

# COAG reform agenda: Report on progress 2010

Report to the Council of Australian Governments

30 July 2010

# Executive summary

## Introduction

The overarching objective of the COAG reform agenda is to improve the wellbeing of Australians now and into the future.

Under the *Intergovernmental Agreement on Federal Financial Relations*, the COAG Reform Council is to report to the Prime Minister, as Chair of COAG, on ‘monitoring the aggregate pace of activity in progressing COAG’s agreed reform agenda’. This is the council’s first report.

This summary focuses on the key aspects of the report:

- the institutional reforms which underpin COAG’s reform agenda
- the council’s understanding of the COAG reform agenda and methodology for monitoring the pace of activity in progressing the agenda
- the reform activities to address the challenges of the agenda and an assessment of progress
- a proposal for assessing the contribution of the reform activities to meeting the challenges and the broader goals of the agenda
- recommendations to improve the basis for performance monitoring and assessment.

## Institutional reforms

To provide a robust foundation for collaboration on national reform, COAG agreed a new framework for federal financial relations under the *Intergovernmental Agreement on Federal Financial Relations*. The key features are cooperative federalism, an outcomes focus, simplified financial arrangements, clearer roles and responsibilities, and performance reporting and accountability.

The council’s assessment is that reform of the institutional arrangements for intergovernmental cooperation and financial relations represents an important foundational achievement of the COAG reform agenda (see Chapter 2 and Section 7.2).

Like all major public policy reform, the institutional reforms under the COAG reform agenda are fundamental and challenge conventional practices. Cultural change in the way governments approach intergovernmental relations is necessary if the key features of these reforms are to be realised, and this change will require political leadership and persistent endeavour. The COAG Reform Council is confident that COAG can continue to lead governments to realise the benefits of the reforms.

The council may examine the extent to which the key features of the new institutional arrangements are realised, and the extent to which they support the implementation of the COAG reform agenda, in future editions of this report.

**Box ES.1 Recommendation 1—Institutional reforms**

**Recommendation 1**

The COAG Reform Council recommends that COAG:

- **note** that the COAG Reform Council considers the institutional reforms implemented under the *Intergovernmental Agreement on Federal Financial Relations* are an important foundational achievement of the COAG reform agenda, and encourages COAG and governments to continue to pursue the necessary cultural changes needed to ensure that the key features of the institutional reforms are fully realised in practice
- **note** that, in future reports, the council may examine the extent to which the key features of the new institutional arrangements are realised in practice, and the extent to which they support the implementation of the COAG reform agenda.

## Monitoring the COAG reform agenda

In defining its reform agenda, COAG has identified three *challenges*—boosting productivity, increasing workforce participation and mobility, and delivering better services to the community. The reform agenda will also contribute to meeting three *broader goals* of social inclusion, closing the gap on Indigenous disadvantage, and environmental sustainability.

The council has developed a framework for monitoring the aggregate pace of activity in progressing COAG’s agreed reform agenda. There are three tasks to report on:

1. the progress of reform activity aimed at meeting the challenges of the reform agenda
2. indicators of how Australia is faring on each of these challenges
3. how the reform activities are contributing to meeting the challenges and the broader goals of the COAG reform agenda (commencing in 2012).

This report undertakes the first two tasks of the council’s framework.

This report also provides COAG and the broader public with an opportunity to consider the relationships between various streams of reform activity and the challenges of the COAG reform agenda, its broader goals and its overarching objective to improve the wellbeing of Australians. This is relevant to the development of the council’s third task discussed below.

Overall, the council concludes that the COAG reform agenda represents the most comprehensive economic, social and environmental reform agenda ever contemplated in the context of intergovernmental relations in Australia (Section 7.1). While the council has highlighted some initial implementation planning problems and performance reporting framework issues, it is the council’s view that the overarching objective and specific aspirations of the COAG reform agenda remain worthy.

**Box ES.2 Recommendation 2—The COAG reform agenda****Recommendation 2**

The COAG Reform Council recommends that COAG **note** that, while the COAG Reform Council has identified some initial implementation planning problems and performance reporting framework issues, the council believes that the breadth and ambition of the COAG reform agenda to improve the wellbeing of Australians remains worthy and encourages COAG, governments and stakeholders to stay the course of reform.

## Progress against the challenges of the reform agenda

The council's findings on the three challenges of the COAG reform agenda are presented in Chapters 3, 4 and 5, and summarised below.

### Boosting productivity

The council considers productivity to be the rate at which goods and services are produced for a given set of inputs across the economy.

