new HACC Agreement includes scope for penalties on and bonuses to the States. Some penalties relate to relatively trivial matters with risks that could be difficult for the States to avoid.

*Commonwealth State and Territory Disability Agreement (CSTDA)*

- The CSTDA provides considerable flexibility for the Commonwealth and States to provide services according to their own requirements within the broad framework provided by five outcome-focused policy priorities.
- The lack of a clearly articulated relationship between the CSTDA and the HACC Agreement has led to overlap in function between services funded under each agreement, generating confusion for clients and providers.
- The States bear the risks associated with growth in demand for CSTDA services. Together with inadequate indexation arrangements, this has contributed to a growing disparity between State and Commonwealth funding contributions.
- Reporting requirements on the States are onerous, although they fall within the scope of CSTDA activities. DHS reports that reporting arrangements do not impact greatly upon its ability to utilise funding in accordance with Victorian needs. Nevertheless, reporting regimes that require reporting outside program scope or overly detailed information (as in HACC) can inhibit flexibility.

*Public Health Outcomes Funding Agreements (PHOFA)*

- The PHOFAs are 'broadbanded' agreements which give States the flexibility to use Agreement funding to focus on specific local needs and priorities within some broad objectives.
- The funding provided under the PHOFAs is not clearly linked to any projections of need or targets, leaving the risks and responsibilities for management of the program with the States.
- Indexation arrangements do not adequately capture the change in public health costs, which exposes the States to financial risk.
- The Agreements place onerous reporting requirements on the States, including reporting on programs that are not funded through the PHOFAs.

*Australian Immunisation Agreements (AIA)*

- The AIA is strongly focused on outcomes. The Commonwealth and States have a common view on the objectives of the program, and these are clearly reflected in the Agreement.
- Commonwealth and State responsibilities are clearly defined.
- In the event of unavoidable changes in the cost of the program, there is scope for a review of the funding provided under the Agreement by both the Commonwealth and the States, which should allow this risk to be shared by each jurisdiction.
- States are required to provide annual reports against performance indicators as well as reports on expenditure of AIA funding.

## 4.1 Introduction

This chapter examines five SPPs applying to provision of health and human services:

- Australian Health Care Agreements (AHCA);
- Home and Community Care Agreement (HACC);
- Commonwealth State and Territory Disability Agreement (CSTDA);
- Public Health Outcomes Funding Agreements (PHOFA); and
- Australian Immunisation Agreements (AIA).

The chapter describes the scope, objectives and funding quantum of each Agreement,[29] and assesses them against the criteria set out in Chapter 3 above. We focus particularly on:

- the extent to which they have an outcomes focus and provide for flexibility in implementation;
- the extent to which the agreements reflect a coordinated approach to the achievement of outcomes between the Commonwealth and the States, including the sharing of obligations, contributions and risks; and
- the administrative and reporting requirements they establish.

## 4.2 Acute health care

The Australian Health Care Agreement (AHCA) (Box 4.1) is the primary SPP in the field of acute health care, establishing the arrangements by which the Commonwealth and the States jointly fund public hospital services, free to eligible care recipients at the point of service.

The AHCA is just one of several programs in the acute care system funded by the Australian Government. The flow of money around the Australian health care system is complex and is determined by the institutional frameworks in place, both government and non-government. Other key funding arrangements include:

- Universal cover for privately-provided medical services under Medicare (medical benefits, MBS) is largely funded by the Australian Government, with co-payments by users where the services are patient-billed.
- Growing private hospital activity, largely funded by private health insurance, is indirectly subsidised by the Australian Government, through the rebate on members contributions to private health insurance.
- The Australian Government, through its Pharmaceutical Benefits Scheme, subsidises a wide range of drugs and medicinal preparations outside public hospitals (as well as to public patients upon discharge from participating public hospitals, and to public oncology patients in participating outpatient departments).

Ideally, the AHCA would be planned in a coordinated way with these other programs to form an integrated health system with shared (i.e. common or at least complementary) objectives. The adequacy and direction of the other programs will have an impact on the outcomes that can be achieved under the AHCA, for which the States are held accountable. At present, however, the AHCA is developed largely in isolation to these programs and the States have little opportunity to influence arrangements for Medicare, the Pharmaceutical Benefits Scheme or the subsidisation of private health insurance.

29. THOSE THAT ARE DESIGNATED IN THE PLURAL ARE ESSENTIALLY BILATERAL INSTANCES (WITH TYPICALLY MINOR VARIATIONS) OF A SINGLE MODEL AGREEMENT – I.E. THE AGREEMENTS ARE ALL MULTILATERAL IN CHARACTER. FOR CONVENIENCE, WE WILL AT TIMES REFER TO THESE IN THE SINGULAR.

BOX 4.1

## AUSTRALIAN HEALTH CARE AGREEMENTS 2003-08

### Description

The AHCA is the Commonwealth-State funding agreement covering public hospital services. It is a bilateral agreement – the Australian Government negotiates separate agreements with each State, but with major provisions applying uniformly across States.

The primary objective of the AHCA is to secure access for the community to public hospital services based on the following principles:

- giving people the choice to receive, free of charge as public patients, defined health and emergency services;
- providing access to such services on the basis of clinical need and within a clinically appropriate period; and
- all eligible persons, regardless of where they live, to have equitable access to such services.

The Commonwealth is providing approx. $42 billion under the 2003-08 AHCA, of which approx. $8.4 billion in 2005-06; Victoria's share of the latter is approx. $2 billion.

Victoria's Agreement runs to about 40 pages. In addition to required adherence to the above principles, there are restrictions related to the principles and/or reflecting Commonwealth policy (e.g. in respect of co-payments), and very detailed administrative and reporting requirements etc.

AHCA was originally intended to be a 50:50 funding agreement. Although Victoria now provides around 60 per cent of public hospital funding, similar to other States, States are required to match the Commonwealth rate of cumulative funding growth. There is no corresponding obligation on the Commonwealth to bear any part of the cost of meeting demand or cost increases that are not foreseen or not provided for - i.e. to share financial risks - or to match a State's growth e.g. if a State decides to increase resources to improve services. In the three years to 2005-06, some States have increased their funding by more than 30 per cent as opposed to the Commonwealth increase of less than 20 per cent.

### Comment

*Outcomes focus and flexibility*

Clauses 6 and 7 of the AHCA require States to provide at least the same range of public hospital services as was provided (in the particular State) on 1 July 1998. This reduces the flexibility of States to introduce new models of care that may achieve better outcomes for patients. This may become increasingly significant with the growing emphasis on disease prevention and early intervention, as agreed in the February 2006 COAG reforms.

*Coordination between Commonwealth and States*

Boundary issues relating to Commonwealth-State responsibilities affect the adequacy of the funding provided under the AHCA. The Commonwealth is responsible for funding (via the MBS) most primary care services, in particular GP services, which are intended to be a 'front line' prior to patients accessing emergency departments and outpatient clinics in hospitals. Commonwealth failure to adequately support primary care can therefore place additional demand on public hospitals, and therefore on the States. Compounding the issue, the Commonwealth collects and reports waiting times in emergency departments as

an indicator of the adequacy of a State's public hospital services. The States are also accountable to their constituents to this measure. 'Cost shifting' can however go both ways e.g. a consultation with a specialist in a public hospital setting falls under State and AHCA funding; a consultation with the same specialist in private rooms (often in the same complex) falls under the MBS.

The structure of AHCA requirements has different funding implications for health facilities with different structures. State government funding provided to a community health service that is integrated with a hospital would 'count' under the AHCA for matching purposes; funding provided to a stand-alone community health service would not count as funding covered by AHCA. This has obvious implications for governance arrangements. Under the methodology being developed for 'parallel' reporting from 2006-07, integrated community health centre expenditure will be excluded from the expenditure measure.

The Commonwealth has been particularly sensitive to co-location of MBS funded services with public hospital services, examines any specific proposals for this and approves 'scripts' to be used to inform patients of their choices. As noted below, the Commonwealth has become more willing to accept co-location initiatives.

Generally these boundary problems point to the need for more integrated, or at least better coordinated planning comprehending the spectrum of health care from prevention to primary and acute care, and more flexibility in delivery across that spectrum.

The AHCA places onerous requirements on States to report data, much of which the Commonwealth department does not appear to actively analyse to assess the performance of the system.[A] In addition, the AHCA allows the Commonwealth Minister to prescribe additional performance reporting requirements on the States. On the other hand, there is no obligation on the Commonwealth to report information to the States about emerging issues that may impinge on the Commonwealth's ability to fulfil its responsibilities in respect of the provision of public hospital services.

Inadequate indexation arrangements have contributed to a growing disparity between State and Commonwealth funding contributions, and highlight the one-sided bearing or exposure to demand and cost risks. There is currently an opportunity for the States to negotiate a revised indexation approach, given that a new measurement of cost indexation is required following cessation of the safety net adjustment that has been a key component in the wage cost indexation measure to date.

