

CHAPTER 5: COAG REFORM AGENDA AND PRODUCTIVITY IN VICTORIA

Key findings of the Committee:

- 5.1** Recognising the current international economic and financial difficulties impacting on Australia, the Committee appreciates the need for implementing initiatives designed to stimulate the economy, deliver jobs and enhance productivity.
- 5.2** In terms of following up matters reported by the Committee in its previous Estimates Report for 2008-09, the Committee maintains that:
- the Budget Papers should disclose an abridged version of performance data that summarises how Victoria has progressed against agreed objectives, outcomes and outputs where funding has been provided by the Commonwealth Government;
 - departments should disclose a breakdown of savings and efficiencies achieved in their annual reports, while the Budget Papers should be expanded to include savings estimates for departments; and
 - departments should include in their annual reports, performance information aligned to any performance indicators established at the federal level that relate to productivity improvement.
- 5.3** Policy development at the federal level and the implementation of the COAG National Reform Agenda, enacted through budgetary measures locally, have therefore attracted considerable scrutiny by the Committee in its examination of the Budget Estimates for 2009-10 and in recent years.
- 5.4** Beginning on 1 January 2009, the new federal financial framework was established in order to, among other things, improve the quality and effectiveness of government services by reducing Commonwealth prescriptions on service delivery by the States and increase flexibility in the way they deliver services. Having an improved focus on accountability for better outcomes and service delivery is a key feature of the new Framework that the Committee will be interested in examining and promoting.
- 5.5** In reducing the number of payments to the States for Specific Purpose Payments (SPPs) from over 90 to five, the new National SPPs include total funding of \$96.7 billion over five years from 2008-09.

- 5.6 While Victoria’s share of Commonwealth funding is in the process of being determined, the creation of the five new National SPPs included total funding in 2009-10 of \$24.3 billion which comprised:
- \$11.2 billion - National Healthcare SPP;
 - \$9.7 billion - National Schools SPP;
 - \$1.3 billion - National Skills and Workforce Development SPP;
 - \$0.9 billion - National Disability Services SPP; and
 - \$1.2 billion - National Affordable Housing SPP.
- 5.7 The Committee noted that the performance of all governments in achieving mutually-agreed outcomes and benchmarks specified in each SPP will be monitored and assessed by the independent COAG Reform Council and reported publicly on an annual basis.
- 5.8 Apart from SPPs, a new type of payment in the form of National Partnership (NP) payments commenced in 2009 to fund specific projects and to facilitate and/or reward states that deliver on nationally-significant reforms which include areas such as health, education and early childhood development, indigenous related issues and housing.
- 5.9 While the COAG Reform Council will report to the Prime Minister on National Agreements and National Partnerships, the Productivity Commission will also report to COAG on the economic impacts and benefits of COAG’s agreed reform agenda every two to three years.
- 5.10 To maximise the timely and effective delivery of the 3 February 2009 Nation Building and Jobs Plan and the December 2008 Nation Building Statement, COAG agreed on 5 February 2009 to new national coordination arrangements, involving national coordinators at Commonwealth and state levels to support monitoring and implementation of the infrastructure and stimulus measures.
- 5.11 COAG agreed at its 30 April 2009 meeting to a series of education and training measures to meet the challenge of rising unemployment including a *National Youth Participation Requirement* which will make participation in education, training or employment compulsory for all young people until they reach the age of 17.
- 5.12 At its 30 April 2009 meeting, COAG noted that agreed milestone dates for the roll-out of the Nation Building and Jobs Plan had been met and implementation was moving from the project planning and approval stage to the building and construction phase.
- 5.13 The COAG Reform Council, established by COAG as part of the new arrangements for federal financial relations, aims to strengthen accountability for the achievement of results through independent and evidenced-based monitoring, assessment and reporting of the performance of all governments in relation to the three new forms of agreements (National Agreements, National Partnerships and Water Management Partnerships). In addition, the Council has a role in monitoring the aggregate pace of activity in progressing the new COAG Reform Agenda.

- 5.14** The Committee acknowledges that due to the complex nature of the new agreements and interphases, 2009 is to be a period of transition whereby the COAG Reform Council will work with the jurisdictions and other key groups to agree on methodologies and approaches. The Committee intends exploring during this transitional period, issues associated with the role the Auditor-General may have in verifying the accuracy of information to be reported for Victoria against performance indicators and performance benchmarks outlined in the various agreements.
- 5.15** The Victorian Budget Papers for 2009-10 contain a wide coverage of Commonwealth reforms and state-based initiatives designed to improve productivity. The State Government will continue to pursue productivity gains through work on skills reform, infrastructure development and the cutting of 'red tape' for businesses.
- 5.16** In response to the Committee's desire to understand the breadth of areas earmarked by departments for productivity improvement in 2009-10, the Committee noted that the majority of the areas identified by departments related to efficiency initiatives aimed at administrative cost savings (i.e. specific program savings formerly described by the Committee as 'micro' impacts) rather than areas where productivity gains in terms of output and outcome generation in core business areas could be realised (i.e. wider productivity action formerly described by the Committee as 'macro' impacts).

5.1 Introduction

The Committee noted that with the change in government that occurred at the Commonwealth level after the Federal election in November 2007, the Council of Australian Governments (COAG) decided at their meeting on 20 December 2007 that previously agreed work under the National Reform Agenda would continue.¹⁴⁰

The goals of the COAG Reform Agenda, formerly known as the National Reform Agenda, are to address the challenges of boosting productivity, increasing workforce participation and mobility and delivering better services for the community. The reform agenda also contributes to the broader goals of social inclusion, closing the gap on Indigenous disadvantage and environmental sustainability.¹⁴¹

Recognising the current international economic and financial difficulties impacting on Australia, the Committee appreciates the need for implementing initiatives designed to stimulate the economy, deliver jobs and enhance productivity. