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# 13 Intelligent federalism: accountability arrangements under COAG's reform of federal financial relations

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## **Abstract**

A key objective of COAG's reform of federal financial relations is to strengthen accountability for the quality and efficiency of the services delivered and the outcomes achieved. National Agreements in education, skills and workforce development, healthcare, disability services, affordable housing, and Indigenous reform set out agreed objectives, outcomes and performance indicators. The COAG Reform Council — an independent agency — assesses and publicly reports on the performance of the Commonwealth, State and Territory governments under the National Agreements. The accountability arrangements set standards to hold governments to account and, through a mix of incentives, encourage improved performance. This paper examines the COAG reforms and concludes that the new arrangements have the potential to improve government performance — and outcomes for Australians — through building the evidence base and fostering learning, both across and within governments.

At this conference, we mainly heard two kinds of accounts. The first were histories of past successes or failures to influence policy through the application of evidence.

In *The Intelligence of Democracy*, Charles Lindblom argues that pluralist democracy is superior to other political systems because of the greater number of incentives it contains to encourage intelligence and learning in the process of policy making (Bovens 2006, p. 26; Lindblom 1965). If this is so, in the process of policy making, federations such as Australia — with a built-in basis for comparing and learning across central and sub-national governments — have an advantage over unitary democracies.

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The advantages of federalism are often touted (Twomey and Withers 2007, chapter 2). Federalism provides the opportunity — and often the pressure — to be innovative and to experiment in order to compete with other jurisdictions. In a federation, ideas can be tested by a jurisdiction and copied by others. Where experiments fail, federalism ‘cushions the nation as a whole from the full impact of government blunders’ (de Q Walker 2001, p. 38).

This paper looks at the accountability arrangements that can encourage ‘intelligent federalism’ under recent reforms of the Council of Australian Governments (COAG) — the peak intergovernmental forum in Australia, comprising the Prime Minister, State Premiers, Territory Chief Ministers and the President of the Australian Local Government Association.

The paper begins with an outline of COAG’s reform of federal financial relations. It then looks at the associated accountability arrangements, focusing on the role of the COAG Reform Council in assessing performance under the new National Agreements between the Commonwealth, State and Territory governments. The paper argues that the new accountability arrangements — founded on and with a commitment to evidence-based policy — have the potential to improve governments’ performance through fostering and strengthening learning both across and within governments.

## **13.1 Reform of federal financial relations**

In March 2008, COAG endorsed a new reform agenda for Australia, agreeing to work together to:

... boost productivity, workforce participation and geographic mobility, and support wider objectives of better services for the community, social inclusion, closing the gap on Indigenous disadvantage and environmental sustainability. (COAG 2008a, p. 2)

Reform of the architecture of Commonwealth–State financial relations is an essential part of this reform agenda, with COAG agreeing to implement a new framework for federal financial relations — ‘the most significant reform of Australia’s federal relations in decades’ (Commonwealth of Australia 2009, p. 3). The intent of the new framework is to improve the wellbeing of all Australians through improvements in the quality, efficiency and effectiveness of government services (COAG 2008b, p. 4).

The Intergovernmental Agreement on Federal Financial Relations (the IGA) provides the overarching framework for the Commonwealth’s financial relations with the States and Territories. It establishes a foundation for governments to

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collaborate on policy development and service delivery, and to facilitate the implementation of economic and social reforms. All policy and financial relations between the Commonwealth and the States and Territories are now governed under the provisions of the IGA (Commonwealth of Australia 2009, p. 9).

There are three main elements of the new financial arrangements.

- National Specific Purpose Payments (SPPs) supported by new National Agreements.
- National Partnership payments associated with National Partnership Agreements.
- a performance and assessment framework to support public reporting and accountability.

Under the new framework for federal financial relations, the previous more than 90 different payments from the Commonwealth to the States and Territories for specific purposes — many containing prescriptive conditions on how the funding should be spent — have been combined into five new *National SPPs* (Commonwealth of Australia 2009, p. 24). National SPPs are ongoing financial contributions from the Commonwealth to the States and Territories to be spent in the key service delivery sectors of schools, skills and workforce development, health care, affordable housing, and disability services. The States and Territories are required to spend each National SPP in the service sector relevant to the SPP but they have full budget flexibility to allocate funds within that sector as they see fit to achieve the agreed objectives for that sector (COAG 2008b, p. D-2).