*Administrative and reporting requirements*

A State that breaches the AHCA may incur a financial penalty of up to 4 per cent of the Commonwealth grant. Penalties are determined by unilateral decision of the Commonwealth Minister, without an appeal process or decision rules. This represents a significant risk to the States.

*Direction of change*

In recent times, as noted above, the Commonwealth has become more receptive to co-location of GP clinics with public hospitals to meet some of the after-hours and weekend demand for primary care-type services, subject to agreeing protocols (use of 'scripts' etc). COAG reforms propose that from 1 July 2006, measures will be introduced to improve access to primary care services in small rural and remote towns with a population of less than 7000 and with workforce shortages.

30. ATTRIBUTABLE TO AN INTELLECTUAL, PSYCHIATRIC, SENSORY, PHYSICAL OR NEUROLOGICAL IMPAIRMENT OR ACQUIRED BRAIN INJURY (OR SOME COMBINATION OF THESE).

(A): STANDING COMMITTEE ON HEALTH AND AGEING 2005, 'HEALTH FUNDING', HOUSE OF REPRESENTATIVES, 28 NOVEMBER 2005.

SOURCE: COMMONWEALTH BUDGET PAPERS, DHA WEBSITE, DHS, ACG ANALYSIS.

## 4.3 Care for people with a disability and the frail aged

In this section we consider two SPPs:

- The Home and Community Care (HACC) Agreement (Box 4.2) governs the provision of funding for community care services to support a broad target group of frail elderly people, younger people with a moderate, severe or profound disability and their carers.
- The Commonwealth State and Territory Disability Agreement (CSTDA) (Box 4.3) provides a framework for the funding of specialist services for people with a severe or profound disability[30] that is likely to be permanent, and results in substantially reduced capacity in one or more core activities, requiring significant on-going or long term episodic support and which manifests itself before the age of 65.

The lack of a clearly articulated relationship between the CSTDA and the HACC Agreement has led to overlap in function between services funded under each agreement, generating confusion for clients and providers. In addition, services funded through the HACC Agreement and the CSTDA sit alongside parallel programs provided to subgroups of the same target population.

- The Commonwealth provides the majority of funding for residential aged care services.
- The Commonwealth also funds the Community Aged Care Packages (CACP) and the Extended Aged Care and Home (EACH) programs, which provide an integrated package of services to frail aged people living independently at home.
- The State provides the majority of post acute care for people discharged from hospital and it also funds services for people with chronic diseases aimed at maintaining them in the community. Both programs have target groups that overlap with the HACC and CSTDA target populations.
- People over the age of 70 use the majority of bed days in Victoria's acute and subacute services funded through the AHCA. Services funded under the HACC Program, the Post Acute Care Program and the Hospital Admission Risk Program: Chronic Disease Management Program, in conjunction with the MBS and PBS, play important roles in keeping people out of hospital and in the community.

Collectively, these programs provide a continuum of possible responses to the frail aged and younger people with a disability. The HACC Agreement and the CSTDA should clearly be well articulated with one another, and with the other programs discussed above, so that the system is as simple as possible for clients and providers to navigate, and inefficiencies and duplication are minimised.

The Commonwealth recommended reforms in the lead up to the February 2006 meeting of COAG that would vertically integrate its suite of services for frail older people. Specifically, the Commonwealth proposed that responsibility for services delivered under the current HACC program be realigned so that the program would no longer be jointly funded and managed, with the Commonwealth taking responsibility for all services for frail older people and the States taking responsibility for all services for younger people with disabilities. The Commonwealth argued that a split of responsibilities could enable improved (and less complex) planning and service delivery and create potential efficiencies in administration. However the boundary issues would remain complex and the States' exposure in areas such as post acute care would potentially rise.

In response, Victoria argued that basic services for people with relatively low levels of need should continue to be jointly funded because they play a complex role in supporting people in the community as a result of a variety of circumstances that impact on both Commonwealth and State interests, but there should be a clearer delineation of responsibilities for people with more intensive needs (with States taking responsibility for younger people with disabilities and the Commonwealth taking responsibility for older people with high needs).

The COAG Health Working Group agreed that splitting the program in either way would give rise to difficult policy and boundary issues for aged care and services for younger people with disabilities that could not be resolved through the COAG process. These issues will need to be addressed over a longer time frame.

In the meantime, these issues are affecting the negotiation of the new HACC Agreement.

**BOX 4.2**

### HOME AND COMMUNITY CARE AMENDING AGREEMENT 1999

#### Description

In 1985 the Commonwealth and the States entered into bilateral agreements that established the Home and Community Care (HACC) program, a joint, cost-shared program that provides services to support frail elderly people, younger people with a disability and their carers. Since this initial agreement, the Commonwealth and States have signed an amending agreement to more accurately reflect contemporary priorities and directions. A revised agreement is currently being negotiated.

The program is funded through a 60:40 cost-sharing arrangement between the Commonwealth and the States. States are required to match the Commonwealth rate of funding growth. There is no obligation on the Commonwealth to match a State's growth where it exceeds the matching requirement under the agreement.

In 2005-06, the Commonwealth provides 53 per cent of the total program funds in Victoria of $410 million, i.e. $215 million. The Victorian Government has committed $144 million of matched funding, plus an additional $51 million of unmatched funds.

#### Comment

*Outcomes focus and flexibility*

States have flexibility to tailor their administration of the program according to the different arrangements they have in place between home care, disability services and community health services. DHS advises that Victoria has been able to integrate councils and community health centres into primary care partnerships with non-HACC providers to encourage common intake, assessment and referral arrangements.

The national HACC minimum data set, a client-level data collection, gathers comparable demographic and service mix data from all jurisdictions. The data set has considerable potential for monitoring the impact of the program on the target population, and for tracking client pathways across other health and welfare services, although the core data is on outputs and client characteristics rather than client outcomes at this stage.

*Coordination between Commonwealth and States*

Currently, both levels of government provide parallel services to subgroups of the HACC target population, resulting in inefficiencies and confusion for clients and providers. In particular, the Commonwealth is responsible for residential aged care and Community Aged Care Packages, and the States are responsible for Disability Services, although with the Commonwealth sharing the funding via an SPP in that area (see Box 4.3). States are also responsible for services for post acute care and for maintaining people with chronic diseases in the community.

The Commonwealth has committed to annual real growth in funding of about 6 per cent nationally. Over time, this should enable Commonwealth and States to pursue the policy objective of shifting the 'balance of care' towards supporting people at home rather than in residential care or hospital. However, the cost index is inadequate, which undermines funded agencies' capacity to maintain their workforce.

There is substantial collaboration between the Commonwealth and States on the development of system reforms to improve clients' navigation of services and to reduce the administrative burden on providers. These reform objectives form the basis of the Commonwealth's 'The Way Forward – a new agenda for community care'.

*Administrative and reporting requirements*

The annual cycle of planning the next year's activity and reporting actual activity is particularly burdensome, without adding any discernible value to strategic planning. Currently States must report on expected and actual activity in 12 service types by region to meet the Commonwealth's objective of being able to demonstrate growth in service provision aligned with growth in funding. The Commonwealth allows up to 10 per cent deviation between the plan and actual delivery without requiring an explanation. Such a tightly defined and accounted for suite of activities and outputs constrains innovation. No change can be made to the outputs as a result of innovation without potentially extensive negotiation with the Commonwealth.

The process of the Commonwealth vetting of plans can take several months. Queries relating to very small amounts of money have delayed for months the approval of a current year's Plan and the associated release of Commonwealth funding to providers.

The HACC Agreement is currently being renegotiated, with the aim of moving to a triennial planning in order to reduce this administrative burden. However, discussions with the Commonwealth indicate there may not be any improvement in administrative efficiency, unless the Commonwealth is prepared to surrender some control over detail, in favour of an emphasis on defining and monitoring progress towards strategic goals.

The new draft HACC Agreement includes scope for penalties on and bonuses to the States. The Commonwealth has made its own brand recognition a high profile issue and penalties are attached to failure to comply. This would require a State to supervise several hundred independent agencies' use of logos on program related material. The other main compliance issue being negotiated is the timeliness, completeness and quality of required plans and reports.

SOURCE: COMMONWEALTH BUDGET PAPER, DHA WEBSITE, DHS, ACG ANALYSIS.

BOX 4.3

## COMMONWEALTH STATE TERRITORY DISABILITY AGREEMENT 2002-03 - 2006-07

### Description

The CSTDA is a multilateral Commonwealth-State funding agreement covering services to people with a disability. The agreement outlines a national framework for disability services as well as outlining State, Commonwealth and collective responsibilities.

The current CSTDA includes five strategic policy priorities. These are to:

- strengthen access to generic service for people with a disability;
- strengthen across government linkages;
- strengthen individuals, families and carers;
- improve long-term strategies to respond to and manage demand for specialist disability services; and
- improve accountability, performance monitoring and quality.

