

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements

Melbourne — 19 November 2015

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Witnesses

Mr Chris Eccles, Secretary, and

Ms Rebecca Falkingham, Deputy Secretary, Social Policy and Service Delivery Reform, Department of Premier and Cabinet.

The CHAIR — I declare open the public hearings for the Public Accounts and Estimates Committee inquiry into the impact on Victorian government service delivery of changes to national partnership agreements. All mobile telephones should now be turned to silent. I would like to welcome Mr Chris Eccles, Secretary of the Department of Premier and Cabinet, and Ms Rebecca Falkingham, deputy secretary, social policy and service delivery reform.

All evidence is taken by this committee under the provisions of the Parliamentary Committees Act, attracts parliamentary privilege and is protected from judicial review. Any comments made outside the hearing, including on social media, are not afforded such privilege. The committee does not require witnesses to be sworn, but questions must be answered fully, accurately and truthfully. Witnesses found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty. All evidence given today is being recorded by Hansard. You will be provided with proof versions of the transcript for verification as soon as available. Verified transcripts, any PowerPoint presentations and handouts will be placed on the committee's website as soon as possible.

Witness advisers may approach the table during the hearing to provide information to the witnesses, if requested, by leave of myself. However, written communication to witnesses can only be provided via officers of the PAEC secretariat. Members of the public gallery cannot participate in the committee's proceedings in any way.

I now give the witnesses the opportunity to make a very brief opening statement of no more than 10 minutes. This will be followed by questions from the committee.

Mr ECCLES — Thank you, Chair, and good afternoon to you and to all committee members, and thank you for providing us with the opportunity to contribute to the inquiry today. I understand we are the last of your witnesses, so I look forward to taking on board all of your outstanding queries through the course of the next hour.

Some of this is a reprise of information that no doubt has been brought to your attention, but I thought I would locate some of our later evidence against some of the facts that go to national partnership agreements and the relationship to the commonwealth.

The first point is that the quality of the relationship between the commonwealth and the states is fundamentally important to the delivery of services to Victorians. As you are aware, Victoria receives a significant amount of funding from the commonwealth in order to meet its service delivery responsibilities. Specifically we receive almost half of our total revenue from commonwealth grants, with approximately half made up of general revenue assistance, including our share of GST, and the other half mainly consisting of specific purpose payments, with national partnerships accounting for around 11 per cent of commonwealth grants to Victoria or roughly \$2.6 billion out of a total of \$24.4 billion. The majority of these transfers are governed by the intergovernmental agreement on federal financial relations, which was established in 2008 to govern the types of financial support provided by the commonwealth to states and territories, with payments ranging from the fully flexible, such as GST revenue, through to funding tied to a specific policy objective, such as the national partnership agreements.

Victoria is strongly supportive of the philosophy behind the intergovernmental agreement on federal financial relations, which I will shorthand to the IGA FFR for convenience, as the framework for federal financial relations. The framework was aimed at putting in place sustainable funding arrangements that recognised the primary role of the states in delivering government services in key sectors and provided ongoing financial support for those services while also acknowledging the role of the commonwealth in supporting the achievement of national outcomes to improve the wellbeing of all Australians. The adoption of the framework was intended to transform federal financial relations, providing states and territories with greater budget flexibility in exchange for their commitment to robust public accountability and performance reporting. This commitment was not meant to increase the administrative burden of the states and territories. Instead, the goal was to maximise public accountability while setting reporting requirements to the optimal level necessary for the effective assessment of performance.

To do this, the framework was based on the following philosophy. States are regarded as partners, not the contractors of the commonwealth; fewer and more strategic agreements will reduce the administrative burden for both the commonwealth and the states; flexibility in delivery of services will be provided to the states,

including through reduced commonwealth prescription; and agreements will focus on public outcomes not compliance, such as through frequent performance reporting.

When these principles are adhered to and enough time is provided in the drafting process to take into account relevant evidence, both from those working in the field or academic research, then good outcomes can be achieved in areas of national significance. For example, Victoria was the national leader in championing the provision of universal access to early childhood education in the year before formal schooling. National partnership agreements were an appropriate vehicle for supporting that reform nationally. The framework envisages that once the reform is proven to be effective and becomes ongoing service delivery, funding arrangements should reflect that and be placed on a more sustainable footing either through the provision of general revenue assistance or specific purpose payments. A collaborative approach to the development of agreements also helps to ensure that the commonwealth has an in-depth understanding of existing frameworks and systems in Victoria and does not duplicate those policies or services.

