

Executive Summary

In 2008, COAG developed a wide-ranging reform agenda to improve the wellbeing of all Australians. COAG focuses on matters of strategic national importance that rely on intergovernmental collaboration.

This report responds to COAG's request for the COAG Reform Council to report on the aggregate pace of activity across the COAG reform agenda. It presents a high-level examination of progress. It explores whether institutional features of the *Intergovernmental Agreement on Federal Financial Relations* (the IGA) are being realised in practice. It examines the progress of key reform commitments. Finally, it presents some performance indicators to explore whether there are signs of progress towards COAG's goals.

In summary, the council finds that:

- governments have made significant progress in realising many of the institutional features of the IGA but that more work needs to be done for all the institutional features to be fully realised in practice
- based on timeframes set by COAG, 20 of the 26 key reform commitments assessed in this report are largely or completely on schedule
- on the basis of performance data available to date, it is too early to draw any substantive conclusions about progress towards the high-level goals of the COAG reform agenda but there are some good early signs of progress.

The council has made several recommendations to COAG regarding institutional reforms.

The COAG reform agenda

Through its reform agenda, COAG is aiming to advance five key themes:

- a long-term strategy for economic and social participation
- a national economy driven by our competitive advantages
- a more sustainable and liveable Australia
- better health services and a more sustainable health system for all Australians
- closing the gap on Indigenous disadvantage.

To implement its reform agenda, in 2008 COAG recognised that a new approach to federal financial relations was required to collaborate on policy development and service delivery and to facilitate the implementation of economic and social reforms of national importance.

This new approach was formalised in the *Intergovernmental Agreement on Federal Financial Relations* which commenced on 1 January 2009. This agreement aims to advance collaborative federalism by promoting greater flexibility in service delivery matched with a new commitment to public accountability for achieving outcomes.

This report

This report answers three questions:

- Are institutional features being realised?
- Are key reform commitments being met?
- Are key indicators showing progress?

This report does not measure the impact of reform implementation on COAG's high-level goals. In March 2012, the Productivity Commission will publish an important complementary report—*Impacts and Benefits of COAG Reforms*—which will report on the realised and prospective impacts and benefits of the different reform streams and whether Australia's reform potential is being achieved.

Are institutional features being realised?

In Chapter 2 of this report, the council has identified six key institutional features of the framework for federal financial relations and assessed whether these features are being realised.

Table 1 presents a summary of the council's assessment across the National Agreements ('NAs') and National Partnerships ('NPs'). A green rating means that the feature is being fully or largely realised, an amber rating means that it is being partially realised and a red rating means that it is not being realised at this time. White cells indicate that it is not possible to assess the feature at this time. 'N/A' means the feature is not applicable for either National Agreements or National Partnerships.¹

The council has found that governments have made significant progress in realising many of the institutional features of the IGA. The council concludes that the framework for federal financial relations is fundamentally sound and that it is an effective system worthy of ongoing support. It promotes strong principles to support collaboration on economic, environmental and social reforms and is a significant step forward from the previous system. COAG and governments should therefore stay the course on institutional reform.

While governments have made good progress, more work needs to be done for all the institutional features to be fully realised in practice. This is an ongoing process and full realisation of the institutional features may take some time.

¹ Colour-coded representations of progress are used throughout this report. These provide a simplified visual summary of the council's findings. For a comprehensive understanding of the council's findings, readers should refer to the relevant text in the chapters.