In 2005-06, the Commonwealth is contributing $136.2 million to CSTDA services in Victoria. This amounts to 14 per cent of the State's total budget for Disability Services of $987.6 million. Commonwealth-State funding ratios are different in each State.

The Commonwealth and Victoria have a bilateral agreement (with no additional funding attached) to progress the five CSTDA policy priorities. The bilateral agreement details the activity areas that both parties will report against annually.

### Comment

*Outcomes focus and flexibility*

The agreement provides considerable flexibility for the Commonwealth and States to provide services according to their own requirements within the broad framework of the agreement. The five strategic policy priorities are outcomes-focused.

*Coordination between Commonwealth and States*

As discussed above, CSTDA services are provided to a similar target population as the HACC program. The lack of links between the two programs can result in inefficiencies and confusion for clients and providers. In addition, the adequacy of funding under one agreement will impact on the adequacy of funding under the other.

The States bear the risks associated with growth in demand for CSTDA services. The agreement acknowledges that regular annual growth in funding levels will be required to improve the level and quality of services and the efficiency of delivery systems. Accordingly, the agreement provides for the States providing an agreed level of annual funding growth for services they are directly responsible for under the CSTDA. The Commonwealth provides minimal growth funding. Over time, this can lead to the States bearing a progressively greater share of program costs.

Indexation arrangements do not adequately capture the change in public health costs, which exposes the States to financial risk. There is currently an opportunity for the States to negotiate a revised indexation approach, given that a new measurement of cost indexation is required following cessation of the safety net adjustment that has been a key component in the wage cost indexation measure to date.

*Administrative and reporting requirements*

The provision of Commonwealth funding under the Agreement is contingent on the States meeting certain reporting requirements. These include audited statements of expenditure under the program, an annual report on performance, and separate performance data for use in national reporting. In addition, the bilateral agreements with the States identify some specific performance targets.

The reporting requirements are onerous, but fall within the scope of CSTDA activities conducted. DHS reports that reporting arrangements do not impact greatly upon its ability to utilise funding in accordance with Victorian needs.

SOURCE: AGREEMENT BETWEEN THE COMMONWEALTH OF AUSTRALIA AND THE STATES AND TERRITORIES OF AUSTRALIA IN RELATION TO DISABILITY SERVICES, COMMONWEALTH BUDGET PAPERS, DHA WEBSITE, DHS, ACG ANALYSIS.

## 4.4 Public health and preventative care

This section examines two SPPs involving public health and preventative care:

- The Public Health Outcome Funding Agreements (PHOFA), which provide broadbanded funding for a range of public health programs (Box 4.4).
- The Australian Immunisation Agreement, which is an agreement between the Commonwealth and each State to implement a national immunisation program (Box 4.5).

These SPPs are more flexible and outcomes focused than the Agreements considered earlier in the chapter.

BOX 4.4

## PUBLIC HEALTH OUTCOMES FUNDING AGREEMENTS 2004-05 - 2008-09

### Description

The PHOFAs are bilateral funding agreements between the Commonwealth and the States on a single overall model. They provide broadbanded and specific purpose funding for a range of public health programs.

In 2005-06, the Commonwealth is providing $38.3 million under the Agreement in Victoria, which represents 37 per cent of the total spending of $103.4 million. There is no requirement for States to match any Commonwealth growth funding.

### Comments

*Outcomes focus and flexibility*

The broadbanded nature of the PHOFAs provides States with flexibility to focus on specific local needs and priorities within the broad objectives of the PHOFA. This is preferable to other prescriptive SPPs that allow States little flexibility to target or respond to local requirements.

*Coordination between Commonwealth and States*

The funding provided under the PHOFAs is not clearly linked to projected need or targets, leaving the risks and responsibilities for management of the program to the States. There is a provision in the PHOFA between the Commonwealth and Victoria that allows for a review and possible increase in funding "in the case of substantial and unavoidable increases in costs to the state in delivering the public health priorities specified in the agreement". This allows for some distribution of risk of PHOFAs between the States and Commonwealth.

Indexation arrangements do not adequately capture the change in public health costs, which exposes the States to financial risk. There is currently an opportunity for the States to negotiate a revised indexation approach, given that a new measurement of cost indexation is required following cessation of the safety net adjustment that has been a key component in the wage cost indexation measure to date.

*Administrative and reporting requirements*

The Agreement requires States to provide detailed reports and survey responses to the Commonwealth each year. This includes reporting on programs that are not funded through the PHOFAs. If a State fails to comply with reporting requirements, the Commonwealth can issue a notice of non-compliance that requires the State to comply within 20 days or face a 4 per cent reduction in funding.

SOURCE: PUBLIC HEALTH OUTCOME FUNDING AGREEMENT 2004-2005 TO 2008-2009 BETWEEN THE COMMONWEALTH OF AUSTRALIA AND VICTORIA.

BOX 4.5

## AUSTRALIAN IMMUNISATION AGREEMENTS

### Description

The AIA is a bilateral agreement between the Commonwealth and each State to implement a national immunisation program. Under the program all children can receive free immunisation from certain diseases. The program also involves the active promotion of immunisation among Australian families.

The Agreement provides funds for States to purchase vaccines at a fixed price to fulfil their immunisation requirements as part of the national program. Funding is also provided for States to fulfil other requirements of the program.

In 2005-06, the Commonwealth is providing $27.2 million under the Agreement in Victoria, which represents 85 per cent of the total spending of $32.2 million.

### Comment

*Outcomes focus and flexibility*

The AIA is strongly focused on immunisation outcomes. The Commonwealth and States have a common view on the objectives of the program, which are clearly reflected in the Agreement. In line with these objectives, the AIA sets out specific requirements for which population groups should receive vaccines at a certain age. It also establishes specific allowable targets for vaccine wastage with incentives in place to maximise efficiency.

*Coordination between Commonwealth and States*

Responsibilities for immunisation are clearly set out in the agreement. The States are responsible for the development and delivery of immunisation programs using funds supplied predominantly by the Commonwealth.

In the event of substantial and unavoidable changes in costs to the State in purchasing vaccines or of vaccine wastage, there is provision for a review of funding provided under the Agreement. This potentially allows for some risk sharing between the Commonwealth and the States for increases in demand or other unforeseen circumstances.

*Administrative and reporting requirements*

States are required to provide annual reports against performance indicators as well as reports on expenditure of AIA funding. The States are required to make available a contribution to Notification Payments for the Australian Childhood Immunisation Register.

SOURCE: AUSTRALIAN IMMUNISATION AGREEMENT, DHS, ACG ANALYSIS.

# CHAPTER 5:
# ASSESSING SPPS: EDUCATION AND TRAINING



**Key Points**

*Schools Quadrennial Funding Agreement: Grants for Government Schools*

- Broad recurrent funding provided under this Agreement and a range of separate targeted programs represent only a relatively small supplement to State funding of government schools, yet come with a range of prescriptive and burdensome requirements.
- The specific allocations to targeted programs take little account of States' particular circumstances, priorities and own efforts across the areas concerned, and so inhibit flexibility in responding to needs and achieving best outcomes.
- Currently, the Commonwealth's requirements reflect a thrust for national uniformity, or at least consistency. While there is some alignment with key Victorian directions or initiatives, in most cases requirements are unilaterally imposed by the Commonwealth (e.g. reporting on teacher professional development, erecting flagpoles).
- Administrative and reporting requirements are focused on process and inputs rather than outcomes achieved, and impose burdens out of proportion to funding provided. They are premised on centralised decision-making in States and are thus particularly onerous in Victoria's largely decentralised system, the administrative and reporting burdens falling both on individual schools and centrally as responses are collated.

*Schools funding target programs*

The fragmentation of a significant component of Commonwealth funding for schools into quarantined allocations to specific targeted programs:

- ignores differences across States in circumstances and priorities, and in States' own efforts (to which the Commonwealth funding is only a supplement) – both across and within the activities targeted;
- imposes administrative and reporting requirements that focus largely on process and inputs rather than outcomes, and are out of proportion to the funding provided – particularly in Victoria's decentralised system where much of the burden falls on individual schools; and
- constitutes a very prescriptive and one-sided approach, not recognising or endeavouring to complement State activities in the same areas.

*Skilling Australia's Workforce*

- Compared to the previous Agreement, the new Agreement provides little additional Commonwealth funding, but imposes more onerous conditions on the States, including a number of prescriptive conditions that are not related to training outcomes.

31. STEERING COMMITTEE FOR THE REVIEW OF GOVERNMENT SERVICE PROVISION 2006, 'SCHOOL EDUCATION', *REPORT ON GOVERNMENT SERVICES 2006*, AUSINFO, CANBERRA, PP. 3.2-3.3.