National SPPs are associated with *National Agreements* between the Commonwealth and State and Territory governments. National Agreements establish the policy objectives in the service sectors of education, skills and workforce development, health care, affordable housing, and disability services. There is also a National Agreement on Indigenous Reform which does not have an associated SPP, although it links to other National Agreements and National Partnerships which have associated funding.

National Agreements set out the objectives, outcomes, outputs and performance indicators for each sector, which are agreed between all jurisdictions. The agreements also clarify the roles and responsibilities of the Commonwealth, States and Territories in the delivery of services and the achievement of outcomes. They do not include financial or other input controls imposed on service delivery by the States and Territories, and there is no provision for National SPPs to be withheld in the case of a jurisdiction not meeting a performance benchmark specified in a National Agreement.

*National Partnership Agreements* outline agreed policy objectives in areas of nationally significant reform or for service delivery improvements, and define the outputs and performance benchmarks. The Commonwealth provides National Partnership payments to support the delivery of specified projects, to facilitate reforms, or to reward those jurisdictions that deliver on national reforms (Commonwealth of Australia 2009, p. 26).

The extent of the change in federal financial arrangements under the IGA is shown in table 13.1. There has been a major shift away from the previous form of Commonwealth payments to the States and Territories for specific purposes, which often involved prescriptions on service delivery in the form of financial or other input controls.

- In 2007–08, 42.7 per cent of Commonwealth payments were in the previous form of payments for specific purposes, compared to only 4.1 per cent in 2009–10.
- There has been a shift to the new National SPPs; 28.5 per cent of Commonwealth funding is in this form in 2009–10.
- There has also been a shift to funding under National Partnership payments; 8.3 per cent of Commonwealth payments is in this form in 2009–10.

**Table 13.1 Commonwealth payments to the States and Territories**  
2007-08 and 2009-10

<i>Payments</i>	<i>2007-08</i>	<i>2009-10</i>
	%	%
Existing payments for specific purposes	42.7	4.1
National Specific Purpose Payments (supported by National Agreements)	–	28.5
National Partnership payments	0.3	8.3
GST	56.9	58.0
Other general revenue assistance	0.2	1.1
<b>Total</b>	<b>100.0</b> (\$74 960m)	<b>100.0</b> (\$83 200m)

Source: Commonwealth of Australia (2009, chapter 2).

The third main element of the new federal financial relations arrangements is a *performance and assessment framework* to support public reporting and accountability. Under the IGA, the Commonwealth, States and Territories have agreed to greater accountability through simpler, standardised and more transparent performance reporting, and ‘a rigorous focus on the achievement of outcomes — that is, mutual agreement on what objectives, outcomes and outputs improve the

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wellbeing of Australians’ (COAG 2008b, p. 5). The IGA gives the COAG Reform Council significant responsibilities for assessment and reporting of the performance of governments under National Agreements and National Partnerships.

## **13.2 Role of the COAG Reform Council**

The COAG Reform Council assists COAG to drive its national reform agenda by strengthening accountability for the achievement of results through independent and evidence-based monitoring, assessment and reporting on the performance of governments. The council is independent of individual governments and reports directly to COAG. (An overview of the role of the COAG Reform Council is at <http://www.coag.gov.au/crc/index.cfm>.)

As set out in the IGA (COAG 2008b, p. A-4), the role of the COAG Reform Council is to:

- monitor, assess and publicly report on the performance of the Commonwealth, States and Territories in achieving the outcomes and performance benchmarks specified in National Agreements
- independently assess whether predetermined performance benchmarks have been achieved before an incentive payment is made to reward nationally significant reforms under National Partnerships.

More specifically, for National Agreements the COAG Reform Council provides annual reports to COAG containing the performance data and a comparative analysis of the performance of governments in meeting the objectives of the agreements. The reports are made public. The reports also:

- highlight examples of good practice and performance so that, over time, innovative reforms or methods of service delivery may be adopted by other jurisdictions
- highlight contextual differences between jurisdictions which are relevant to interpreting the data
- reflect COAG’s intention to outline transparently the contribution of both levels of government to achieving performance benchmarks and to achieving continuous improvement against the outcomes, outputs and performance indicators (COAG 2008b, p. C-2).