However, over time there has been a departure from this framework and a number of concerning trends has emerged. First, national partnership agreements are being used to support core service delivery — for example, the national partnership agreement on legal assistance services. The IGA FFR outlines that national partnership agreements should be used to support the delivery of specified projects or to facilitate reforms which are generally time limited. Their use for core service delivery increases uncertainty and prevents long-term efficient service delivery design.

Secondly, where national partnership agreements are renewed, funding offers from the commonwealth have not accounted for population growth or price indexation, which has the effect of reducing available funding. The recently renewed national partnership agreement on homelessness provides an example of this.

Thirdly, while the IGA FFR was intended to reduce the number and complexity of agreements between the states and the commonwealth in order to focus governments' attention on reforms of national significance, in practice there has been a proliferation of smaller agreements since the framework came into operation. While keeping track of system outcomes is important, it is doubtful that these small, often input-focused agreements warrant the same reporting framework which applies to projects and reforms of national interest. Fortunately there is an opportunity for change through the commonwealth's reform of the federation process. First ministers agreed at the leaders retreat in July that jurisdictions would work together to deliver reforms in health, early childhood education, schools, training and housing and homelessness. DPC is leading Victoria's work on this, which includes consideration of reform to the intergovernmental funding architecture.

Ideally this process will ensure that ongoing service delivery is funded through recurrent funding vehicles, not short-term arrangements; provide Victoria with the flexibility to allocate funding to services according to local demographics and need; and makes states accountable for the use of funds in a way that focuses on the achievement of outcomes. The proposals that underpin the reform of the federation process will next be considered at the upcoming COAG meeting scheduled for 11 December 2015. The future direction of this work is expected to emerge from this meeting. Thank you.

The CHAIR — Thank you very much for that. I might kick off. I know this might be a very difficult question to answer, and of course it is up for negotiation and I take on board that obviously this matter is going to come before COAG in December, but where do you see the future of national partnerships going? Do you think it is likely that the IGA FFR is likely to be scrapped or tinkered with and updated, or do you think that we are looking at the new form of federation and that NPAs were just something that was very in vogue and in fashion in 2008 and they have passed their use-by date and we need to transition to another model?

Mr ECCLES — The early indications in the preparation for the COAG meeting suggest that we will not be scrapping the IGA FFR, nor will we be moving to some radically different form for the transfer payments between the commonwealth and the states. That means we are likely to be looking to, I suspect, a public reaffirmation of the principles that underpin the FFR, the FFR itself and hopefully a commitment to the actual conduct of intergovernmental relations in accordance with both the spirit and the form of the IGA FFR. If there is a public affirmation of that and we have some further clarity around the importance of the durability of funding arrangements and a clearer process for reviewing the effectiveness of expiring national partnership agreements, determining whether they should lapse, be renewed or transition to a new arrangement, all of which are in contemplation as part of the work for COAG, I have — I do not know whether the word is 'optimism' —

some hope that at least there is goodwill and good intent in making what was I think a fine piece of architecture in 2008 actually work. There are a few things that go beyond that. If you like, it is context for the reaffirmation.

The language of partnership needs to be converted into the fact of partnership between the commonwealth and the states. While ever we have vertical fiscal imbalance it partly conditions the relationship between the commonwealth and the states. We are not going to be able to, at least in the near term, deal with the psychology that comes with the fact of VFI. So that will take a concerted effort on the part of the commonwealth not to take advantage of the asymmetry in negotiating power and to actually engage with the states at the genuine level of partnership rather than it just being rhetoric — that it becomes fact. For it to become fact there are certain things that I think need to be put into play by the commonwealth, and I am happy to elaborate upon that if you at some point would like us to go there.

The CHAIR — Yes, I think we probably would. We have had a lot of evidence over these last two days of hearings and I think I can paraphrase the various testimonies by saying that IGA FFR when it started was a great idea and the level of accountability that was originally agreed to was fair and reasonable. The commonwealth gave the states money and it was for some significant projects. It was a fair and reasonable cost to administer, but then a couple of things happened. One was that some of the projects became smaller in scale and the reporting requirements became far more onerous. In addition to that, there was no real exit plan in place. So there would be an agreement around an NP with a definitive period of time when it would end, but there was no real thought given to what happens then in terms of when universal access concludes. Does that go into, to use our terminology, base funding from the commonwealth in order to fund it going forward?

That has been some of the testimony that we have heard and I know Mr Smith has spoken about the notion of whether what we need to start looking at doing is going down that path of bilateral contracts or arrangements with the commonwealth rather than multilateral as a way of trying to have more of a state-specific focus on some of these issues because that might lend itself to a more nimble arrangement or contract being in place. I have tried to pack a lot in there and it is almost like two days of evidence, but does that, from your perspective as secretary to DPC, tally or compute with your thoughts in terms of the recent experience?