Table 1 Summary of progress towards realising institutional features

Key Institutional Features	Aspects of institutional features	Progress	
		NAs	NPs
Governance to support collaborative federalism	COAG is initiating, developing and endorsing policy reforms of national significance		
	COAG is monitoring reform implementation		
	There is ongoing reform to the framework for federal financial relations		
Rigorous focus on the achievement of mutually agreed outcomes	Outcomes and outputs are specific and measurable and are related to agreed objectives		
	There are no financial or other input controls or prescriptions on service delivery		
	Performance indicators inform the community about governments' progress		
	Performance benchmarks (in NAs) inform the community about the rate of progress		N/A
	Performance benchmarks (in reward NPs) encourage achievement of ambitious reform objectives	N/A	
Clearly defined roles and responsibilities	Roles and responsibilities are clearly defined		
Fair and sustainable financial arrangements	The basis for Commonwealth payments to States and Territories is clear and transparent		
	Commonwealth payments to States and Territories are simplified and centrally administered		
	Administration and compliance overheads are reduced		
	Mechanisms ensure that funding is adequate to achieve reforms		
Stronger financial incentives	Financial incentives (in reward NPs) encourage the achievement of ambitious reforms	N/A	
Performance reporting which enhances accountability	Data which supports performance indicators is available and of high quality		
	Performance reporting is simpler, standardised, timely and more transparent		
	Performance reporting measures progress against outcomes (or outputs as a proxies)		
	Performance reporting is focused on efficient service delivery		
	Governments are focused on continuously improving the performance reporting system		

In summary, across the six institutional features the council has found:

- At the governance level, there is a good focus on developing new reforms. A greater focus is needed on monitoring reform implementation and more work is to be completed over the next nine months on further reform to the framework itself.
- There is a rigorous focus on outcomes, particularly for the National Agreements. Governments around the world are focussing on outcomes as the basis for accountability. The council's engagements with key institutions such as the OECD have indicated that Australia's outcomes-focussed framework for federal financial relations is highly regarded internationally. Further work is continuing to address some weaknesses in the framework, particularly to improve the performance indicators that measure progress towards outcomes. The commitment to move away from financial or other input controls or prescriptions on service delivery remains an unresolved issue between the two levels of government in the case of certain National Partnerships.
- While the commitment to clear roles and responsibilities has been advanced, the council has identified scope for some roles to be further clarified in the National Agreements.
- The mechanisms to promote fair and sustainable financial arrangements are largely being realised. States and Territories have identified issues with reporting burden in some National Partnerships and the council recommends that further work is done to resolve these concerns.
- The mechanism agreed to promote stronger financial incentives to encourage the achievement of ambitious reforms are largely being realised.
- A number of improvements are required to enhance public accountability. The performance reporting system is generally simpler, standardised, more transparent and outcomes-focussed. Work is underway to improve data quality and availability. Reviews scheduled to be completed over the next nine months are expected to improve the performance reporting frameworks for National Agreements and some National Partnerships.

COAG has already established processes that are relevant to addressing many of the areas requiring further improvement:

- COAG has established working groups to review the six National Agreements and some National Partnerships. These reviews are addressing matters such as data quality and availability, and the improved specification of outcomes, indicators, roles and responsibilities. Concerns about input controls are also being addressed.
- Significant steps were taken by COAG in 2011 to improve implementation of the governance arrangements specified in the IGA on monitoring, ongoing reform to the framework for federal financial relations and continuous improvement of the performance reporting frameworks. More work is scheduled to be completed over the next nine months.

While this report assesses the institutional features individually, it is important to acknowledge that the features are interdependent: the institutional framework as a whole is greater than the sum of its parts. Any significant problems in the realisation of certain institutional features could potentially jeopardise the success of the entire framework and undermine successful intergovernmental collaboration in the delivery of reforms. It is therefore crucial that any identified weaknesses in implementation are addressed.

There are also factors beyond the institutional features codified in the IGA that are critical to the successful implementation of the framework. These include engendering a culture of cooperation and collaboration, cultivating trust and developing political support for the agenda.

The council sees some risks to these important principles and it is therefore important that COAG continues to promote the agenda and the cultural change needed across governments to deliver it.

The council's recommendations on institutional reforms are set out in Box 1.

Box 1 Recommendations: Institutional reforms

The COAG Reform Council recommends that COAG:

- **note** that the council believes that the institutional features of the framework for federal financial relations are fundamentally sound and that COAG and governments should stay the course on institutional reform
- **agree** to promote the reform agenda and drive the cultural change needed across governments to ensure that all institutional features of the framework for federal financial relations are fully realised in practice
- **agree** to make the COAG reform agenda more transparent and accessible to the community by providing an overview of the agenda, including a summary of the institutional framework, an explanation of the themes and a description of the content and timeframes for key reform activities
- **agree** to address the following design and implementation issues identified in relation to National Partnerships:
 - developing a methodology for assessing the ambition of performance benchmarks
 - ensuring that all future reward National Partnerships contain ambitious performance benchmarks as defined in Schedule A and in accordance with clause E19(c)(iv) of the IGA
 - developing principles for the funding levels of project-based National Partnerships in accordance with clause A4(b)(vi) of the IGA
 - addressing concerns raised by some States and Territories about excessive administrative and compliance burden in some National Partnerships
 - establishing clear administrative arrangements, deadlines and accountabilities to ensure that governments provide timely progress reports to the COAG Reform Council in accordance with clause C14A of the IGA (cf. clause C10 for data)
 - clarifying how COAG's commitment to reporting efficient service delivery should be implemented—including roles, responsibilities and principles for reporting
 - addressing outstanding issues related to data quality, performance indicators and specification of outcomes, roles and responsibilities for National Partnerships which are not currently under review.

Are key reform commitments being met?

In Chapter 3, the council has assessed the progress of some of COAG's key reform commitments. The council has selected key reform commitments that relate to the five themes of strategic importance identified by COAG in February 2011.

Chapter 3 does not encompass all COAG reform activity. Nor does it cover the full spectrum of reform that is being pursued by individual governments to address policy challenges confronting the nation or particular regions. The COAG reform agenda focuses only on those reform areas that require intergovernmental collaboration.

Progress is assessed against the commitments made by COAG. The council does not offer a view on the quality of these commitments or whether they are sufficient or appropriate to meet the objectives under each theme.

The council's assessment reflects progress against agreed reform milestones up to 30 June 2011. COAG has recently extended the timeframes for completion of some of these commitments: this report assesses progress against those updated timeframes. The report does not provide a prospective view about the likelihood of future deadlines being met for each reform area.

Noting these caveats, overall progress is very positive. Based on timeframes set by COAG, the council found that, across the five themes, 20 of the 26 key reform commitments are largely or completely on schedule.

Table 2 provides a summary of the council's assessment in accordance with the following schema:

- a green rating means that the reform commitment is completely or largely on schedule
- an amber rating means that some aspects are behind schedule or there is insufficient information for the council to make an assessment and the council would expect this information to be available
- a red rating means that key aspects are behind schedule.

The council identified three cases where, as at 30 June 2011, some important aspects of reform commitment were behind schedule. These all arose under the third theme: *a more sustainable and liveable Australia*. There have been delays with the National Rental Affordability Scheme, improving the availability of social housing and improving the energy efficiency of buildings and households. The council suggests that COAG review these cases to identify any policy or administrative interventions needed to get these matters back on track.

The council also identified three cases where there was no clearly established timeframe against which to assess progress or insufficient publicly available information to be able to assess progress:

- Under the first theme, *a long term strategy for economic and social participation*, the council found that there is currently insufficient progress information on reforms to address homelessness. The council urges governments to publish progress information for the commitments under the National Partnership on Homelessness.

- Under the third theme, *a more sustainable and liveable Australia*, the council found that the development of the Murray-Darling Basin Plan could be supported by clear milestones with specific timeframes to enable better reporting on progress.
- Under the fourth theme, *better health services and a more sustainable health system for all Australians*, the council found there was insufficient information available on timeframes for completion of the proposed e-health system.

The council suggests that COAG address these information gaps.