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### 13.3 Improving performance through accountability arrangements

The IGA is clear that improved accountability is a key objective of the new framework for federal financial relations. The framework aims to ensure that the appropriate government is accountable to its community ‘not just for its expenditure in delivering services, but more importantly for the quality and efficiency of the services it delivers and the outcomes it achieves’ (COAG 2008b, p. 5).

Public accountability has three main functions (Bovens 2006, pp. 25–6; Bovens 2007, pp. 192–3):

- to monitor and control the conduct of governments
- to enhance the integrity of public governance
- to improve the performance of government by strengthening the learning capacity and effectiveness of public administration.

Within the framework of the IGA, the main function of public accountability is to improve performance. Performance is improved through accountability arrangements that are:

- preventive — by setting standards to hold institutions to account
- remedial — by encouraging responsibility to fix problems and to prevent their recurrence
- educative — by tracing connections between past, present and future policies (Bovens 2006, p. 26).

The next sections discuss how the public accountability role of the COAG Reform Council under the IGA has the potential to improve governments’ performance through arrangements that are preventive, remedial and educative, focusing on the council’s role under the six National Agreements.

### 13.4 Setting standards

The six National Agreements — in education, skills and workforce development, health care, affordable housing, disability services and Indigenous reform — have a similar structure. The National Agreements clearly identify the outcomes, performance indicators and targets — the standards by which governments are held to account. Setting standards has a preventive function, steering reform and actions towards the achievement of outcomes:

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Accountability is not only about control, it is also about prevention. Norms are (re)produced, internalized, and, where necessary, adjusted through accountability. The manager who is held to account is told about the standards he must hold to and about the fact that in the future he may again (and, in some cases, more strictly) be called to account. (Bovens 2007, p. 193)

As an example of the setting of standards, figure 13.1 summarises the structure of the National Education Agreement. All National Agreements begin with the objective(s) of the agreement — the overall aim. The objective of the National Education Agreement is:

... that all Australian school students acquire the knowledge and skills to participate effectively in society and employment in a globalised economy. (COAG 2008c, p. 1)

Each agreement also has a set of outcomes agreed by governments. As shown in figure 13.1, the National Education Agreement has five outcomes.

For each outcome there is a set of performance indicators which measure progress towards the outcomes. For example, under the National Education Agreement, for the outcome of ‘young people meet basic literacy and numeracy standards and that levels of achievement are improving’, the performance indicator is literacy and numeracy achievement of Year 3, 5, 7 and 9 students in annual national testing under the National Assessment Program — Literacy and Numeracy (NAPLAN).

Most National Agreements also include identified targets to achieve. The National Education Agreement has three (listed in figure 13.1).

Each year, the COAG Reform Council reports the performance information for all jurisdictions against National Agreement outcomes and performance benchmarks (COAG 2008b, p. A-4), reflecting the preventive nature of the accountability arrangements. This preventive function is given weight by the council’s responsibility to publicly release its reports on governments’ performance under the National Agreements.

The effectiveness of the outcomes, performance indicators and targets of the National Agreements in steering governments towards reform is dependent on the robustness of the evidence upon which they are founded. In his chapter in this volume, Peter Dawkins describes the rigorous evidence base to build the case for a national human capital reform agenda under COAG, which led to the development of the outcomes framework and associated performance indicators of the National Education Agreement.

**Figure 13.1 Structure of the National Education Agreement**

Objectives, outcomes, performance indicators and targets

<b>Objective</b>	<b>All Australian school students acquire the knowledge and skills to participate effectively in society and employment in a globalised economy.</b>			
	<b>Outcomes</b>	All children are engaged in and benefiting from schooling	Young people are meeting basic literacy and numeracy standards, and overall levels of literacy and numeracy are improving	Australian students excel by international standards
	Schooling promotes the social inclusion and reduces the educational disadvantage of children, especially Indigenous children			
<b>Performance Indicators</b>	The proportion of children enrolled in and attending school (by Indigenous and low socio-economic status)	Literacy and numeracy achievement of Year 3, 5, 7 and 9 students in national testing (by Indigenous and low socio-economic status)	The proportion of students in the bottom and top levels of performance in international testing (e.g. PISA, TIMSS).	The proportion of the 20–24-year-old population having attained at least a Year 12 or equivalent or AQF Certificate II (by Indigenous and low socio-economic status)
	The proportion of Indigenous students completing Year 10			The proportion of young people participating in post-school education or training six months after school
				The proportion of 18- to 24-year-olds engaged in full-time employment, education or training at or above Certificate III
<b>Targets</b>	Lift the Year 12 or equivalent attainment rate to 90 per cent by 2015 Halve the gap for Indigenous students in reading, writing and numeracy within a decade At least halve the gap for Indigenous students in Year 12 or equivalent attainment rates by 2020			

Source: COAG (2008c).