Mr ECCLES — The move to having a greater focus on a bilateral as against a multilateral set of arrangements. I think there would be some utility in that in relation to some matters that might be of unique and specific interest to this jurisdiction. But if you go back to the original intent of the IGA FFR, it was going to focus on where there are shared priorities for national reform. By definition those shared priorities are held by all states and territories — if not all, then a majority of states and territories — so if you were faithful to the original intent, you would always be focusing on matters in the national partnership agreements that were of universal interest to the states and territories.

It is almost as though your proposition is a response to the failure of the implementation of the original design, and I think my preference would be to see if we can make the original design work, because we have to accept that the commonwealth has shared interests in many matters, even around service delivery. It might be their responsibility for the MBS and primary health care and its relationship to the health system. It might be their responsibility for the apprenticeship system as part of the training system. While you accept that wherever there is a set of shared roles and responsibilities the commonwealth has a legitimate interest and it is all in how that interest is activated and applied, I am less of a mind to move to almost a concession of defeat around the 2008 arrangements and rather about breathing life into what I think was a fine piece of architecture.

Mr MORRIS — Firstly, Mr Eccles indicated he would be happy to elaborate on the approach the commonwealth might take, so I would be interested to hear that before I ask anything else.

Mr ECCLES — I think that to understand the approach the commonwealth might take it is useful to try to go back to what is the motivation — what has led the commonwealth to behave in the way the commonwealth has behaved over the last six years, which has contributed to the suboptimal exercise of the principles or the implementation of the principles of the IGA FFR? At one level it is entirely rational or explicable, because when you are not delivering the service and you are anxious about outcomes, controlling the activity or the input gives you some assurance about progress towards the outcome. That is a rational response — it is not an excuse, but you can understand the motivation for the commonwealth approaching their psychology of engagement in the way they have.

The other part I have been thinking about is that politicians need ways of describing a reform agenda in shorter term as their terms are generally not long enough to report on changes and outcomes, because outcomes by definition are things that require a horizon that is longer than the electoral cycle to be effective. They therefore focus on the reform intent and the funded activities and inputs, not the results. It is almost as though there are a couple of motivations. It is explicable as to how the commonwealth has behaved in the way it has behaved.

If you call that out, if you replay that back and there is recognition so you understand the motivation for behaving in a particular way, then you can address it quite directly. We are not going to be able to address it by extending the parliamentary term from 3 years to 5 years or 10 years and we are not going to be able to address it by changing the arrangements in relation to VFI, both of which would contribute to changing the psychology of commonwealth engagement. But I think if we can reinforce to the commonwealth that if you talk the language of partnership, that genuine partnership means that you have a mutual accountability for the achievement of the outcome — that is the definition of a partnership; it is different to cooperation, it is different to coordination. If the commonwealth therefore has skin in the game for the eventual outcome, then they will be less concerned with managing the states as contractors for the outcome. It is almost getting a bit theological what I am describing.

Mr MORRIS — No, no.

Mr D. O'BRIEN — Keep going.

Mr ECCLES — My motivation would be to call that out and have the commonwealth held to account for the outcome, not for the transaction and not as a contractor-contractee. It is cultural, it is psychological, it is explicable, but if there is goodwill on the part of the commonwealth and the condition is understood and replayed back to them, then maybe there is a chance that we can move beyond the language of partnership to actually engaging in a proper partnership with the commonwealth. I think once you get that in place, a lot will flow from it.

Mr D. O'BRIEN — Do you think that is ever practically likely, though, given the VFI and the asymmetry you are talking about where the commonwealth really is operating from a 'We have got the money, you will do what we want you to do' approach?

Mr ECCLES — That is a very good question. I remember being in Victoria in 2008 and in charge of the national reform climate change group in DPC at the time. I was involved at the time of the negotiation and the first heady months of the new arrangement. We were full of hope and optimism, and it was only over a period of time that that hope and optimism began to diminish and reduce.

Mr D. O'BRIEN — You were gradually worn down.

Mr ECCLES — It was a bit like that.

Mr T. SMITH — It sounds like the federal public service by the sounds of things.

