
10 Benchmarking, competitive federalism and devolution: how the COAG reform agenda will lead to better services

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10.1 Introduction

Since December 2007, the Council of Australian Governments (COAG) has embarked on a major new agenda of national reform — the ‘COAG reform agenda’. The objective of the COAG reform agenda is to improve the well-being of all Australians. The COAG Reform Council describes this as the ‘most comprehensive economic, social and environmental reform agenda ever contemplated in the context of intergovernmental relations in Australia’ (CRC 2010a, p. xii).

This paper argues that the COAG reform agenda reflects three elements that are critical to improved service delivery:

1. funding linked to the achievement of outcomes and outputs (rather than inputs) in areas of policy collaboration
2. devolution of decision making and service design to the frontline, and
3. competitive tensions between the States and Territories (‘competitive federalism’) and competitive tensions between service providers.

Underpinning these elements is a cornerstone of the COAG reform agenda: increased transparency and the use of benchmarking to measure performance.

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The COAG reform agenda is an example of a broader trend in policy design, particularly in service delivery, which involves ‘market design’. In other words, the COAG reform agenda moves beyond the outdated and bifurcated debate about the merits of wholly public sector or wholly private sector service delivery. It instead focuses on how governments can design interventions in markets to achieve policy outcomes. Each of the elements listed above is fundamental to this process, and transparency and the use of benchmarking are at its heart.

Remodelling the Commonwealth–State relationship

This paper also argues that the COAG reform agenda can be viewed as a modern remodelling of the relationship between the Commonwealth and the States and Territories (‘the States’). As part of that remodelling, the Commonwealth offered the States increased funding; interventions that were better targeted on specific COAG-agreed reforms (such as through National Partnership Agreements); devolution and flexibility in decision making and service design; and a more engaged and collaborative approach to the task of national policy leadership. In return, the Commonwealth sought from the States much greater levels of transparency; more innovation and responsiveness in policy development and service delivery; better use of Commonwealth funding; and assurances that the States would follow through on COAG-agreed reforms and ensure delivery of shared national objectives.

The COAG reform agenda has already delivered significant benefits. This paper explores some of the institutional successes, such as the strengthened role of the COAG Reform Council (CRC). It also explores some of the policy successes, including examples from the significant reform effort now underway that is leading to better services for the Australian community. These successes help to illustrate how, on the whole, the Australian federation works well, despite occasional hiccups.

Challenges and risks

Despite the successes, the jury is still out on whether the full potential of the COAG reform agenda is being delivered. There are also some clear risks to the COAG reform agenda. Some policy debates, such as health reform, have explicitly moved to a related but separate institutional framework. In a period of fiscal consolidation, it will be difficult for the Commonwealth to preserve current funding levels for a number of initiatives.

Unless some of these risks dissipate, the Commonwealth will find it difficult to continue to offer the States the increased levels of flexibility in policy and service delivery design that the COAG reform agenda has provided. Under pressure for faster and better delivery, there are a range of alternative proposals for reform in key policy areas that the Commonwealth could adopt, which would offer much less flexibility to the States but might be seen by Commonwealth Ministers to deliver more to the nation.

For believers in Australian federalism, now is the time for delivery. Barring major reallocations of roles and responsibilities within the federation, achieving nationally significant reforms will continue to require collaboration between the Commonwealth and the States. Funding linked to outcomes and outputs, greater devolution, competitive federalism and, importantly, increased transparency and benchmarking, will all remain critical to improving government-funded services for Australians.

10.2 The COAG reform agenda — background and rationale

National Competition Policy

The COAG reform agenda can be seen within the context of previous significant reforms on which COAG has embarked. COAG's National Competition Policy (NCP) of 1995 achieved increased competition in Australia through intergovernmental cooperation on micro-economic reforms. The Australian Productivity Commission estimated that the productivity and price changes in key infrastructure sectors in the 1990s, to which the NCP contributed directly, increased Australia's GDP by 2.5 per cent, or \$20 billion (PC 2005, p. xvii).