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## 13.5 Encouraging responsibility for performance

Each year the COAG Reform Council also undertakes a *comparative* analysis of the performance of all the jurisdictions — Commonwealth, States and Territories — towards the outcomes, as measured by the performance indicators and targets (COAG 2008b, p. C-2). The comparative analysis compares the performance of jurisdictions against each other and also against their own year-on-year performance, reflecting the importance of achieving continuous improvement against the outcomes, outputs and performance indicators. The comparative analysis supports remedial action — by encouraging responsibility to fix problems and to prevent their recurrence:

An administrator who is called to account is confronted with his policy failures and he is aware that, in the future, he can be called upon again, even more pitilessly, to render account. (Bovens 2006, p. 26)

To take an example of comparative analysis, figure 13.2 presents illustrative data for the States and Territories against the National Education Agreement's 'young people meet basic literacy and numeracy standards' performance indicator. The agreed measure of the indicator is the proportion of students achieving at or above the national minimum standard. Achievement of the minimum standard indicates that the student has demonstrated the basic elements of literacy and numeracy for the year level.

The data against this indicator are shown for Year 5 Reading. Year 5 Reading is a good indicator of performance, as reading is a foundation skill for writing and numeracy and by Year 5 the impact of jurisdictional differences in school starting age on the acquisition of skills should be diminishing.

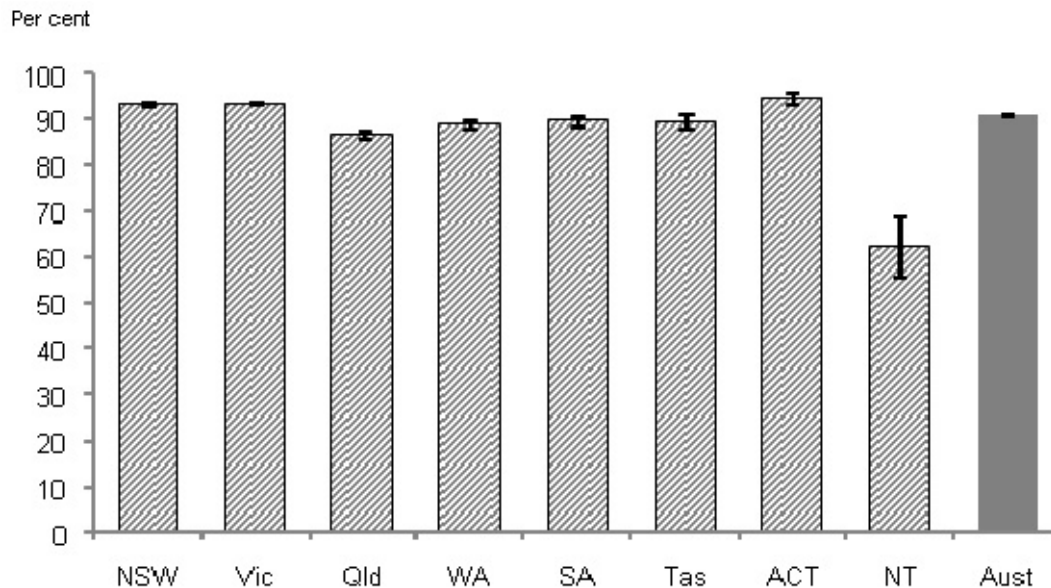
Nationally, a high proportion of all students — 91 per cent — achieve at or above the national minimum standard in assessments of reading at Year 5 (COAG Reform Council 2009, pp. 61–2). Comparing the performances of the States and Territories:

- three jurisdictions achieve higher levels than the national average — New South Wales, Victoria and the Australian Capital Territory — all with results of 94 per cent or above of students meeting the national minimum standard in Year 5 Reading;
- four jurisdictions cluster below the national average, with the proportion of students meeting the national minimum standard ranging from 90 per cent in South Australia and Tasmania, to 89 per cent in Western Australia, and to 87 per cent in Queensland;

- the Northern Territory differs markedly from other States and Territories, with 63 per cent of students meeting the national minimum standard for Year 5 Reading.