- The allocation of the national pool by working age population provides no incentive for improvement, and the distribution of growth funding across States provides no incentive to States to deliver vocational education and training more efficiently. Maintenance of effort requirements also fail to promote efficiency or improvement in outcomes (e.g. concerning industrial relations at provider level).
- The Agreement is applied uniformly, with Commonwealth officials having no scope to make bilateral agreements reflecting differences in circumstances, needs, priorities or effort.
- As with other SPP programs in education and training, administrative and reporting requirements pre-suppose a centralised VET (and in particular, TAFE) system, as in NSW; whereas Victoria has a largely devolved system.
- The Agreement's reporting requirements put pressure on Victoria to move towards much more prescriptive purchasing of training from TAFE Institutes, which would restrict their ability to respond to local needs and would thus be detrimental to good training outcomes.



## 5.1 Introduction

This chapter examines the following SPPs applying to provision of education and training in Victoria:

- Schools Quadrennial Funding Program;
- Schools funding targeted programs; and
- Skilling Australia's Workforce.

The chapter describes the scope, objectives and funding quantum of each agreement, and assesses:

- the extent to which they have an outcomes focus and provide for flexibility in implementation;
- the extent to which the agreements reflect a coordinated approach to the achievement of outcomes between the Commonwealth and the States, including the sharing of risks; and
- the administrative and reporting requirements they establish.

## 5.2 School education

This section considers the Schools Quadrennial Funding Agreement (Box 5.1), the primary SPP in the area of school education, and a selection of more targeted SPPs (Box 5.2) that operate under the Quadrennial Funding Agreement.

Under constitutional arrangements, the States have responsibility for ensuring the delivery of schooling to all children of school age. They determine curricula, regulate school activities and provide most of the funding. State Governments are directly responsible for the administration of government schools, while non-government schools also receive State funding, and operate under conditions determined by State registration authorities.

The Commonwealth funds government and non-government schools through the Schools Quadrennial Funding Agreement and other SPPs provided directly to the States. The Commonwealth also makes other payments directly to school communities, students, and other organisations to support schooling.[31]

The Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA) – comprising Australian, State and Territory, and New Zealand education ministers – is the principal forum for developing national priorities and strategies for schooling.

BOX 5.1

## SCHOOLS QUADRENNIAL FUNDING AGREEMENT 2005-08: GRANTS FOR GOVERNMENT SCHOOLS

### Description

The Schools Quadrennial Funding Agreement provides supplementary assistance to State education authorities through per capita general recurrent grants which can be applied to staff salaries, professional or curriculum development, operational costs etc. There are also some capital grants and a number of targeted programs with specific quarantined funding allocations (see Box 5.2).

Government primary and secondary school students are funded to approximately 9 per cent and 10 per cent of the Average Government School Recurrent Cost (AGSRC), respectively. This compares to a minimum of 13.7 per cent and up to 70 per cent for non-government schools, depending on socio-economic status profiles.

Victoria will receive $2.3 billion under the Agreement (23.5 per cent of the national total) over the four years, of which $1.7 billion is general recurrent and $0.6 billion is for targeted programs and capital grants.

There are a number of prescriptive requirements such as provision of A-E scores and a student's quartile placing to parents; public reporting of school performance; national testing at years 3, 5, 7 and 9; display of material on Australia values, the flag etc.

The reporting requirements for targeted programs, even those involving small funding levels, are disproportionately onerous (see Box 5.2).

### Comment

*Outcome focus and flexibility*

While aspects of the Agreement do reflect a focus on outcomes, it does not directly take account of Victoria's own well developed school improvement agenda. The fragmentation of a significant part of the overall funding across a number of targeted programs reduces flexibility to allocate resources to achieve the best outcomes, given a State's particular circumstances, relative priorities and resourcing (see Box 5.2).

- An improved process would be to aggregate all these various programs into one funding pool which would allow Victoria to direct funding to detailed uses in accordance with its own school improvement agenda, as well as Commonwealth priorities, in an integrated way, with streamlined strategic reporting requirements focused on improvements in outcomes.

*Coordination between Commonwealth and States*

The current Agreement reflects only what funding the Commonwealth is willing to provide, albeit (in the case of recurrent funding) on a per student basis and indexed to AGSRC. However it leaves it to the State to provide any increased recurrent funding to improve outcomes – the Agreement providing no additional funding for that purpose.

*Administrative and reporting requirements*

Even though the Commonwealth provides only a relatively small supplement (approximately 10 per cent) to the recurrent funding of government schools by the State, lower than the lowest level of per capita funding provided to non-government schools, the Commonwealth prescribes a range of conditions. While the aims of some of these prescriptions are desirable, there is reluctance to consider State views on significant details and the Commonwealth has set unrealistic deadlines for systems to be in place.

Victoria finds reporting particularly onerous because of its decentralised system, entailing imposing the reporting burdens on individual schools and on DE&T to collate at the regional and the State level.

- For example, the Commonwealth requires jurisdictions to report how much funding is spent on teacher professional development (PD). While Victoria can quantify funding allocated centrally for teacher PD, it is impossible to make an assessment of the total amount spent on teacher PD without approaching all schools to provide information on how much of their individual budgets they have spent on teacher PD. The input nature of this measure does not provide any information on the effectiveness of teacher PD.

SOURCE: COMMONWEALTH BUDGET PAPERS, DEST WEBSITE AND DE&T, ACG ANALYSIS.



**BOX 5.2**

## SCHOOLS FUNDING TARGETED PROGRAMS: EXAMPLES – AUSTRALIAN QUALITY TEACHER PROGRAM AND DRUG EDUCATION IN SCHOOLS

### Description of Programs

There are a number of targeted programs under the Schools Quadrennial Funding Agreement; an *annual* application process may apply to some of these. Some extend to all three education sectors (i.e. cover the Independent and Catholic sectors as well as Government schools). They include funding for:

- quality teaching (teacher professional development);
- drug education in schools (several programs);
- literacy, numeracy and special learning needs;
- country areas; and
- indigenous education.

As examples, these notes focus on the first two programs above.

*Australian Government Quality Teacher Programme (AGQTP) 2006-09*

As its name suggests, the program is to support teacher professional development. It is a four-year program; Victoria will receive $21.3 million over the four years, across all three school sectors and statewide activities. An estimated 7,000 government school teachers in 300 schools will participate each year – the number of participating teachers in independent and Catholic schools is not known).

States must submit a four year strategic plan, annual implementation plans, mid year progress reports and annual reports (including performance reports).

*Drug Education in Schools programs 2004-05 to 2007-08*

Victoria receives funding under three specific drug education programs:

- *Drug Education Forums* ($0.95 million over 4 years), for a grant to each school to conduct a peer participation drug education forum;
- *National School Drug Education Strategy* (*NSDES*), State Project ($1.22 million over 4 years), to train school staff and support 80 schools clusters to run community drug education activities; and
- *NSDES, Indigenous, Rural and Remote Initiative* ($134,300 over 2 years) to support three clusters of schools to run local drug education activities, focusing on Indigenous students.

Victoria itself provides $3.84 million of funding annually for school drug education via DE&T.

**Comment**

*Outcomes focus and flexibility*

The programs are broadly aimed at desirable outcomes (quality teaching, drug education) but a number of aspects are not focused on outcomes but on process and inputs, and the rigidity of allocations and lack of recognition of or coordination with State activities reduces flexibility and the ability to achieve best outcomes.

*Coordination between Commonwealth and State*

Victoria provides significant funding for *teacher professional development*, but with decisions on specific activities largely taken at school level in the State's decentralised school system. Commonwealth funding is only supplementary, yet makes no recognition of Victoria's own efforts on school improvement, strategic goals and priorities, nor do reporting requirements consider those as benchmarks to measure progress towards.

In *drug education* also, the Commonwealth funding represents a quite modest supplement to Victoria's own funding, but again there has been no attempt to adapt Commonwealth requirements to achieve better coordination with the larger State funding of activities.

*Administrative and reporting requirements*

Application and approval processes and reporting requirements under these programs, particularly the smaller ones, are out of proportion to the funding provided.

- Moreover, these requirements are imposed uniformly across States, pre-supposing that school sectors are centrally administered. As Victoria has a largely decentralised system, where decisions are made and reporting data collected at school level, so that burdens fall on all or most individual schools as well as on DE&T in collating plans, applications and reports.

As an example, *for AGQTP* a cross-sectoral committee must be established, comprising representatives of the three sectors, the Council of Professional Teacher Associations and Deans of Education. The duties of the cross-sectoral committee must include:

- approving the strategic plan before it is provided to DEST, and considering and noting the annual activity plans for all education authorities in the State before they are provided to DEST;
- managing activities specified in each successive annual activity plan;
- consulting on the priority areas that will be targeted by each project;
- consulting on the types of activities that will be offered under the projects;
- sharing information about successful activities; and
- ensuring teachers have cross-sectoral access to AGQTP activities, particularly in remote areas.

32. STEERING COMMITTEE FOR THE REVIEW OF GOVERNMENT SERVICE PROVISION 2006, 'VOCATIONAL EDUCATION AND TRAINING', *REPORT ON GOVERNMENT SERVICES 2006*, AUSINFO, CANBERRA, PP. 3.2-3.3.