Table 2 Summary of progress against key reform commitments

Key reform commitment	Progress
Theme 1: A long-term strategy for economic and social participation	
Providing universal access to early childhood education	
Improving literacy and numeracy achievement	
Improving teacher quality and school leadership	
Providing additional training places	
Addressing educational disadvantage	
Addressing homelessness	
Theme 2: A national economy driven by our competitive advantages	
Regulatory reforms	
Competition reforms	
Regulation making and review processes	
A national regulator for vocational education and training	
Theme 3: A more sustainable and liveable Australia	
Developing a housing supply and affordability reform agenda	
Implementing the National Rental Affordability Scheme	

Key reform commitment	Progress
Improving the availability of social housing	
Developing the Basin Plan	
Establishing a national water market system	
Improving energy efficiency of buildings and households	
Theme 4: Better health services and a more sustainable health system for all Australians	
Public hospital funding and accountability	
A nationally consistent activity-based funding scheme	
Establishing Local Hospital Networks	
Establishing Medicare Locals	
Improving elective surgery waiting times	
Enhancing preventive health measures	
Implementing an e-health system	
Theme 5: Closing the gap on Indigenous disadvantage	
Closing the gap in Indigenous health outcomes	
Improving remote service delivery	
Improving remote Indigenous housing	

Are key indicators showing progress?

Using COAG's five themes of strategic importance as an organising framework, the council has examined whether 21 key indicators are showing progress (see Chapter 4).

Table 3 lists the indicators where there is more than one data point and it is therefore possible to show whether there has been any change over time. Upward arrows indicate a statistically significant or notable improvement. Downward arrows indicate a statistically significant or notable worsening in performance. Sideways arrows indicate no statistically significant or notable change.

Table 3 Summary of performance indicators

	Performance Indicator	Change
Theme 1: A long-term strategy for economic and social participation		
1	Proportion of students achieving at or above national minimum standards in literacy and numeracy (2008 to 2010)	→
2	The proportion of students in the top levels of performance in international testing (2000 to 2009)	↓
3	Year 12 or equivalent or Certificate II attainment rate for 20–24 year olds (2008 to 2010)	→
4	Proportion of 18–24 year olds engaged in full-time employment, education or training at or above a Certificate III (2008 to 2009)	↓
5	Proportion of Australians without qualifications at Certificate III level or above	↑
7	Labour force participation rate (2003 to 2009), by disability status: <ul style="list-style-type: none"> • With disability • Without disability 	→ ↑
Theme 2: A national economy driven by our competitive advantages		
No indicators available		
Theme 3: A more sustainable and liveable Australia		
9	Proportion of homes sold or built that are affordable by moderate income households (2007–08 to 2008–09)	↑
Theme 4: Better health services and a more sustainable health system for all Australians		
10	Immunisation rates for children for vaccines in the national schedule (2009 to 2010)	↑

	Performance Indicator	Change
14	Waiting times for Elective Surgery (2007–08 to 2008–09): <ul style="list-style-type: none"> • 50th percentile (days) • 90th percentile (days) 	↓ ↓
15	Proportion of emergency department presentations are seen within clinically recommended times (2007–08 to 2008–09)	↑
Theme 5: Closing the gap on Indigenous disadvantage		
17a	Proxy measure: age-standardised mortality, by Indigenous status (per 100 000) (2007 to 2009)	→
18	Mortality rate for Indigenous children under five (per 100 000 population aged 0–4) (2007 to 2009)	↑
19	Proportion of Indigenous students at or above the national minimum standard in literacy and numeracy (2008 to 2010)	→

At this early stage in a long-term reform agenda, and with only limited data to show change over time, it is too early to draw any substantive conclusions about progress towards the high-level goals of the COAG reform agenda.

There are, however, some good early signs, such as:

- improvements in literacy for all students in years 3, 5 and 7
- improvements in reading for Indigenous students in years 3 and 7
- increasing immunisation rates for children aged five
- a reduction in the mortality rate for Indigenous children under five.

The council expects the data set for these 21 indicators to be much richer in future iterations of this report due to the expected availability of additional data points. This should enable the council to provide a more comprehensive picture of progress toward the goals of the COAG reform agenda from next year.