**Figure 13.2 Proportion of Year 5 students achieving at or above the national minimum standard for reading**

By State and Territory, 2008



Notes: 1. The achievement percentages shown in this graph include 95 per cent confidence intervals indicated by error bars. 2. Exempt students were not assessed and are deemed not to have met the national minimum standard. 3. Absent and withdrawn students did not sit the test and are not included in these data.

Data source: MCEETYA (2008, p. 56).

To help understand performance, the council is also required to highlight relevant contextual differences between the jurisdictions — such as differences in populations — that are associated with high or low performance (COAG 2008b, p. C-2). For example, the Northern Territory’s results for Year 5 Reading reflect its high proportion of Indigenous students (41 per cent) and the high proportion of students living in remote areas (46 per cent) (COAG Reform Council 2009, p. 145).

The council’s approach to the task of highlighting contextual differences reflects its general approach to the assessment of governments’ performance (COAG Reform Council 2009, pp. 6–7). In particular, the council’s approach is *dynamic*, emphasising changes in performance from year to year. The first reporting year — 2008 for the National Education Agreement — establishes the baseline data and benchmarks against which improvements in performance can be measured in subsequent years.

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Given this approach, the contextual differences that are highlighted in assessing performance under the National Agreements are high level and small in number. They are focused on differences that help understand the data by giving the broad context, in particular student characteristics such as Indigenous and socioeconomic status. This is particularly relevant for first-year reports, as they present the baseline data for the comparative assessment of performance. However, these contextual factors are likely to be less relevant to understanding changes in performance, and hence are less likely to be relevant in subsequent years' reports as the focus shifts to assessing the performance of the jurisdictions over the years compared with their baseline data (COAG Reform Council 2009, p. 26).

Furthermore, while the council is required to highlight contextual differences between jurisdictions which are relevant to interpreting the data, COAG is clear that the council does not have a policy advising role — the council does not analyse the effectiveness of the governments' policies and programs behind the results of performance (COAG 2008b, p. A-4). This is consistent with the focus of the National Agreements and the associated National SPPs on outcomes, and with the principle of budget flexibility for the States and Territories to allocate funds as they see fit to achieve the outcomes. (The COAG Reform Council does have a role in highlighting good practice, which is discussed below.)

Thus, the comparative analysis does not explain *why* there are differences between the jurisdictions. Rather than providing an explanatory analysis, the comparative analysis is better thought of as providing *catalyst* data (Ekholm 2004, p. 1). The comparative analysis of performance — highlighting differences among the jurisdictions — leads one to search for reasons to explain the differences.

Catalyst data can be powerful, as pointed out by an editorial in *The Australian* on Queensland's results in NAPLAN testing:

Following the woeful performance of Queensland primary school children in national testing last year, the Bligh Government turned to an expert for help. The state's children need it, after being ranked second-last in the nation. Only the Northern Territory where absenteeism and social disadvantage are more prevalent fared worse. (*The Australian*, 4 May 2009, editorial)

In response to Queensland's performance in NAPLAN in 2008, Premier Bligh took remedial action, seeking an independent review by Professor Geoff Masters from the Australian Council for Educational Research of the literacy and numeracy standards in Queensland primary schools and advice on how to improve students' skills (Masters 2009).

The COAG Reform Council's comparative analysis of performance must also reflect 'COAG's intention to outline transparently the contribution of both levels of

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government to achieving performance benchmarks and to achieving continuous improvement against the outcomes, outputs and performance indicators’ (COAG 2008b, p. C-2).

Each National Agreement identifies the roles and responsibilities of the Commonwealth, State and Territory governments in achieving the agreement’s outcomes. The council must assess the performance of all governments against the indicators and benchmarks, given their respective responsibilities. To do this, the council will seek information from jurisdictions on their work towards the achievement of the nationally agreed outcomes, consistent with their roles under each agreement. This will be done for the second and subsequent years’ reports in light of the comparative analysis of the performance data in the first year report.