DEST requires States to address the program's specified priority areas which can be classified as either Curriculum Specific, Targeted Learning Needs, or Cross-curricular/Whole of School activities. The priority areas may be adjusted at the discretion of the Commonwealth Minister.

- Reporting of activity under AGQTP is primarily under a national performance reporting framework, but DEST requires reporting of such details as participation numbers and breakdown; names and addresses of participating schools; description of each specific activity, its duration and cost, and reports against program performance indicators.

As another example, *the Drug Education Forums program*, involving Commonwealth funding of $0.95m over 4 years, or less than $250,000 per year on average, requires an annual plan for each year, mid-year progress reports, monthly statistical reports and a final report. The Indigenous, Rural and Remote Initiative provides a mere $60-70,000 per year but also requires mid-year progress reports etc.

SOURCE: COMMONWEALTH BUDGET PAPERS, EST WEBSITE AND DE&T; ACG ANALYSIS.



## 5.3 Vocational education and training

The national vocational education and training (VET) system is a cooperative arrangement between the Commonwealth, State Governments, industry and service providers. State and Territory governments provide funding for VET services through the State and Territory training authorities. The Commonwealth provides the remainder of government recurrent funding. Registered training organisations also receive revenue from individuals and organisations for fee-for-service programs, ancillary trading revenue, and other operating revenue. The Commonwealth also provides funding for new apprenticeship centres and employer incentives for New Apprenticeships.

In October 2004, the Prime Minister announced an overhaul in the administration of VET in Australia, including that a Ministerial Council on Vocational Education would be established to ensure continued harmonisation of a national system of standards, assessment and accreditations, with goals agreed in the Commonwealth-State Agreement for Skilling Australia's Workforce (Box 5.3).[32]

BOX 5.3

## COMMONWEALTH-STATE AGREEMENT FOR SKILLING AUSTRALIA'S WORKFORCE 2005-08

### Description

This is a multilateral agreement that establishes the basis upon which the Commonwealth and the States will work together to support national training arrangements. It gives effect to the shared commitment to support national goals and objectives for vocational education and training (VET) identified in the National Strategy for VET 2004-10 *Shaping our Future*.

The agreement provides $1.16 billion of Commonwealth funding to Victoria over 2005-08. Over the same period, the Victorian Government will provide almost $3 billion.

In comparison to the previous ANTA Agreement, the new agreement provides little additional Commonwealth funding, but imposes more prescriptive conditions on the States for receipt of the funding, both in matters (e.g. industrial relations arrangements at provider level) that are not related to training outcomes and in respect of fine details of training provision.

### Comment

*Outcomes focus and flexibility*

The Agreement places a number of prescriptive conditions on the States that are not related to student outcomes. This includes requiring States to introduce workplace reforms in the sector, such as ensuring that individual TAFE Institutes offer Australian Workplace Agreements to staff. In common with other SPPs, there are maintenance of effort requirements in terms of both activity and spending, which provide no incentive to improve efficiency.

As with schools funding, there are amounts quarantined to narrowly defined purposes. An example is the new Joint Indigenous Funding (JIF) pool, for which Victoria will receive approx. $240,000 p.a. for 3 years subject to matching. The Commonwealth's detailed requirements took as many as six senior meetings to settle, and include requiring representation on panels to select local providers. The costs to administer this relatively small element of the agreement are disproportionate to the funding made available for training, with no evidence that outcomes will be improved.

*Coordination between Commonwealth and States*

The Commonwealth's distribution of growth funding across States provides no incentive to States to deliver VET more efficiently. The hours of additional activity to be achieved by each State will be costed at the average funding per hour for the particular State or at the national average funding per hour, whichever is greater. This, at the margin, benefits States such as Victoria that deliver at below the national average cost per hour, but also rewards inefficiency in high cost States.

Similarly, since the national pool is allocated to States on the basis of working age population, and, together with maintenance of effort requirements in respect of activity and spending, the Agreement provides no incentive to States to improve efficiency or the level or quality of training i.e. outcomes.

*Administrative and reporting requirements*

By contrast with previous Agreements during the ANTA period, in which reporting on training activity to the Commonwealth was confined to agreed national VET reporting requirements, DEST now requires a range of additional highly detailed reporting which has no obvious policy purpose or use.

For example DEST is now requiring reporting on activity down to the level of specific courses provided at each TAFE Institute. While other States may not have great difficulty with this requirement, it would be problematic for Victoria, which has a largely devolved system and purchases a 'profile' of training from its Institutes, without identifying particular courses to be delivered.

If Victoria were pressured to change its purchasing approach to meet this requirement, it could be detrimental to good training outcomes by preventing Institutes from providing the best mix of courses in response to local industry demand for skills and student demand for training.

SOURCE: COMMONWEALTH BUDGET PAPERS, DEST WEBSITE, DE&T, ACG ANALYSIS.

# CHAPTER 6:
# ASSESSING CURRENT SPP ARRANGEMENTS



**Key Points**

- In most cases, and particularly in the major health and education SPPs, there is *limited focus on strategic outcomes*. A number of features of current arrangements, rather than being designed to optimise achievement of agreed outcomes, actually inhibit or set up barriers to their efficient achievement.
- Many SPP programs sit alongside closely related programs operated separately by one or other level of government, often having a major concurrent influence on the same outcomes. Typically, however, there is *inadequate coordination* across related programs in policy development and planning, giving rise to 'cost shifting' and other boundary issues and sub-optimal achievement of outcomes.
- The current SPP model is *far from the ideal of a partnership*. Any SPPs that resemble a partnership at all are at best an unequal one, with an imbalance between respective contributions and respective obligations. Most are unequivocally one-sided, with obligations and risks falling on one side, and increasing use of provisions for penalties.
- Current arrangements are in most cases *inimical to efficiency*. Accountabilities are generally framed in terms of inputs rather than achievement of outcomes (or even outputs). Arrangements often deny flexibility (e.g. by quarantining funding allocations into rigid 'compartments') and so inhibit diversity and innovation in responses.
- Application and reporting arrangements are typically premised on centralised, monolithic administration in the States, and are strongly flavoured with micro-management e.g. in requiring detailed breakdowns by area and service element that have no valid policy relevance or use at the national level. All of this imposes heavy administrative burdens. The effect is to increase bureaucracy at *both* levels of government.
- There is little in the arrangements to promote joint review of how we are progressing as a nation in these key areas for Australians' wellbeing and for the nation's human capital building; to share experiences and lessons that flow from them; and above all there is little in them to express and apply a shared *commitment to dynamic improvement*.
- Overall, the current SPP model does not rate highly against any of the posited criteria, and seems almost designed to inhibit realisation of one of the greatest strengths of a federal system – that it allows, and can be structured to actively promote, diversity, a major driver of responsiveness, innovation and improvement. Those benefits are being sought in the UK, for example, by devolution of much of the responsibility for health and education to the sub-national level of government.
- There have been proposals put forward which, far from recognising those dynamic benefits, would eliminate the States, claiming that doing so would avoid duplication to the extent of $20 billion or more per annum. Such estimates are overblown by more than an order of magnitude: Commonwealth Grants Commission calculations put the overhead or fixed costs of the State level of

government at less than $1 billion – about one quarter of a cent for every dollar that the Commonwealth and States spend on public services. Accordingly, proposals for a single major level of government (plus local authorities) which are based on claimed large duplication costs miss the essence of the issue of reform of our federal arrangements.

- The real issue is how to maintain the already excellent performance delivered by our federal system. When Australia's performance is benchmarked against the world in government effectiveness and quality of public services generally, and in health and education in particular, we rank very high indeed:
  - in the top ten out of 209 countries in the World Bank's Government Effectiveness Index;
  - among the top two to five out of 41 countries on various key measures in the OECD's major survey of education system effectiveness; and
  - similarly among the top few countries in the OECD's survey of health system effectiveness – and one of the most cost efficient.
- Reform should seek to maximise the potential for continuous improvement that is inherent in a federal system in which each State can develop the best approaches for its circumstances and the needs and preferences of its own community, within a broad national framework. It is that system which has produced our excellent performance in world terms – for which a fraction of a cent per dollar of public spending on services is a very small outlay indeed. The increasingly prescriptive SPP model that has emerged in recent times is a significant impediment to continuing to realise those benefits to the full.

## 6.1 Introduction

Quite clearly, from the discussion of a range of SPPs as case studies, presented in the previous two chapters, there are a number of significant shortcomings which appear to be inherent common features across present SPP arrangements, measured against the criteria set out in Chapter 3. The major criteria are, in summary:

(i) Is there a focus on strategic outcomes, with objectives set in terms of agreed outcomes?

(ii) Are there efforts to coordinate related programs cooperated separately but bearing on the same outcomes?

(iii) Are intergovernmental arrangements for the jointly funded program itself collaborative? Can they be characterised as a partnership?