Mr ECCLES — I am ever an optimist, so I am hoping that we can have another crack at changing. We will never change the asymmetry. We will never change the dynamics of the relationship based around VFI. But I think that if we can demonstrate as a state our value, then the commonwealth are more likely to engage with us early. I might just explore that a little bit. Two of the really big intergovernmental reforms that Rebecca and I have been involved with were both in our time in New South Wales with the NDIS and the national education reform agreement. They are the two biggest certainly in the last half-decade. Both of those agreements were negotiated outside the framework of the IGA FFR. That says something about the framework — that you had one party, and that was the commonwealth, who deliberately chose to negotiate outside the framework. That is one point.

The second point is that New South Wales was able to take first-mover advantage, which we did, in relation to both of those agreements.

Mr D. O'BRIEN — Sorry, what were those two again, Mr Eccles?

Mr ECCLES — It was the national disability insurance scheme and the national education reform agreement, otherwise known as Gonski. The reason we were able to exercise some first-mover advantage there

was because people like Rebecca and her crew worked intimately with the commonwealth in the design piece. By definition the commonwealth are not expert in the delivery of a disability system or an education system, so we were able to work very intensively with the commonwealth through being able to contribute the knowledge and experience that we were able to bring to bear — not just from being DPC but from being able to access the experience of practitioners and bringing that to the table. The commonwealth were wise enough to take advantage of that. The key for me is that if we can continue to demonstrate the value we bring to service delivery design and service delivery reform, then the commonwealth in its own interest will engage us early. That then starts to create the conditions for a genuine partnership, because you are dealing with the issues as equals.

Mr MORRIS — I guess a comment first. In your points about what might be driving the requirements for greater accountability, it appeared to me to be largely directed at public office-holders rather than the commonwealth public service. I suggested to David Martine yesterday that probably part of it at least was being driven by the commonwealth public service trying to get their foot back into the game. Do you think that is reasonable? It is not of critical importance whose fault it is, but it is just — —

Mr ECCLES — Based on — I think I can speak for the two of us — our experience, that is a reasonable observation.

Ms FALKINGHAM — I think it is also important to remember the governance architecture that sits around all of this, because often NPs can start at a really high level, being very clear and having that clarity that first ministers are able to bring, not being in the detail of the service delivery model, and then when it cascades down within the commonwealth public service, often it gets to a more junior level and it becomes very transactional in its nature. The example being the universal access to early childhood, where we have been very clear that the outcome is universal access. Over the years the detail that commonwealth public servants and the education department have applied to that NP have gotten to a point where not delivering on one milestone, which could be the difference between four or six kids not getting to that point, can mean we miss out on \$40 million in reward payments. So for us it is really important that we try to keep a level of seniority involved in the oversight of those NPs, because it does get down to a much more granular level of detail and prescription when NPs leave ministers and both heads of Treasury and first ministers departments then cascade down to the commonwealth public service.

Mr MORRIS — Also of course I think in the only significant performance audit that has been done on the homelessness, three out of the four recommendations there were greater accountability and greater reporting. I guess that is an aspect in itself, just getting those things sorted out and agreed on. Obviously we have got to have accountability and transparency when we are spending public money, but you do not need three sets of reporting arrangements and two sets of auditors-general being involved in the process.

Can I just move to the other issue that has certainly been of interest to me. This is particularly about terms of funding, and a number of the NPs have been negotiated over a period that is well outside the forward estimates, so they are effectively unfunded, which may or may not be of significance; it is probably not of significance if the government does not change. Obviously if the government changes, even if they are funded, then priorities can be reallocated, as we know. But do you think there needs to be a stronger link between what is publicly reported in terms of funding commitments and the commitments that are made within the partnership agreements?

Mr ECCLES — Given your diagnosis, which I think is accurate, I think the answer to your question is unambiguously yes.

Mr T. SMITH — I will go back to where Danny started the conversation, and what I would describe as the bilateralism amongst states and the commonwealth, and the education agreement you struck. The O'Farrell government signed up to Gonski. I suppose that is what I was thinking about, because I thought from a state government perspective that was actually a terrific result for New South Wales inasmuch as, as you suggested, they got the runs on the board early and got a result out of the commonwealth that I do not think other conservative states would have got. At the same time, I do feel that we in Victoria, being the good national citizens that we are, do sign up to things where it is not necessarily always in our interests to do so, and that is not a party-political observation, it is an observation going back over quite some time. There is a side of me that totally understands what you are saying with regard to us wanting to be a strong partner. At the same time federalism is not necessarily a partnership; federalism can be quite, well, combative if it has to be.

I would just like to get your thoughts. Every now and then the commonwealth does a particularly stupid thing, not necessarily at a ministerial level but often at a departmental level, and I just wonder whether or not sometimes we need to assert ourselves as being far more close to the issues at hand in service delivery and whether or not you see a more assertive role for Victoria, and indeed a more assertive role for the states, at a theoretical level, going forward, if we have ideas that are coming out of the commonwealth that may not suit an agenda that the state government may have.