Human capital

The COAG National Reform Agenda of 2006, which built on the State of Victoria's 'third wave of reform' proposals, sought to address continuing competition challenges, regulatory reform and human capital reform, with the objective of boosting labour force participation and productivity. This was a significant development in cooperation between the Commonwealth and the States. While governments realised that the NCP reforms had been immensely beneficial and needed to continue and deepen, they also realised that a significant wave of human capital reform was required to ensure future prosperity. While competition and

regulatory reforms are intended to make the Australian economy more efficient, human capital reforms lead to a more innovative economy and a more productive workforce. Economic growth and increased income flow from both.

Building on these earlier initiatives, since December 2007 the COAG reform agenda has sought to respond to a number of near and longer-term challenges facing the Australian economy. Globally, the Australian economy is becoming increasingly reliant on the resources sector, and the growth of the Chinese and Indian economies, together with the appreciation of the Australian dollar, will increase international competitive pressures. An ageing Australian population risks reducing overall labour force participation. Productivity increases seen in recent times are unlikely to be sustained unless there is further micro-economic reform.

The COAG reform agenda recognises the importance of continuing the crucial productivity and labour market reforms of the 1990s, but also recognises that human capital reforms are essential for ensuring future prosperity and necessitate better approaches to Commonwealth-State relations. The focus on school education under the COAG reform agenda is one example of COAG's recognition of the importance of human capital reforms. While the States have responsibility for management of the different government schools systems, education is not just a State issue. Education is vital to increasing the productivity of individual workers and the economy as a whole. The Australian Productivity Commission estimated in 2007 that reforms in early childhood, education, skills and workforce development policies could increase productivity by up to 1.2 per cent by 2030 (PC 2006, p. 252). Human capital reform in the area of school education is therefore a national issue and this is reflected in COAG's strategic theme of 'a long-term strategy for economic and social participation'.

Cooperative federalism

Implicit in the COAG reform agenda is the assumption that Australian federalism relies, in many areas, on shared endeavour. The roles and responsibilities of each order of government in Australia should not be oversimplified. In reality, there are a large number of shared areas of policy responsibility. 'Coordinate federalism', as an ideal or pure form of federalism where each order of government does not participate in each other's affairs, will never be possible in Australia. As the former Secretary of the Australian Department of the Prime Minister and Cabinet, Terry Moran, noted:

an enduring and continuing feature of our federation is our shared endeavour in relation to key areas such as health and education. The COAG reform agenda ... [was] explicitly

designed to get more effective outcomes out of shared endeavour, even when governments change and political persuasions differ. (Moran 2010)

In putting the COAG reform agenda proposals to the States through COAG, the Commonwealth made a case for a new model of cooperative federalism and federal financial relations in Australia. The institutional framework that supports the COAG reform agenda, the *Intergovernmental Agreement on Federal Financial Relations* (IGA FFR), reflects the commitment to cooperative federalism explicitly (CRC 2010a, p. 11). It provides that financial relations ‘will be underpinned by a shared commitment to genuinely cooperative working arrangements’ (COAG 2008, p. 5). The IGA FFR envisages governments collaborating ‘on policy development and service delivery’, facilitating the ‘implementation of economic and social reforms’ (COAG 2008, p. 3).

10.3 The COAG reform agenda: key elements

The COAG reform agenda reflects three elements that build on this commitment to cooperative working arrangements and are critical to achieving improved service delivery:

1. funding linked to the achievement of outcomes and outputs (rather than inputs) in areas of policy collaboration
2. devolution of decision making and service design to the frontline wherever possible and effective
3. competitive tensions between the States and Territories ('competitive federalism') and competitive tensions between service providers.

Increased transparency and the use of benchmarking to measure performance underpin these three elements, forming a cornerstone of the COAG reform agenda.