The council's assessment is that:

- a broad range of initiatives have been agreed in the areas of education, skills, standards and licensing, infrastructure, competition and regulation, healthcare and water
- there is a strong focus on reform in the education and skills systems, which should enhance productivity in the long term
- in the microeconomic reform area, good progress on regulatory harmonisation needs to be matched by competition reform, particularly in the areas of transport and infrastructure—and COAG has agreed to improve the implementation arrangements for these reforms.

Headline indicators of productivity show that there has been a decline in multifactor productivity in the period from 2005 to 2008<sup>1</sup> and the rate of change in labour productivity has slowed over the period from 2005 to 2008 but has nevertheless remained positive in that period.

### Increasing workforce participation and mobility

The council has interpreted that workforce participation, when referred to by COAG, is a measure of the proportion of economically active individuals of the working age population.

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<sup>1</sup> The period immediately prior to the commencement of the current COAG reform agenda.

The council has interpreted workforce mobility as the ease with which people can relocate within Australia in response to the relative demand for labour.

The council's assessment is that:

- a framework is in place that has the potential to increase workforce participation, particularly in the areas of education and skills, and Indigenous workforce participation
- a number of regulatory barriers to participation and mobility are being removed, particularly under the seamless national economy agreement.

A headline indicator of workforce participation shows that overall workforce participation has slowly increased over the period since 1992, with a slow decline in the participation of men more than offset by the increase in the participation of women—the overall participation rate in January 2010 was 65.3 per cent.

There are challenges in the measurement of workforce mobility which will make it difficult to identify the impact of COAG's efforts in this area.

#### Delivering better services for the community

The council has adopted the view that the challenge of delivering better services for the community encompasses three dimensions—efficiency, equity and effectiveness.

The council's assessment is that:

- a service framework and a broad range of service equity, effectiveness and efficiency initiatives have been agreed in health (including new reforms agreed by COAG on 19–20 April 2010), education, skills, disability, closing the gap on Indigenous disadvantage, and housing
- there has been insufficient progress on the development and release of some implementation plans for service-oriented National Partnerships
- there may be ways for COAG to set out more precisely what its key priorities are for delivering better services for the community to facilitate more focused progress reporting and development of a tailored suite of performance indicators.

The council has not been able to identify a headline indicator for delivering better services for the community. To establish a baseline position, the council has presented strategic change indicators in the area of health services (see Chapter 5).

## Assessing the pace of reform

The purpose of the council's third task

The principal aim of COAG's activities is to meet the challenges of boosting productivity, increasing workforce participation and mobility, and delivering better services for the

community and contribute to the broader goals of social inclusion, closing the gap on Indigenous disadvantage, and environmental sustainability.

While the first two tasks of the council's methodology report on reform activity and progress towards the challenges as measured by key indicators, the third task aims to report on how the reform activities are contributing to meeting the challenges and the broader goals of the COAG reform agenda. The council proposes to address this third task from 2012 and onwards (perhaps annually or every two or three years).

### Developing the third task

The design principles of good public performance monitoring and reporting, as set out in the *Intergovernmental Agreement on Federal Financial Relations*, include a focus on the achievement of outcomes; the need for outcomes to be clear, measurable and achievable; and the ability to inform the community on whether government policies and programs are effective in contributing to the outcomes. The council considers that further development toward consistency with these principles is needed before it undertakes the third task—assessing the contributions of the reform activities to achieving the challenges and broader goals.

In particular, the council would need a framework containing clear and measurable outcomes—for both the challenges and broader goals—and a program logic for the COAG reform agenda that links reform activity with these outcomes. As a first step to developing this framework, COAG could examine the extent to which the existing challenges and broader goals are clear and measurable. The council was able to present headline indicators of productivity and workforce participation in this report but noted that this was not possible in the cases of workforce mobility and better services for the community. Some ideas on possible measures of the broader goals are presented in Chapter 6.

It would also be useful for public accountability and reporting if the framework clarified the nexus between the activities and the challenges and broader goals of the COAG reform agenda. For instance, the council notes that COAG's reform agenda includes a range of economic, social and environmental reforms. However, the economic dimensions of the agenda currently find expression in the challenges of the agenda without featuring in the broader goals, whereas social and environmental reform aspirations are expressed as broader goals without featuring explicitly as challenges.

The contribution that COAG's reforms make to the three broader goals varies (see Chapter 6). The goal of closing the gap on Indigenous disadvantage is tackled head-on in the *National Indigenous Reform Agreement* and associated National Partnerships. Social inclusion is referred to in all the National Agreements and many National Partnerships. As well, many of COAG's activities to address the three challenges of the reform agenda will impact on the broader goals of closing the gap on Indigenous disadvantage and social inclusion.