(iv) Do those arrangements promote efficiency?

(v) Do the arrangements involve active commitment to improvement, stimulated by encouraging diversity of approaches to achieving the outcomes?

Obviously, there is considerable variation among SPP programs in how they rate against those criteria, but there are important features which are common to most SPP programs, if not all of them to some degree – i.e. which appear to be inherent in the current SPP model. In the following sections, common features of current SPPs are drawn out, against the criteria summarised above and with specific reference to the case study material on selected major SPP programs presented in the previous two chapters.

At the end of this chapter, there is a brief digression into a related debate – a debate which has occasionally surfaced about whether, rather than being a key participant in our federal arrangements, the States merely represent costly duplication and, by implication, a tier of government that could be dispensed with. SPPs could then presumably be replaced with direct central administration of major human capital programs (although still with the involvement of local authorities, as is the case now).

## 6.2 Degree of Focus on outcomes, and coordination of related programs influencing outcomes

### Inadequate coordination of health and related human services

In health and related human services, outcomes for the community are achieved through a suite of significantly interdependent programs and services operated and/or funded by one or other major level of government, or jointly, and by the private sector and local government. To achieve best outcomes in health requires a single national policy conspectus ranging across that spectrum. Commonwealth policies and programs – including in respect of Medicare (medical benefits under the MBS), and thus primary and specialist medical care, private health insurance (PHI), and thus indirectly, private hospital and other private health care services; and pharmaceutical benefits (under the PBS) – have a significant bearing on public hospital services, and vice versa.

Prevention and public health programs, increasingly seen as a major priority, including in COAG, and various categories of sub-acute care, are similarly key parts of the total picture. Yet there is limited coordination among them. Ideally, since they are all targeted at the same or closely related outcomes, there should be common or complementary setting of objectives for those outcomes across all of the related programs.

Obviously it is appropriate for each government to take sole responsibility for specific policy, planning and budgeting decisions in respect of its separate programs. However since those decisions may have an important bearing on programs in which both levels of government are involved, and particularly to the extent that strategic health outcomes are jointly influenced by a number of programs, it is important that governments consult about their objectives and plans across the range of programs related to those outcomes. There are existing avenues for this, namely the Australian Health Ministers' Conference and the Australian Health Ministers' Advisory Council.

However in the areas where both levels of government are involved, i.e. those where there are SPP programs, much closer coordination of planning, budgeting and implementation is required, and needs to be founded on mutual identification and agreement on specific strategic outcomes to be achieved.

In respect of AHCA, the Expert Reference Groups commissioned to advise Ministers ahead of the most recent renegotiation of the Agreements identified poor coordination of planning and service delivery, barriers to efficient substitution among types and sources of care and scope for cost-shifting as inherent in current arrangements.[33] This reinforces our conclusion that most of the significant SPPs in health and related community services exhibit, to varying extents, sub-optimal coordination – in which a key factor is the lack of focus on specific outcome objectives which are agreed and can become the basis of mutual accountability for results.

We highlighted an exception to this in Chapter 4, namely the Australian Immunisation Agreements (AIA). The AIA is a relatively small program (in dollar terms), but it is very strongly focused on outcomes, reflecting very strong agreement among all governments on the outcomes to be achieved, i.e. goals for increased immunisation coverage of population groups, and their importance. This may in turn explain the clear definition of respective responsibilities under the program, the direct use of achievement against the outcomes as progress measures, the positive use of incentives and so on. Of course the AIA is not only small scale but very sharply focused on a single issue, one which is of sufficient importance to outweigh the principle of allowing flexibility among specific health services which are to some extent substitutes. But it does well exemplify the benefits of an outcomes focus.

33. *A REPORT TO THE AUSTRALIAN HEALTH MINISTERS' CONFERENCE FROM AUSTRALIAN HEALTH CARE AGREEMENT REFERENCE GROUPS*, SEPTEMBER 2002, AT WWW.HEALTH.GOV.AU.

The other health and human services programs discussed in Chapter 4 present similar issues. CSTDA, for example, is a program in which five broad strategic policy priorities have been identified and bilaterally agreed, although their breadth makes them difficult to use directly as measures of progress. With HACC, however, a closely related program, there has been considerably less clarity on desired strategic outcomes, and more focus on inputs (notably via matching requirements) and more of a 'micro-management' character in reporting requirements.

### Education and Training Programs

The SPP programs in education and training can equally be characterised, if not more so, by lack of focus on outcomes rather than inputs. It is true that some of the requirements under the main school education SPP, the Schools Quadrennial Funding Agreement, relate to outcomes sought – e.g. the required commitments to testing and reporting do relate to the shared broad objective of improving literacy and numeracy. This is also true of some of the associated targeted programs e.g. the Australian Quality Teacher Program. However in all these programs the link to mutually desired outcomes tends to be overwhelmed by an inordinate focus on inputs and process, and burdensome administrative and reporting requirements linked to those.

Much the same is true of the Agreement for Skilling Australia's Workforce, whose name suggests that it is aimed at the widely shared strategic outcome of higher levels of skill in the workforce, but which in practice imposes a range of prescriptive conditions unrelated to that outcome; and which bases accountability on input requirements that directly conflict with efficiency.

## 6.3 Are current SPP programs partnerships?

The SPP examples discussed in Chapters 4 and 5 have little in common with a partnership model, or even a contractual model – in which obligations and contributions would be balanced between the two sides.

While the details vary across the SPPs discussed, virtually all are characterised by

- lack of coordination in policy development, objective setting, planning and budgeting (taking account of policies and plans across the spectrum of related programs, targeting the same or related outcomes but operated separately), as highlighted in section 6.2 above;
- lack of consistency with related Commonwealth programs
  - for example, with government schools per capita funding substantially below the minimum provided to non-government schools; and inconsistency between support for private hospital services (indirectly via PHI rebates) and for public hospital services;
- obligations placed on one side only – the States;
- financial risks – risks of unforeseen external increases in costs or demand – in most cases borne by one side only, including
  - no or inadequate indexation in most cases, with exceptions – notably the indexing of payments under the Quadrennial Agreement to AGSRC;
- in some cases, uncertainty about renewal of Agreements or their future shape;
- lack of balance between respective funding contributions and respective obligations and commitments (e.g. in respect of government schools funding, where the Commonwealth contributes no more than 10 per cent, but with many 'strings' attached);

- a range of aspects with a 'micro-management' character, including
  - requiring reporting of service details that have no relevance to national policies or outcomes, e.g. in HACC service component details such as 'meals on wheels' deliveries by local area; and in Skilling Australia's Workforce, the detailed courses to be offered by individual TAFE providers;
  - excessive administrative burdens, imposed both on central departments and individual service providers – particularly in a State such as Victoria which has devolved a great deal of decision-making – in both school education (to individual schools) and vocational education and training (to individual Institutes); and
- no or inadequate allowance for variations in circumstances or effort across States;
- only rare use of positive incentives (e.g. AIA); but on the other hand,
- increasing provision for penalties – e.g. under AHCA, where the Commonwealth Minister can unilaterally, at his or her sole discretion, impose a penalty of 4 per cent of a State's funding.

Quite clearly, the current SPP model bears little resemblance to the benchmark of a balanced partnership.

## 6.4 Consistent with efficiency?

Many of the SPPs described in Chapters 4 and 5 exhibit a number of features that are inimical to efficiency and improvement.

### Rigidity, not flexibility

A number, although not all, of the SPP programs compartmentalise the Commonwealth funding into a range of narrow uses, preventing the States, their agencies and service providers from adopting the best mix of specific services to meet the needs of their communities and achieve desired outcomes.

- For example under the Schools Quadrennial Funding Agreement, $0.6 billion of the $2.3 billion that Victoria is to receive over the four years is for targeted programs and (to a lesser extent) capital grants. The targeted programs cover matters such as teacher professional development which for maximum efficiency need to be driven by local needs and priorities.
- Another example is the rigid provision in the Australian Health Care Agreements that a State must provide at least the same range of services as provided at 1 July 1998 – reducing the flexibility of States to introduce new models of care that may achieve better outcomes.

There are exceptions to the general trend to compartmentalisation. For example, the Public Health Funding Agreements are now (with the Immunisation program split off under a separate SPP Agreement) broad-banded, allowing States to respond flexibly in this area to local needs and priorities. CSTDA also provides considerable flexibility to tailor the service mix to local requirements, within a broad framework.

In the Schools Funding arena, while a substantial part of the total funding provided for government schools is compartmentalised, the bulk is for broad use.

### Focus on inputs and process

The use of matching and maintenance of effort (i.e. maintenance of input use) provisions is common in SPPs, with obvious implications for inhibiting or actually penalising States achieving outcomes more efficiently.