Increased transparency and the use of benchmarking to measure performance

As a corollary of the focus on outcomes and outputs and providing the States with increased flexibility, the COAG reform agenda involves increased transparency in funding flows from the Commonwealth to the States, through a streamlined set of publicly available agreements. The COAG reform agenda also provides increased transparency regarding the performance of the States in meeting outcomes, outputs and other targets agreed by COAG. Importantly, it also provides for increased transparency regarding the performance of the Commonwealth in meeting its

commitments in adjacent or related policy areas. For example, the *National Healthcare Agreement* provides for additional transparency relating to primary health care, alongside the much greater transparency relating to the hospital system.

Benchmarking is therefore ingrained in the COAG reform agenda and the supporting institutional framework. This allows the Australian community to know whether the Commonwealth and the States are meeting the agreed outcomes and whether increased Commonwealth funding is achieving improved outcomes.

Benchmarking features of the COAG reform agenda include the establishment of mutually-agreed performance indicators and benchmarks in the National Agreements and National Partnership Agreements, and the assessment of achievement against those benchmarks by the COAG Reform Council (CRC). The CRC is COAG's independent accountability body charged with reporting on performance under the reform agenda. The CRC reports to COAG on the performance of the Commonwealth and the States against the outcomes, outputs and performance benchmarks under the National Agreements, and National Partnership Agreements to the extent they are relevant to the objectives of a National Agreement. The CRC also identifies examples of good practice. As the CRC has noted, the new arrangements are aimed at 'improving performance through fostering and strengthening learning' (McClintock 2010, p. 3).

At its February 2011 meeting, COAG renewed its 'commitment to strong ongoing monitoring and reporting of important national initiatives to ensure that they meet their goals and are delivered in a timely way' (COAG communiqué February 2011, p. 2).

Funding linked with the achievement of outcomes and outputs

The COAG reform agenda emphasises the achievement of outcomes and outputs in areas of policy collaboration, rather than detailed prescriptions by the Commonwealth on how the States will deliver services. Prior to the COAG reform agenda and the accompanying institutional reforms, the States had expressed frustration at the large number of highly prescriptive Commonwealth Specific Purpose Payments to the States. These payments often attached detailed conditions in return for funding, which could hinder States from setting their own priorities in policy and service delivery.

At its November 2008 meeting, COAG stated that the IGA FFR is aimed at 'improving the quality and effectiveness of government services by reducing Commonwealth prescriptions on service delivery by the states, providing them with increased flexibility in the way they deliver services to the Australian people'

(COAG communiqué November 2008). As schedules to the IGA FFR, the six National Agreements between the Commonwealth and the States in key service delivery areas are structured around outcomes and outputs. The National Agreements commit all governments to the achievement of key national objectives, and then provide jurisdictions with the room to tailor policies to meet those objectives while suiting the needs of their own communities, providing more flexibility to spend federal funding within the relevant sector.

The difference between National Agreements and National Partnership Agreements is an important distinction to make, and is perhaps not as well understood as it should be. National Agreements have a purer focus on outcomes and a high degree of autonomy for the States. In contrast, National Partnership Agreements are centred on specific reforms of national priority, projects or service delivery improvements. National Partnership Agreements are intended to be more rigorous in the prescription of specific benchmarks or targets that the States need to achieve to receive Commonwealth funding, and are explicitly intended to set targets that some States do not meet or do not even wish to sign up to. In September 2008, before the IGA FFR had commenced, it was made clear that in return for providing increased funding under National Partnership Agreements (which is additional to base funding under the five National Specific Purpose Payments), the Commonwealth is entitled to seek demonstrated improvements in the delivery of services and clear, measurable outcomes and outputs (Moran 2009).

Devolution of decision making and service design to the frontline

The service delivery frontline is where most Australians interact regularly with their governments. Linking Commonwealth funding with the achievement of outcomes and outputs has moved the Commonwealth away from prescribing in detail how the States should deliver services funded by the Commonwealth. This has, in turn, given the States the opportunity to devolve policy decision-making and service design closer to the service delivery frontline. For example, a key feature of the COAG *National Health Reform Agreement* is the establishment of Local Hospital Networks that will ‘decentralise public hospital management and increase local accountability to drive improvements in performance’ (COAG 2011b, p. 46).

Competitive tensions

Competitive tension between the States is another key element of the COAG reform agenda. The use of reward payments to recognise impressive State performance against pre-determined benchmarks forms a central part of the COAG reform

agenda and fosters a competitive form of federalism. There is approximately \$2.2 billion in reward payments, split among eight National Partnership Agreements, which the Commonwealth committed to provide to the States should they achieve pre-determined performance benchmarks. The CRC assesses independently whether these benchmarks have been achieved. The first reward payments have now been paid in areas such as elective surgery and literacy and numeracy, rewarding States that have delivered what they committed to do.

The CRC's expanded role has helped to inject accountability and performance expectations into the heart of the national debate, which is important for a healthy federation and democracy. This too fosters competitive federalism. For the first time, there is regular and public reporting on whether outcomes, outputs and other targets agreed by all governments are being achieved. CRC reports have attracted considerable media attention. We are already beginning to see a shift in CRC reporting from establishing baselines for measuring performance, to assessing performance over time. It is through this comparative benchmarking of performance over time that the true benchmarking potential of the reforms can be realised — indeed it will only be after 10 years or so of reporting that the CRC's benchmarking will hit its peak impact. Policy learning and service delivery improvements in individual jurisdictions should in turn lead to policy that is more innovative and more responsive to community needs, and therefore to increased levels of healthy competition between the States. Australians will be able to see more clearly which jurisdictions are leading the way in innovative policy development and service delivery improvements, and to what effect.

The benefits of competitive tensions in the Australian federation have been recognised at the State level. The current premier of New South Wales, Barry O'Farrell, has spoken of the need to inject competition into COAG. He has argued that New South Wales will lead 'an agenda that collaboratively defends the value of appropriate national frameworks, but promotes incentives for States to maintain and improve their own competitive advantages' (O'Farrell 2011). The current premier of Victoria, Ted Baillieu, has said that Victoria will seek to pursue a competitive approach to the federation (Dunckley 2010, p. 8). Indeed, the two premiers have gone further and suggested that they will collaborate to drive innovation in areas that are too difficult for all nine jurisdictions to agree (Kenny 2011).

In addition to competition between the States, the COAG reform agenda encourages competitive tensions between service providers, such as individual schools and hospitals. This is achieved by delving below the jurisdictional level and focusing on the organisational dynamics of large service delivery systems, such as education or health systems, managed by the States. Under the COAG reform agenda, the Commonwealth has sought greater transparency from the States in the performance

of individual schools and hospitals. There is now more transparency through the public availability of service level data from the *MySchool* and *MyHospitals* websites. This empowers parents and healthcare consumers with information to make more informed choices, and fosters healthy competition between those service providers.

Remodelling the Commonwealth–State relationship

While the elements outlined above provide a useful focus for understanding the COAG reform agenda, the reform agenda can also be seen as a modern remodelling of the relationship between the Commonwealth and the States. As part of that remodelling, the Commonwealth offered the States a number of things. Introduction of the new framework was coupled with a significant increase in Commonwealth financial support to the States, with COAG agreeing an additional \$7.1 billion over five years in Commonwealth funding associated with the new National Agreements. The Commonwealth offered interventions that were better targeted at specific COAG-agreed reforms (such as through mutually-agreed National Partnership Agreements) as opposed to unilateral Commonwealth interventions in areas of traditional State responsibility. As outlined above, the Commonwealth also offered increased devolution and flexibility in decision-making and service design. Finally, the Commonwealth offered the States a more engaged and collaborative approach to the task of national policy leadership.

In return, the Commonwealth sought from the States much greater levels of transparency, with the States agreeing to be subject to performance reporting by the independent CRC. The Commonwealth also sought more innovation and responsiveness in policy development and service delivery, leading to better uses of Commonwealth funding. Finally, the Commonwealth sought assurances that the States would follow through on COAG-agreed reforms and actually deliver on shared national objectives.

10.4 Progress to date

The COAG reform agenda has made significant progress to date. A comprehensive reform effort is now underway and there have been tangible benefits already. The CRC's 2011 report on the overall progress of the COAG reform agenda (CRC 2011a, p. ix) found that 'governments have made significant progress in realising many of the institutional features of the [IGA FFR]' and that 20 of 26 key reform commitments were 'largely or completely on schedule'.

Institutional successes

Perhaps the most understated benefit of the reforms is the embedding of benchmarking into the reform agenda. The expanded role of the CRC as the ‘key accountability body for the COAG reform agenda’ (CRC 2010a, p. 1) is significant. For the first time, there is regular and public reporting on whether outcomes, outputs and other targets agreed by all governments are being achieved. Vital social policy areas are now receiving the attention they require. There is now regular reporting, on a nationally consistent basis, on outcomes and outputs under the *National Indigenous Reform Agreement* — a significant step forward in the task of establishing higher levels of accountability for Indigenous outcomes. Accountability and performance expectations have been injected into the national policy debate.

In the long term, of course, the real measure of success of the COAG reform agenda will be the extent to which benchmarking and other features of the agenda translate into actual improvements in policy development and service delivery. The shift to a greater focus on outcomes and outputs is intended to ‘focus reform efforts on tangible improvements in the wellbeing of Australians, and to provide governments with the scope to innovate to find the best means of achieving these improvements’ (COAG 2010a, p. 12). CRC reporting on good practice will be important in this area, providing a mechanism for qualitative learning in addition to quantitative performance reporting. As the reform agenda progresses, comparative benchmarking in CRC reports should start flowing back into policy learning and service delivery improvements in individual jurisdictions, prompting policy that is more innovative and more responsive to community needs. However, longitudinal comparison (that is, how a jurisdiction performs over time) is as equally important as horizontal comparison (comparison between jurisdictions). CRC reporting will be important for individual States to see how they are tracking in the long term.

Policy successes

As a result of the COAG reform agenda and unprecedented cooperation between the Commonwealth and the States, there is now better alignment around a number of specific reforms. This alignment includes concrete reform plans in particular policy areas; a clear understanding of shared objectives and outcomes; and better program logic explaining how the Commonwealth and the States will work to achieve those outcomes.

There has also been significant progress in applying micro-economic reform techniques to a number of social policy areas. The National Quality Agenda for Early Childhood Education and Care is an example. Early childhood development is

critical not only for the wellbeing of Australia's children but also for the nation's productivity and workforce participation. Under the new National Quality Agenda, micro-economic reform techniques such as regulatory simplification and establishment of quality benchmarks in early childhood have been utilised in an effort to boost productivity and the wellbeing of Australian children. This has involved replacing nine separate Commonwealth and State systems of licensing, registration, auditing and accreditation, and developing a new single national set of arrangements with new and higher national quality standards. This is a good example of market design, where governments have designed interventions in markets to achieve specific policy outcomes.

Some examples of successes in other social policy areas are outlined below.

School education

The CRC's first report on the overall progress of the COAG reform agenda (CRC 2010a, xii) noted that 'there is a strong focus on reform in the education and skills systems, which should enhance productivity in the long term' (CRC 2010a, pp. xiii-xiv). COAG has endorsed, under the *National Education Agreement*, the development of a national curriculum to replace multiple existing State curricula. A series of National Partnership Agreements, called the Smarter Schools National Partnership Agreements, concentrate on improving teacher quality, better outcomes for low socio-economic status school communities, and improving the essential life skills of literacy and numeracy.

Teacher quality is obviously one of the most important influences on student engagement and achievement. Under the *National Partnership Agreement on Improving Teacher Quality*, \$550 million is being invested to attract the best and the brightest candidates into teaching and to retain quality teachers. The *National Partnership Agreement on Literacy and Numeracy* is providing \$540 million to fund effective evidence-based teaching of literacy and numeracy, and monitoring to identify areas for further support. Under the *National Partnership Agreement on Low Socio-Economic Status School Communities*, \$1.5 billion is being provided to support the educational and wellbeing needs of schools and students in low socio-economic status communities. The *National Partnership Agreement on Literacy and Numeracy* and the *National Partnership Agreement on Improving Teacher Quality* each contain \$350 million in reward funding to reward State performance. Following the first CRC report on the achievement of targets under the *National Partnership Agreement on Literacy and Numeracy*, the Commonwealth announced in June 2011 that it would provide the States with \$138 million in reward funding.

Increased accountability is a key component of COAG's school education reforms and benchmarking has been embedded in the reform package. Under the *National Education Agreement*, jurisdictions committed to greater school transparency, which will allow for better benchmarking of performance. In January 2010 the *MySchool* website was launched, enabling parents and the wider community to compare schools' performance in literacy and numeracy testing against the national average and statistically similar schools. A more advanced version of the website went live in March 2011, which includes summaries of progress made by students in literacy and numeracy since the 2008 national testing, and financial information on schools. This will provide greater insight on the impact of teaching and learning in Australian schools (Gillard 2010) and empower parents with better information.

In November 2011 the CRC released its third annual progress report on the *National Education Agreement*, which includes analysis of performance under National Partnership Agreements that support the objectives of the *National Education Agreement* (CRC 2011b). The report notes that reading and numeracy is improving, although there was mixed progress for Indigenous students.

Elective surgery waiting times

The Commonwealth has made a significant investment in assisting the States to reduce elective surgery waiting times in their public hospitals. All Australians, no matter which State they live in, expect timely public access to elective surgery should the need arise. This is important not only for improved health outcomes but also for patient experience and satisfaction.

As the first step, the Commonwealth entered into a \$600 million Elective Surgery Waiting List Reduction Plan with the States. Up to \$300 million was available under Stage Three of the Plan, which took the form of a National Partnership Agreement between the Commonwealth and the States. The intended outcome of the *National Partnership Agreement on the Elective Surgery Waiting List Reduction Plan* was to reduce the 'number of Australians waiting longer than clinically recommended times for elective surgery by improving efficiency and capacity in public hospitals' (COAG 2009, p. 5). Up to \$252 million in reward funding was available under this National Partnership Agreement. CRC reporting indicated that during the 18 months covered by the Agreement, 54,759 more elective surgery admissions were performed than the 919 389 admissions required under the Agreement (CRC 2011c, p. 10).

The Agreement also contained targets relating to the cost weighted volume of admissions and the management of elective surgery waiting lists, which were assessed by the CRC in its final report. Of the \$252 million in reward funding

available under the National Partnership Agreement, approximately \$144 million was provided by the Commonwealth to the States in recognition of their performance under the Agreement.

More recently, the *National Partnership Agreement on Improving Public Hospital Services* has been developed to implement the elective surgery, emergency department and subacute care elements of the COAG *National Health Reform Agreement*. The National Partnership Agreement invests a further \$800 million in reducing elective surgery waiting times and continues the CRC's role in reporting on whether benchmarks for reward payments have been achieved by the States.

A new performance and accountability framework and improved transparency form a key part of the *National Health Reform Agreement*. This includes benchmarking at the local level, such as reporting on the performance of individual hospitals (and local hospital networks) by the new National Health Performance Authority, and continued benchmarking of jurisdictional performance by the CRC across healthcare services.

The institutional and policy successes outlined above help to illustrate how, on the whole, the Australian federation works well. The former Secretary of the Australian Department of the Prime Minister and Cabinet has argued that the federation 'serves a useful contemporary purpose' and has 'yielded far-reaching policy reforms across many areas, and all levels, of government'. While the promise of the landmark IGA FFR is yet to be fully realised, it 'holds enormous potential for reshaping the delivery of critical services' (Moran 2011).

10.5 Challenges and risks

Despite the successes of the COAG reform agenda, the jury is still out on whether its full potential is being delivered.

Challenges

There is a growing sense at the Commonwealth level that the States have accepted increased levels of Commonwealth funding but are not delivering on their obligations as well as they could be. There is a growing sense at the State level that the Commonwealth is 'reverting to type' and seeking to micromanage the way the States deliver Commonwealth funded services. Balancing the legitimate needs of the Commonwealth and the States is important in making the COAG reform agenda work. In response to Commonwealth requests for performance information, the States may feel the Commonwealth is seeking too much data, too frequently.

Nevertheless, the States need to recognise the legitimate interest of the Commonwealth in ensuring the achievement of agreed reforms or service delivery improvements, including knowing how they will be delivered and the progress that is being made towards agreed outcomes.

Implementation of the reforms and risk management pose challenges for the Commonwealth. One particular challenge, put simply, is who bears responsibility for problems with implementation? As the Commonwealth has greater financial resources than the States, and because Commonwealth Ministers are increasingly expected to engage in public debate on State service delivery, there are frequently expectations that the Commonwealth will intervene in areas in which it has less direct responsibility. This has contributed to the media and the community occasionally holding the Commonwealth to account when implementation falters in State administered programs. While State governments are accountable to their own parliaments and electors for their successes or failures, in some cases the Commonwealth has been under pressure to intervene in areas of program implementation for which it is not directly responsible. An example is implementation difficulties in the Indigenous housing area (Robinson and Franklin 2009).

This context means that Commonwealth Ministers have a high degree of dependence on the performance of the States. In some cases, Ministers may not feel they are given enough information on State progress in implementing COAG reforms to satisfy the cut and thrust of daily political life. This can be a particular challenge in a small number of areas where data limitations inhibit reporting of whether outcomes or other benchmarks are being achieved.

While such concerns are legitimate, it is important that the Commonwealth, as the leading partner in the COAG reform agenda, emphasises the longer-term goals of the COAG reform agenda. While evidence of short-term results is important, especially for tracking progress, it is also important that the media, other stakeholders and even the Commonwealth itself do not lose sight of the longer-term objectives.

This is one aspect of the cultural change that is required if governments are to stay the course of the reforms (CRC 2010a). The IGA FFR requires a significant shift in the Commonwealth bureaucracy's instinct to prescribe in detail how the States will deliver services funded by the Commonwealth. The Commonwealth needs to accept ways of managing risk other than through input controls, such as better use of reward payments and utilising the CRC's comparative reporting of State performance. Such cultural change is essential not only in Commonwealth central

agencies but especially in line departments, which are at the coalface of interaction with State line agencies on program delivery.

Risks

There are clear risks to the COAG reform agenda. These risks are compounded because the jury is still out on whether the full potential of the COAG reform agenda is being delivered. In a period of fiscal consolidation, it will be difficult for the Commonwealth to preserve current funding levels for a number of initiatives when the agreements governing these initiatives expire. Some policy debates, such as health reform, have explicitly moved to a related but separate institutional framework. For example, under the COAG *National Health Reform Agreement*, funding for hospitals will be contributed into a single national pool, to be operated by an independent Administrator and supported by a new National Health Funding Body. Commonwealth funding contributions to public hospital services will be provided on the basis of actual activity levels, measured and reported regularly (COAG 2011b). This is clearly a significant contrast to the original model for healthcare collaboration envisaged under the IGA FFR and the *National Healthcare Agreement*.

Unless some of these risks dissipate, the Commonwealth will find it difficult to continue to offer the States the existing levels of flexibility in policy and service delivery design that the COAG reform agenda has provided. Under pressure for faster and better delivery, there is a range of alternative proposals for reform in key policy areas that the Commonwealth could adopt, which would give the Commonwealth much greater policy control. These would offer much less flexibility to the States but might be seen by Commonwealth Ministers to deliver more to the nation.

Despite the need for shared endeavour and cooperation, the historic trend in the Australian federation has been towards centralism, mainly due to the high degree of vertical fiscal imbalance. Fenna (2007, p. 298) notes there is general agreement that Australia is the most centralised of the established federations, and that the underlying trend ‘is toward centralisation rather than decentralisation’. While the COAG reform agenda has helped to institutionalise a new cooperative form of federalism, at least one commentator has argued (Anderson 2010, p. 17) that this has not resulted in any significant change or slowing ‘in the development of the Australian federation towards a model of a strong central government setting priorities and determining policies, which then funds the states to implement the programs required by those policies’.

The States play a critical role in the federation. However, it is indisputable that aspects of that role have eroded over time. The COAG reform agenda offers the States a modern 21st century opportunity to reinvent and reinvest in their strengths. The Commonwealth has put significant effort and resources into giving the States increased opportunities and flexibility to improve outcomes for their communities. If the States fail to deliver improved services, it is unlikely the trend towards centralisation described above can be arrested.

10.6 Conclusion and next steps

For the federation to remain relevant, the COAG reform agenda needs to succeed. And for believers in Australian federalism, now is the time for delivery. Barring major reallocations of roles and responsibilities within the federation, achieving nationally significant reforms will continue to require collaboration between the Commonwealth and the States. Funding linked to outcomes and outputs, greater devolution, competitive federalism, and increased transparency and benchmarking will all remain critical to improving government-funded services for Australians.

To enable the COAG reform agenda to succeed, the Commonwealth needs to get much better at a collaborative model of national policy leadership, put greater pressure on the States to live up to their obligations, and attempt to avoid the instinctive desire to prescribe in detail how the States should deliver services that are Commonwealth-funded. The States need to follow through on COAG-agreed reforms and ensure they actually deliver shared national objectives. All jurisdictions need to recognise that change will take some time and that policy consistency over time is a virtue in the federation.

All governments need to work together to produce better data. This includes more investment in data collection and manipulation; more focus on the operations and effectiveness of key data agencies; and more exploration of the links between the performance reporting framework underpinning the COAG reform agenda and broader frameworks both in Australia and internationally, such as the OECD ‘measuring the progress of societies’ agenda. Effective public accountability is dependent on jurisdictions providing robust data comparable between jurisdictions. While often more difficult to collect, data showing whether outcomes are being achieved (in addition to outputs) are also critical. COAG is already acting to address data challenges, including by reviewing the performance frameworks in the National Agreements with the objective of ensuring that ‘progress is measured and that all jurisdictions are clearly accountable to the public and COAG for their efforts’ (COAG communiqué February 2011, p. 2).

Most importantly, governments and their officials need to work together on policy innovation mechanisms to embed benchmarking and competitive federalism, and turn this into innovative federalism. The ‘missing glue’ of the COAG reform agenda is the connection between data and policy impact in areas such as policy innovation, best practice, competitive or ‘laboratory’ federalism and policy markets. These are underdeveloped in Australia and warrant further investment. Better support to enable policy innovation is needed. Public servants and politicians in the Commonwealth and the States have responded to the challenges of the COAG reform agenda through innovation, but there is room for greater support and facilitation of that policy innovation. This includes providing greater opportunities for collaboration and fostering creativity. At the Commonwealth level, these matters are being addressed as part of the Government’s response to the report *Ahead of the Game: a blueprint for reform of Australian Government administration* (Advisory Group on Reform of Australian Government Administration 2010).

Greater support for policy innovation will enable the potential of the COAG reform agenda to be realised more fully. This will lead to a more innovative federation and, ultimately, better services for Australians.

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