### **13.6 Tracing connections between policies and outcomes**

Accountability arrangements can be educative — by tracing connections between past, present and future policies:

Public accountability ... offers a regular mechanism to confront administrators with information about their own functioning and forces them to reflect on the successes and failures of their past policy. (Bovens 2006, p. 26)

The COAG Reform Council has two main ‘educative levers’ under the IGA. First, in reporting on performance under the National Agreements, the council is required to highlight examples of good practice and performance ‘so that, over time, innovative reforms or methods of service delivery may be adopted by other jurisdictions’ (COAG 2008b, p. C-3). The Council will do this in the second and subsequent years’ reports on the National Agreements.

Under the agreed process, the Council will select, in consultation with the jurisdictions, one or more areas for good practice and performance analysis, based on the comparative analysis of the performance data for the previous year. This provides the opportunity for an in-depth analysis of the performance data and additional related data, and of relevant Australian and international research. The Council will liaise with jurisdictions and draw upon subject experts as needed.

The second ‘educative lever’ is the council’s role in relation to National Partnerships. As noted earlier, the Council is required to independently assess whether performance benchmarks have been achieved before an incentive payment is made under National Partnerships. In addition, in the reports on the National Agreements, the Council is required to include an analysis of the performance

information for National Partnerships to the extent that they support the objectives in the National Agreement (COAG 2008b, p. A-4).

The National Partnerships vary in their intent, but at the core of many is the implementation of reforms to improve the outcomes in a sector. For example, table 13.2 summarises the National Partnerships related to the objectives of the National Education Agreement. To take one example, the National Partnership Agreement on Literacy and Numeracy aims to deliver sustained improvement in literacy and numeracy outcomes for all students, especially those who are falling behind, by focusing on the key areas of teaching, leadership and the effective use of student performance information (COAG 2008d, p. 1).

Consistent with the educative function of the accountability arrangements, in the second and subsequent years' reports on National Agreements, the COAG Reform Council will report the performance data of National Partnerships related to National Agreements, linking progress towards outcomes and objectives with the reform actions of governments to improve performance.

**Table 13.2 National Partnerships supporting the National Education Agreement**

<i>National Partnership</i>	<i>Objective</i>
Improving Teacher Quality	To improve teacher and school leader quality to sustain a quality teaching workforce by targeting critical points in the teacher 'lifecycle' to attract, train, place, develop and retain quality teachers and leaders in Australian schools.
Literacy and Numeracy	To deliver sustained improvement in literacy and numeracy outcomes for all students, especially those who are falling behind, by focusing on the key areas of teaching, leadership and the effective use of student performance information.
Low Socio-Economic Status School Communities	To support reforms to transform the way schooling takes place in participating schools and address the challenges facing students in disadvantaged communities.
Early Childhood Education	To provide universal access to quality early childhood education for all children in the year before full-time school by 2013.
Youth Attainment and Transitions	To improve access to increase educational attainment and the engagement of young people aged 15 to 24 with education, training and employment.

*Source:* National Partnerships are available at [http://www.coag.gov.au/intergov\\_agreements/federal\\_financial\\_relations/index.cfm](http://www.coag.gov.au/intergov_agreements/federal_financial_relations/index.cfm).

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## 13.7 Conclusions

COAG's reform of federal financial relations — particularly under the new National SPPs and National Agreements — is an example of the 'devolution and transparency' paradigm of large-scale public sector reform. This paradigm is based on the devolution of responsibility to the organisational units delivering the relevant service and then the use of transparency to drive performance, by making public the results of differing units in a way that allows comparisons to be made (Barber 2007, p. 4).

The new accountability arrangements of the National Agreements clearly identify the roles and responsibilities of all governments — Commonwealth, State and Territory — in improving the quality, efficiency and effectiveness of government services. They also have a mix of incentives — preventive, remedial and educative — to encourage governments to improve performance. Further, they give an independent agency — the COAG Reform Council — responsibility for assessing and publicly reporting on the performance of governments.

The new arrangements take advantage of Australia's federal system with its built-in basis for benchmarking and comparing across Commonwealth, State and Territory governments. They are aimed squarely at improving performance through fostering and strengthening learning.

At the heart of this tradition of accountability is the question of the extent to which governments deal adequately with — learn constructively from — feedback about their own performance (Bovens 2006, p. 26).

At the heart of the success of the new arrangements is the extent to which Australian governments can embrace intelligent, *gutsy* federalism.

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