Mr MORRIS — Or a bucket of money, ultimately with consequences.

Mr T. SMITH — Correct.

Mr ECCLES — I think, respectfully, an assertive role by the state, backed by the evidence that comes with being primarily responsible for service delivery, is entirely appropriate. The state should use the advantages that are conferred by its role as the expert in service delivery to leverage that in the negotiations with the commonwealth, and so if that requires a degree of respectful pragmatism on the part of the state in its negotiating position, then we should certainly adopt that approach.

Mr T. SMITH — So we have partnership agreements largely in the areas of social policy. We know that the federal government is now committed to a cities portfolio around infrastructure and possibly even planning. Is a partnership agreement within that policy space something you would be potentially looking at in a more bilateral way or even indeed across the country?

Mr ECCLES — I guess it again depends upon the nature of what is to be negotiated and transacted. If it is something that is a shared priority for national reform that would have relevance and resonance across the country, there is more of an argument for it to be dealt with in a multilateral framework. If it is of peculiar interest to Victoria, then there is no need, I think, for it to be negotiated through the IGA FFR, and you can move to a more unambiguous bilateral negotiation and bilateral outcome.

Mr T. SMITH — I will finish on this. You were previously head of premier's in New South Wales; looking at federations across the world, do you see any examples of either funding arrangements or partnership agreements in similar jurisdictions to Australia that work better than what we are currently trying to achieve here through these NPAs?

Mr ECCLES — All federated countries, whether it is Germany, whether it is Canada or whether it is the United States, come with particular challenges. I actually believe that the Australian experience has been largely successful. Notwithstanding the challenges that you have called out through your work in relation to the transfer system, it is still an effective federal model. Even if it were within our gift to move on from the model we have got, I think it is about making the model that we have work more effectively. I do not know that I would reach into other countries and import their system of federation into Australia. I do not know that there would be any particular benefit in moving from our system to a system that I have observed in other countries.

Mr DIMOPOULOS — Thank you. I think your presentation was excellent, and your conversation afterwards — the theological one — was also very good. I do not think it was theological; it was very useful. Just to pick you up on something you said about politicians needing to have something to show for progress that is not quite outcomes — something like that — I think it was a very valid point. It is accepting what is rather than trying to change it. But my question is: do you have an idea of what that could be? For example, say, 15 hours of kinder leads to better job security when you are an adult. There are a whole range of things I cannot recall, but good things happen to you as an adult, essentially. So, within a three-year period or a four-year period, what could that be? Are you suggesting they use markers of success to make it clearer to the public, so we cannot commit to the current outcome but we know that? What language would they be using? What are you suggesting?

Mr ECCLES — There are a few points. I do not think we have sufficient clarity around our NPAs or our SPPs about the outcomes that we are seeking to achieve — that is the first thing. The second thing is I do not believe that we have data to support a reporting on those outcomes that we do identify for any given investment. I think we need to spend more time as public policy practitioners being clear about the outcomes, investing in the data systems to enable us to report on the outcome rather than just the activity or the input and then — and this is where it becomes perhaps a little naive — recognising that as a commonwealth minister is the steward of

a particular area of public policy you are not necessarily going to see the results, the ultimate results, of your investment in terms of outcomes expressed over the forward estimates.

I know that might be the suspension of belief and reality, but I think if we are clear about the outcomes, if we can provide public confidence that we have data to enable the success or otherwise of those outcomes to be reported, we are more likely to be able to move away from the more interventionist periodic reporting of activity and inputs. I think it is possible, but I do think we are going to need to make an investment as public policy practitioners.

Ms FALKINGHAM — I think the other thing to keep in mind is often we do not explain well the unintended consequences of national partnerships and potentially it could lead to more innovation in terms of where service delivery is driven. Because many of the milestones and indicators are so blunt, our focus becomes just about that milestone and indicator without sharing information about what progress has been made in the national partnership, understanding across other jurisdictions what has worked from them from a service intervention perspective. So the NP becomes the driver currently rather than actually using it as an opportunity to share information with the commonwealth. Chris described the data sharing exercise. There is a lot of work underway at the moment to have better data linkages between the commonwealth and the states, but we do not actively use the national partnership arrangements at the moment to really look at that more localised service delivery innovation, which is something we have been trying to pursue as part of the reform of the federation process and links to some of the things that we picked up about the Canadian model that do allow for more localised innovation models.