However, in the case of the goal of environmental sustainability, there is less direct connection with the reform activities underway to address the challenges of the reform agenda. Some COAG activity does relate to the goal of environmental sustainability, but the reform is more directly, and comprehensively, focused on other sectoral goals (such as, deregulation and competition reform).

In addition, the question arises whether progress reporting by the council on COAG activity to address the three *challenges* is sufficient to inform the community about how the reform agenda contributes to its *broader goals* of environmental sustainability, social inclusion and Indigenous reform.

The council proposes to work with governments, relevant data agencies, the Productivity Commission and other experts to develop the framework for reporting. It is proposed that the framework will be submitted to COAG for consideration prior to the preparation of next year's report.

The Productivity Commission will also assist the council in this third task through its report to COAG in December 2011 on the economic impacts and benefits of the reform agenda.

### Box ES.3 Recommendation 3—Assessing the pace of reform

#### Recommendation 3

The COAG Reform Council recommends that COAG:

- **agree** that the COAG Reform Council should work with governments (with input from relevant experts) to:
  - develop a methodological framework for future editions of this report, including how and when the council will measure the contribution that reform activity is making to the outcomes of the COAG reform agenda
  - explore options for clear and measurable outcomes and a program logic linking the activities of the COAG reform agenda with those outcomes, consistent with principles for good performance management and reporting
- **agree** that the council's proposed methodological framework will be submitted for consideration by COAG prior to the preparation of next year's report.

## Improving the basis for performance monitoring and reporting

The council has taken the opportunity in this report to put forward recommendations to improve the basis for performance monitoring and reporting, through improved implementation planning and performance reporting frameworks.

### Implementation planning

In undertaking the first task of monitoring the aggregate pace of activity in progressing COAG's agreed reform agenda, the council has identified two main implementation planning issues (see Section 7.4).

The first concerns the finalisation of implementation plans. Most National Partnerships rely on the development of bilateral implementation plans to support implementation of reforms. While many plans are agreed and are publicly available on the website of the Ministerial Council for Federal Financial Relations, a number of implementation plans remain outstanding.

The second issue relates to the public accessibility of implementation plans and the clarity of the implementation arrangements for a number of National Partnerships.

#### Box ES.4 Recommendation 4—Implementation planning

##### Recommendation 4

The COAG Reform Council recommends that COAG:

- **take all necessary steps** required to finalise and publicly release outstanding National Partnership implementation plans and the Overarching Bilateral Indigenous Plans under the *National Indigenous Reform Agreement*
- **ensure** that its commitment—critical to boosting productivity—to establish improved implementation plans by mid-2010 for competition reforms in the areas of transport, infrastructure and energy, is met
- **address** (through the mechanisms proposed in recommendation 5) the implementation planning issues identified by the COAG Reform Council, with the objective of simplifying and streamlining implementation planning to achieve implementation plans that are clear and accessible, and consistent with the design principles of the *Intergovernmental Agreement on Federal Financial Relations*.

#### Performance reporting frameworks

The performance reporting frameworks for COAG's agreements are central to the focus on outcomes and robust public accountability. In this report, the council has presented its overall views on improvements that could be made to COAG's performance reporting frameworks (Chapter 8), based on its experience in delivering six reports on National Agreements and its first performance report on the *National Partnership Agreement to Deliver a Seamless National Economy*.

The council's view is that the shift to a focus on outcomes under the *Intergovernmental Agreement on Federal Financial Relations* must significantly influence the development of data, particularly administrative data, which hold great potential for measuring outcomes.

**Box ES.5 Recommendation 5—Performance reporting frameworks**

**Recommendation 5**

The COAG Reform Council recommends that COAG:

- **consider** the performance reporting framework issues identified in this report and in the council's first reports on National Agreements, including:
  - the conceptual frameworks underpinning the National Agreements, in particular the links between performance indicators and outcomes
  - in the context of stronger conceptual frameworks, the rationalisation of outcomes and performance measures to sharpen the focus on performance against key outcomes
  - the possibility of improvements to the measures used for both the need for services and the quality of services
  - data availability and reliability issues
  - a systematic information planning and development process across sectors of the COAG reform agenda to develop performance measures from existing administrative data sets
- **agree** that these matters be addressed through the current Heads of Treasuries' review of National Agreements, National Partnerships and implementation plans by December 2010 (to the extent that these matters can be dealt with under the review's terms of reference); or otherwise by the Ministerial Council for Federal Financial Relations, in its ongoing role of improving the National Performance Reporting System, during the first half of 2011.