- In HACC, for example, there is a 60:40 cost sharing agreement under which the States are required to match the Commonwealth's rate of funding growth, but there is no corresponding obligation on the Commonwealth. Currently Victoria contributes 47 per cent.
- AHCA, funding public hospitals, was originally a 50:50 arrangement, but the State contribution (and in particular Victoria's) has steadily risen to 60 per cent. Notwithstanding that, States are required to match the Commonwealth rate of cumulative funding *growth*, but there is no corresponding obligation on the Commonwealth to bear an part of the cost of meeting demand or cost increases that are not foreseen, or not provided for – i.e. to share financial risks – or match a State's growth e.g. if a State decides to increase resources to improve services. In the three years to 2005-06, some States have increased their funding by more than 30 per cent, compared with a Commonwealth increase of less than 20 per cent.

### Penalties, not positive incentives

Increased inclusion of unilateral provisions to impose penalties in Agreements has become a feature of SPPs, often potentially applicable in respect of matters which are outside the States' control or not funded by the particular SPP.

- For example, as already noted, a State that breaches AHCA can have a penalty of up to 4 per cent of its grant unilaterally imposed at the sole discretion of the Commonwealth Minister.
- In PHOFA, States must comply promptly with detailed reporting requirements or face cuts of 4 per cent, notwithstanding that those requirements extend to programs not funded through PHOFA.

Positive incentives to stimulate efficiency and improvement are rare, but do exist – e.g. in the Australian Immunisation Agreements.

### Micro-management and excessive administrative burdens

Typically SPP arrangements pre-suppose centralised, monolithic administration of programs by a State. Particularly in a State such as Victoria which has devolved much of the decision-making about detailed service responses and use of resources, the Commonwealth's requirements are excessively prescriptive and burdensome, creating increased bureaucracy at both levels of government.

- In HACC, for example, the Commonwealth requires a level of detail in reporting of specific services (e.g. meals delivered by local area) which has no conceivable national policy relevance and which amounts to micro-management and imposes inordinate administrative burdens.
- In Skilling Australia's Workforce, the Commonwealth is seeking detailed information on specific courses to be delivered – a matter which in an efficient system would remain the province of local providers responding to local needs.

Generally, requirements in respect of submissions, plans, mid-year and end-year reports are inordinately burdensome – typically going to detail outside agreed national reporting frameworks. Burdens are particularly onerous in Victoria's case, given the extent to which decisions under programs – notably in education and training – are devolved to the local level. This means that many individual service providers bear a substantial administrative overhead, perhaps out of all proportion to funding received – as well as the central department.

## 6.5 Lack of focus on dynamic improvement

While there are forums for Ministers and officials in health and human services, education and training in which they can exchange views – forums which provide opportunities to canvass possible improvements – there is typically little in the SPP programs themselves that provides a focus for seeking improvement, let alone incentives for it – with some exceptions (e.g. AIA).

Indeed, as discussed above, many features of the present SPP model (e.g. input focus; inhibitions to flexibility, diversity and innovation) are inimical to dynamic improvement. They seem almost designed to counteract one of the greatest strengths of our Federal system of government: diversity. As it was expressed in *Governments Working Together*:

> **"A federation intrinsically has great advantages over a unitary state in that it allows, and can indeed be structured to actively promote, diversity across and within its sub-national jurisdictions (states, provinces or territories) in what and how services are delivered in response to local needs and preferences.**
>
> **It is very instructive to note the trend in some unitary states to devolve large areas of policy and administration, particularly in social areas, back to the sub-national level. Nowhere has this movement been more dramatic than in the United Kingdom, where in the past decade a Scottish Parliament and a National Assembly for Wales have been established, along with corresponding executive governments. The Scottish Government on its website[34] lists the following as its top two functions:**
>
> **health; and**
>
> **education and training.**
>
> **...**
>
> **The Welsh Assembly Government lists on its site[35] essentially the same two top priorities, but with somewhat more elaboration:**
>
> **developing education, training and lifelong learning in Wales; and**
>
> **developing and funding NHS services in Wales."**

## 6.6 Duplication between levels of government? Or excellence through diversity?

Notwithstanding the clear strengths of a federal system and the trend overseas (notably in the UK and Europe) to devolve decision-making and implementation of programs – particularly in human capital building – to the major sub-national level of government (states or provinces), there are occasional calls for removal of that level. Proponents argue for, effectively, a unitary state with either

- the national government taking over present state functions, plus local authorities[36] with the same functions as now; or
- the national government taking over some central functions of states, but with a relatively large number of regional governments combining present state and local functions (e.g. based on the ACT as a prototype).

Under the former, SPPs would be replaced by central administration. Under the latter, there would be presumably be more recipients under each SPP program but clearly also, more central prescription applied to those many recipients.

### Duplication?

A major argument advanced for such changes is that large sums would be saved that are presently wasted through duplication between the two levels of government. A figure of over $20 billion per annum has gained some currency – put forward in a 2002 paper by Mark Drummond,[37] which canvasses a number of alternatives including the two above.

34. WWW.SCOTLAND.GOV.UK
35. WWW.WALES.GOV.UK
36. CONSTITUTIONALLY, LOCAL GOVERNMENT IS NOT A THIRD LAYER OF GOVERNMENT (ALTHOUGH IN PRACTICE IT SERVES AS SUCH), BUT FALLS WITHIN THE AUTHORITY OF THE STATES.
37. M. DRUMMOND 2002, "COSTING CONSTITUTIONAL CHANGE: ESTIMATING THE COSTS OF FIVE VARIATIONS ON AUSTRALIA'S FEDERAL SYSTEM", *AUSTRALIAN JOURNAL OF PUBLIC ADMINISTRATION* VOL. 61 NO. 4, DECEMBER 2002, PP. 43-56.
38. R. GARNAUT AND V. FITZGERALD 2002, *REVIEW OF COMMONWEALTH-STATE FUNDING: FINAL REPORT*, PP. 219-224.
39. BASED ON LATEST DATA (FOR 2004-05) FROM ABS *GOVERNMENT FINANCE STATISTICS*, CAT NO. 5512.0, TABLE 31.
40. D. KAUFMANN, A. KRAAY AND M. MASTRUZZI 2005, "GOVERNANCE MATTERS IV: GOVERNANCE INDICATORS FOR 1996-2004", WORLD BANK.
41. OECD HEALTH PROJECT 2004, *TOWARDS HIGH-PERFORMING HEALTH SYSTEMS*, OECD.
42. PROGRAM FOR INTERNATIONAL STUDENT ASSESSMENT (PISA) 2004, *LEARNING FOR TOMORROW'S WORLD: FIRST RESULTS FROM PISA 2003*, OECD.

Not only do such calculations ignore the diversity and dynamic responsiveness benefits of a federal system with two, rather than one, major levels of government, but they are implausible even in static terms – by an order of magnitude or more:

- First, while current SPP arrangements do involve significant administrative overheads and create more bureaucracy at both levels, there is in fact little duplication in program administration and service delivery: only the States operate public hospital and school systems, for example.
- Second, the duplication of central administration involved in having a state level of government in Australia is far smaller than $20 billion per annum. Based on Commonwealth Grants Commission work on measuring the fixed (i.e. overhead) costs of government of a State, the Review of Commonwealth-State Funding calculated the minimum cost of that overhead component at just under $100 million per annum per State.[38]
- Aggregated across all States (including the Territories), that overhead cost of having the second major level of government is about $0.8 billion annually. Other costs of public programs, including e.g. administration of service provision operations (such as hospitals), would be broadly proportional to scale under alternative configurations of the sub-national level of government.
- $0.8 billion p.a. (0.1 per cent of GDP) is a miniscule amount compared to what Australian governments spend on public services: it is about one-quarter of one cent for every dollar of general government expenditure by Commonwealth and State Governments (excluding local government spending), or about three-quarters of a cent for every dollar they spend on health and education alone.[39]

### Or excellence stimulated by diversity?

A fraction of a cent in each dollar of general government expenditure is a tiny investment in a federal system which has achieved excellent outcomes, as measured against world benchmarks – particularly in health and education, in which the States are primarily responsible for public service delivery.

- Australia is ranked in the top ten out of 209 countries covered by the World Bank's Government Effectiveness Index for 2004.[40] The index measures competency of the Public Service and quality of public service delivery, based on very detailed data.
- In health, Australia ranks third in overall health system effectiveness in the latest rankings from the OECD's Health Project, and ranks high in various measures of health outcomes (e.g. third in life expectancy, sixth in healthy life expectancy).[41] Moreover, Australia's outcomes are the equal of or better than those of the United States, yet the percentage of GDP spent on health in Australia is only about half that of the US: Australia is far more efficient.
- The major world survey of the effectiveness of education systems is the OECD's Program for International Student Assessment (PISA), surveying students aged about 15 and assessing their skills and preparation for post-school life, including foundation skills for life-long learning. In the latest survey, for 2003, out of 41 countries (including Europe, North America and much of Asia), only one other country achieved better literacy results than Australia; only three scored higher in science; and only four in mathematics.[42]

This is not a picture of a federal system in which the States are performing poorly and heavily prescriptive Commonwealth intervention is needed. On the contrary, it demonstrates that our system, under which each of the States is able to develop the best approaches in health and education for its circumstances and its citizens' needs and preferences, has been highly effective and efficient against world benchmarks. Clearly, to achieve such high rankings, our federal system has been particularly capable of generating and realising, out of that range of diverse approaches, significant potential for *continuous improvement*. The challenge is to maintain and maximise that potential for the future.