Mr D. O'BRIEN — Two questions, really. As I understand it, there are bilateral or multilateral NPAs. Do you have a view on which of them work better? We were talking earlier about bilateral being perhaps better in not being one size fits all. Do you have a view on those?

Mr ECCLES — Again, I think it is horses for courses. I would prefer to have the NPA system focused — and I am repeating myself now — where there is a shared priority for national reform with the dividends of that reform being apparent nationally. If that is the orientation, then it would tend to be more of a multilateral focused framework. I do not know that we need to have, almost by definition, something agreed nationally which provides the architecture for the bilateral negotiation between the commonwealth and an individual state. So I think part of the problem — or maybe not part of the problem, but I am now repeating myself. I think we could go back to having it more unambiguously focused on areas, whether it is in health, education, skilling or homelessness, on the big issues, the big service delivery issues associated with those big areas of human service, public policy. I do not know, Rebecca, whether you have a view.

Ms FALKINGHAM — I think the other point I would make is that most of the successful NPs have started with a multilateral agreement around the end outcome and then have spun off into more bilateral arrangements. We did it with the NDIS. We did it with Gonski. We did it with a whole range of different arrangements. If you use the example of Indigenous policy in terms of an intergovernmental arena, because of the fact that we have not been able to, through the NP process, allow for more localised responses in Victoria's case, for example, we have missed out quite significantly because there has been a real focus on remoteness when most of our Indigenous population, as you probably know, live in urban settings.

Mr D. O'BRIEN — Sorry. That is exactly the example I was looking to.

Ms FALKINGHAM — I think that if we were allowed to get more of an agreement to sort of a strategic approach, as is outlined in agreed outcomes, but be able to work very much bilaterally with the commonwealth in terms of how we would shape our individual response as a state, we would get a lot of success, we hope, down the track.

Mr ECCLES — It would also help with the problem that has been experienced where what was once recurrent commonwealth funding for ongoing service delivery — and legal assistance is the classic case — has moved from being an enduring recurrent commonwealth contribution to one that is now episodic because it is connected to an NPA that is more or less funded from point to point. If you were to line it up with the SPPs and therefore you were to focus your NPAs on areas of reform connected to the big SPP policy domains, at the point of the reform initiative being tested, proven and successful, you can then roll it into the SPP and it becomes a —

Mr D. O'BRIEN — Baseline.

Mr ECCLES — Exactly; it becomes baseline. There is a sort of symmetry there. But if part of the problem that we have at the moment is the shifting — the commonwealth using some of this as an opportunity to shift what was once recurrent to it being periodic — to keep pulling it back to that, then the principle of once it becomes important and it has been proven up as being a successful part of what should be the recurrent service delivery model, but then you flow it into the SPP and the commonwealth role in relation to it, becomes that much less important.

Mr D. O'BRIEN — I guess that is pretty much what we heard from the MAV this morning with respect to early childhood, that this 15 hours thing should be baseline, basically. The follow-up is an easy one: can you nominate the most successful NPA that we could look at as a model? For the benefit of the *Hansard*, that is 'easy', with tongue in cheek.

Mr ECCLES — I think it depends a little on what you are looking for, because I think a lot of them have strengths and some of the same have weaknesses, so the preventative health NPA was an excellent example where it enabled some pretty impressive social policy experimentation in relation to the behavioural segmentation model around obesity. That was to me a successful NPA because it enabled the application of an interesting technique to change behaviour. The one that I like personally is the skills NPA, and that is because Victoria was able to leverage its experience in moving to the entitlement-based demand-driven model as a way of drawing down commonwealth funding. Victoria's leadership in relation to an area of public policy meant that when the commonwealth caught up with the game plan it was easy for Victoria to be able to draw down the reward payments because we had already moved into that area of policy innovation. That is one of my favourites.

Ms FALKINGHAM — I think that it goes back to an earlier question as well in terms of what are the options — is Victoria to stand back if we do not agree with a reform direction of the commonwealth through the NP process? History in Victoria has always been that we will use any bucket of money through the NP process to leverage further reforms. Often Victoria is well ahead of a lot of the other smaller states and territories, and we often use that. In the early childhood NP, although we are currently in negotiations around that NP at the moment, we have been able to use that to go much further, and that is to build on Victoria's strong record in working with local government around early childhood services. I think that all of the NPs in various ways have been able to leverage further reform in Victoria, which a lot of the other smaller states have not been able to do. That is kind of the lens we look through: what are the government's priorities and how can we use NP payments to really push the dial forward in terms of outcomes for Victorians?