The present SPP model is clearly a significant impediment to a significant impediment to unlocking the full potential inherent in our system.

The next chapter looks very briefly at principles and directions for reforming intergovernmental arrangements to best harness that potential.

# CHAPTER 7:
# REFORM DIRECTIONS: BEYOND THE CURRENT SPP MODEL



**Key Points**

- In practice, section 96 of the Constitution will continue to be utilised by the Commonwealth to provide funding for programs – especially in health and education – which are constitutionally the States' but in which both levels of government are jointly involved. What can and should be reformed is the whole structure of arrangements within which funds are provided – i.e. the present SPP model.
- There are excellent existing proposals which would bring about very substantial reform in federal arrangements, notably the best practice principles proposed ten years ago by the Commonwealth Commission of Audit, and those put forward seven years ago by senior Commonwealth and State officials comprising the
  Heads of Treasury SPP Working Group.
- We endorse those proposals as going a long way in the direction of reform implied by the assessment criteria set out earlier in this report. In essence, a new model would strongly embody:
  - a strategic outcomes focus with agreed outcome objectives and progress measures;
  - arrangements designed as a true partnership model with mutually balanced obligations and contributions;
  - emphasis on efficiency, flexibility, minimal administrative burdens etc; and
  - a major focus on dynamic improvement, stimulated by diversity.
- More recently, the Premier of Victoria, in his proposals to COAG for a New National Reform Initiative, set out governance principles for reform of federal arrangements generally (not just SPPs) which embody essentially the same concepts.
- To signal a fresh start in intergovernmental arrangements, we propose that new terminology be adopted, e.g.
  - **'Federal Partnerships Agreements',** or
  - **'Australian Partnership Agreements'.**

43. NATIONAL COMMISSION OF AUDIT 1966, OP. CIT., P. XI.

44. CITED IN CHAPTER 3 ABOVE.

## 7.1 Existing proposals on reform directions

Previous work has focused on improving the current SPP model, while accepting that basic aspects will remain in place. Of course, the Commonwealth will continue to rely upon section 96 of the Constitution in providing funds to (or through) the States, and thus to that extent, intergovernmental arrangements will continue to involve what are currently termed 'specific purpose payments'. However the assessments drawn together in Chapter 6 suggest that substantial reform is needed to the whole *structure of arrangements* within which they are provided – and not just incremental improvements to the current model. We believe that there is a strong case for *replacing* both the present model that most SPP programs follow and indeed the 'SPP' terminology itself.

Nevertheless, there is a continuum of possible reforms between substantial improvement and complete replacement, and it is valuable to look at previous proposals, which have generally been proposals for substantial improvement of intergovernmental arrangements generally, and SPP programs in particular.

The National Commission of Audit, as noted in Chapter 3 above, advocated a concept of "outcomes focused, input efficient" government in Australia, with financial performance information being supplemented with outcome focused performance information as the basis for program reporting. In respect of the interface between the Commonwealth and the States, the Commission proposed that:[43]

> **" changes to the Commonwealth/State interface, given current revenue raising powers, should be guided by the following principles:**
>
> - **Duplication and overlap should be eliminated, where possible, by one level of government taking full responsibility for related programs. This also minimises avenues for cost shifting between governments. Otherwise, resource pooling across levels of government, with agreements concerning program risk sharing, should be pursued.**
> - **If the Commonwealth retains a broad standard setting role it should confine its activity to that role, and monitoring of such standards.**
> - **As far as possible service delivery should be devolved to the level of government closest to the ultimate clients to allow for diversity, unless national considerations are critical.**
>
> **The Commission recommends the following changes to Commonwealth/State funding:**
>
> - **For programs which become the sole responsibility of the States, Commonwealth funding support should be through [general purpose payments].**
> - **For joint Commonwealth/State programs, Commonwealth funding should go to pools financing all related programs."**

The Commission's recommendations in this area were not embraced. Rather, the use of SPPs has increased, as has their prescriptiveness and lack of focus of outcomes. The 1999 Heads of Treasury SPP Working Group[44] presented in its report a set of best practice principles, and associated operational guidelines, which are a very good starting point here. The Working Group's best practice principles are reproduced in Box 7.1 below. Their adoption would represent very substantial improvement indeed, and they go a very long way in the reform directions that we envisage.

**BOX 7.1**

### SPP BEST PRACTICE PRINCIPLES

- SPP agreements should be constructed to maximise the coverage of related policy areas, rather than establishing multiple agreements.
- Combining a smaller number of SPPs into a larger pool can increase flexibility and reduce administrative costs. Options such as broad-banding would enhance this process.
- Administrative and accountability arrangements should be simplified and standardised wherever possible.
- SPP details, such as funding levels and timetables for re-negotiation of agreements, should be known well in advance. Access to a common SPP database would assist in this process.
- Where responsibilities are shared, SPP arrangements should reflect a spirit of cooperation between governments, defining broad principles, objectives and performance measures.
- Where it is appropriate that States and Territories should be accountable for results, these should be defined in terms of the achievement of broad outcomes or of delivering outputs, rather than for their own expenditure or inputs.
- Flexibility for States and Territories to tailor programs to suit local needs can lead to more effective and efficient programs. Agreements should avoid prescribing delivery mechanisms wherever possible.
- Criteria for the allocation for resources between the States and Territories, including indexation arrangements, should be clearly defined within each SPP.
- SPPs should be avoided where there is potential to increase unnecessary and costly duplication of functions between different levels of government. Where necessary, SPP agreements should encourage coordination of the SPP with any similar existing State programs.
- In keeping with their status as Intergovernmental Agreements, SPP agreements should be written in plain English rather than in the nature of a legally binding document, including any provision for sanctions which may be included in the agreement.

SOURCE: WESTERN AUSTRALIA DEPARTMENT OF TREASURY AND FINANCE, DEPARTMENT OF PREMIER AND CABINET 2002, *A STRATEGIC FRAMEWORK FOR SPECIFIC PURPOSE PAYMENTS, INCORPORATING BEST PRACTICE PRINCIPLES AND GUIDELINES, INFORMATION BOOKLET*, JULY.

## 7.2 Reform Directions: Beyond the current SPP model

The direction of reform that we envisage for the way governments work together in areas - particularly in human capital building – where they are both involved is directly guided by the assessment criteria outlined in Section 3.3. In short, the new model should

- have a strategic *outcomes focus*
  - with specific objectives expressed in terms of agreed outcomes;
  - with agreed measures of progress; and
  - an agreed national reporting framework;
- sit within arrangements for *coordination* of policy development and planning for related programs
  - including reflecting the same outcomes in all those programs and avoiding inconsistencies, overlaps etc;

45. THE HON. STEVE BRACKS, PREMIER OF VICTORIA 2005, A THIRD WAVE OF NATIONAL REFORM: A NEW NATIONAL REFORM INITIATIVE FOR COAG, AUGUST – ISSUED IN THE GOVERNMENTS WORKING TOGETHER SERIES. SEE ESPECIALLY SECTION 6.3.2, P. 42.

- be designed as a *partnership* model, involving
  - collaboration in planning and budgeting for the jointly funded program;
  - reasonably balanced funding contributions;
  - sharing of financial risks, predictability of mutual commitments; and
  - cooperation in managing boundary issues;
- be designed to promote *efficiency*
  - eschewing micro-management, and fostering diversity in ways to achieve the outcomes;
  - embodying positive incentives for over-achievement and disincentives for under-achievement;
  - minimising administrative and reporting burdens; and
- have a major focus on dynamic *improvement*, stimulated by diversity
  - reviewing and learning from diverse experiences; and
  - committing to implementing improvements.

The above principles are based on essentially the same concepts as the governance principles for reform of federal arrangements generally (not just SPPs) put forward by the Premier of Victoria in his 2005 proposals to COAG for a New National Reform Initiative.[45] Those governance principles emphasise:

- collaborative federalism;
- clear objectives (and a focus on achieving clearly defined outcomes in priority areas);
- accountability and transparency (with measures of progress against outcomes and strong positive incentives); and
- continuous improvement (with arrangements and incentives designed to support policy innovation and a continuous improvement culture).

It is beyond the scope of this paper to develop concrete reform proposals beyond presenting the above brief sketch of broad reform directions, and endorsing the best practice principles set out seven years ago by the SPP Working Group and the other proposals cited above. We suggest, however, that any new arrangements be accompanied by new terminology, for example, instead of 'SPPs'

- ***'Federal Partnership Agreements',*** or
- ***'Australian Partnership Agreements'.***

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