Ms PENNICUIK — This has been a very interesting discussion. Thank you for coming along today. I suppose you are at the wrap-up end. We have heard from many of the other departments, like Education and Health — and Justice just before you came in. I suppose in a general way I admire your optimism, but I am not sure, given what I have been hearing and reading, that I necessarily share it in full — put it that way. You have even mentioned it in part yourself, Mr Eccles, in terms of using NPAs to sort of drive reform. Whether or not we agree with a reform, I would have to disagree with you on skills, but we will not go there; you can read what I said yesterday about that.

The CHAIR — Ms Pennicuik, is there a question?

Ms PENNICUIK — Yes, there is a question. It is about the appropriateness of NPAs apropos ongoing baseline funding, which we have talked a bit about. If you look at the actual underlying principles, there are four of them. The first one is about partnerships. The second one is about strategic agreements to reduce administrative burdens for the state and commonwealth. The third one is about flexibility in service delivery provided to the state. And the fourth one is about a focus on outcomes rather than compliance.

I would be interested in your views, but I would be suggesting that seven years out we are not really very strategic — I think you have mentioned that — in some areas. Flexibility in service delivery is not really a feature of some of the ones we have been hearing about, particularly in the legal services. And a focus on outcomes rather than compliance, I would not say that is a feature of the one that has just been negotiated for five years for legal services.

Given your desire to make it work, given that we are not really going down to achieving these particular principles, I just wondered what your comment about that would be, but also what other states might be saying about this from their experience that you might know about from your discussions with them.

Mr ECCLES — Look, all of the points you make are reasonable, but where you stand up the last seven years against those principles, the arrangements have failed — I do not think completely. They have failed to give full expression to the intent. So the question then for me becomes: what is the alternative? If the alternative is, ‘Let’s just move entirely to general revenue assistance and specific purpose payments referenced to headline national agreements, and you, commonwealth, should just fund the states for those purposes and get out of the way’, sure. If you ever got to that point, I can see it would be in the states’ interest to try to minimise the history of commonwealth prescription, the history of the commonwealth failing to index properly, the history of the commonwealth having disproportionate reporting requirements related to the outcome. I get all of that. I would prefer, though, to accept the reality that the commonwealth are never going to — and there is an argument to say neither should they — tip the \$2.6 billion worth of national partnership payments into general revenue assistance or the SPPs. If you are at that point, then you have to try and make it work. I would prefer to make it work by reinforcing the original principles and then by taking it further and demonstrating our excellence as a state in service delivery, design and implementation, and taking that gift to the commonwealth and say, ‘You will be better at your job if you listen to us and engage us appropriately as partners in this endeavour’. Maybe this is a Don Quixote-type windmill-tilting exercise, but I am happy to have another crack at that — tilting at the windmill.

Ms PENNICUIK — Thank you. I suppose I was just talking about perhaps the emphasis, as in some funding agreements should not be NPAs perhaps.

Mr ECCLES — Agreed.

Ms PENNICUIK — But some are being turned from what they should not be into that — —

Mr ECCLES — Look, I think we need to — —

Ms PENNICUIK — So it is that discussion, and I wonder what the other states are thinking — whether we have gone seven years down the track and it is not the thing it was meant to be and how to turn around that — —

Mr ECCLES — There is no doubt. We now have more NPAs than we had at the time of the redesign of the system in 2008.

Ms PENNICUIK — And one of them was [inaudible].

Mr ECCLES — Exactly. So it has not met the original objective. And I think you are right: if we were to weed the garden to remove everything that should not be an NPA, the garden would have fewer plants, if you like, and we should insist on that. We should insist on, as part of this, the renegotiation and the rebooting of the IGA FFR. We should never get to the point of having 300 agreements in the way that we now have — a plethora of agreements that on any interpretation should not be called national partnerships.

Mr MORRIS — If I could just take the conversation in an entirely different direction, whether we have a response now or whether it is possible for you to come back to us, in the supplementary questionnaire you signed on 6 November we asked on page 6:

What is the role of DPC in the administration of the intergovernmental agreement on federal financial relations?

You rightly observed that that is a DTF responsibility, but one thing we are probably not clear on is how the whole process works in terms of the Victorian government. When David Martine was in yesterday he sort of said, ‘Well, DPC’s got the overall responsibility. We take in the money and it is appropriated out’, but we really are no wiser in terms of the process of negotiation and how DPC might interact with Justice or DET or whatever it is whose services are actually being funded. Can you give us an idea of that, or is there a publication you can point us to that explains the process?

Mr ECCLES — Rebecca is very close to that. I will give you the headline story, and then Rebecca can talk about how it applies in practice. We have whole-of-government responsibility for the conduct of

intergovernmental relations, so that is one of our core responsibilities in advising the Premier as the first minister who attends COAG. We have whole-of-government visibility over everything that is going on. I would like to think that we practice what we preach and that our relationship with departments is one of partnership. We do not hold the knowledge that the departments hold around the detail of their service delivery systems. We do, however, have oversight of how all of the pieces should be assembled across all of the different domains of intergovernmental activity. But Rebecca, you might be able to talk about how it works in practice.

Ms FALKINGHAM — Sure. We do provide whole-of-government monitoring of all of the NPs in terms of milestones and making sure. I can take on notice whether there is a document we can give you. It might not be in a comprehensive form, but in terms of have we got it, I will come back to you on that. In relation to, on a day-to-day basis, the administration of NPs, it really varies. In many instances if it is a renegotiation of an existing NP, DPC will not tend to get involved until it goes through the cabinet process. If it is a new NP, we tend to be much more involved in the detail of that, and then it cascades down to implementation. We will always get involved where it has reached an intractable position with the commonwealth in terms of a renegotiation or detailed implementation work. The universal access to early childhood is a good example where our education officials had pushed as much as they could at the commonwealth level, particularly given they had another one-year extension. That is not a good outcome for that sector, so we have become much more involved over the last three months in terms of negotiating directly with PMC to try to reach a landing. It does really vary across the NPs, but there we offer whole-of-government support to all the government departments around negotiating NPs. Most government departments have a small intergovernmental team that sits there, but we do provide, as I said, monitoring across them all just to make sure we are meeting our milestones and being able to report back.

It is more problematic now in terms of reporting back given that the reform council does not exist anymore. Western Australia has made the point publicly on many occasions, I guess given the duplication of reporting, that part of the reform to federation process has to be about how we actually get agreement across all states and territories in the commonwealth as to what that monitoring and reporting regime will be longer term.

Mr MORRIS — That is useful, and if you could — —

Ms FALKINGHAM — Yes, we will come back to you.

Mr MORRIS — That would be good. Thank you.

Ms PENNICUIK — I just have a quick question. One of the first issues you raised in the whole-of-government response, and you mentioned it briefly, Mr Eccles, was about the lack of indexation of population growth. It seems to me to be a bit of an underlying issue that it is not being taken into account, and that could be a fundamental flaw with quite a lot of the agreements, so I just wondered. I think you said earlier on that that was part of the ongoing consultations. I am just wondering if you could make a brief comment about that.

Mr ECCLES — It is one of the single most vexing issues for the state that often at the point of renewal of an NPA that renewal will not take into account either demographic change or, if it relates to the quantum of funding, does not factor in indexation, so the state in real terms is going backwards. I do not know whether it is fair to say that that is more the norm than not.

Ms FALKINGHAM — Yes.

Mr ECCLES — It is more the norm than not, I am assured, so that again is a serious flaw in the process.

Ms PENNICUIK — How does the commonwealth respond to that seemingly obvious issue?

Ms FALKINGHAM — Budget constraints.

Mr ECCLES — They respond with resignation on their part. They also have to reference their contribution to their budget process, which often jams us in terms of timing. They do not have the freedom to negotiate a funding outcome outside their budget cycle, so there are constraints that are operating at both levels of government.

Ms PENNICUIK — Yes, it seems like a bit of a vexed issue in terms of sorting it out.

Mr T. SMITH — This is a question I asked previously of the secretary of the department of justice: what sort of informal communications do you have with your federal counterparts? Is it fairly regular? I am not talking at a ministerial level; I am talking at the secretary level.

Mr ECCLES — It is issues driven, so I have the ability to pick up the phone and make a call but tend not to abuse the privilege. When we were negotiating the Gonski agreement and the NDIS, and again I am talking about another jurisdiction, when we were in the end game, which is getting pretty close to the finalisation, I was in constant contact with my counterpart. It does pretty much depend on the issue. If they make a call, I pick up the phone, and if I make a call, they pick up the phone, which is as much as I can ask.

Mr T. SMITH — Just on a slightly different topic, are you confident in the direction of the federation white paper process?

Mr ECCLES — I think we will have a better handle on that after 11 December. All of the signs coming out of Canberra at the moment are that the Prime Minister is encouraging us to continue with the exercise commenced by the former Prime Minister, and so the proof of that will be in the meeting on 11 December. But as always, I am an optimist.

The CHAIR — I would like to thank Mr Eccles and Ms Falkingham for their attendance. The committee will follow up on any questions taken on notice in writing. A written response will be provided within 21 days of that request.

Mr ECCLES — Thank you.

Committee adjourned.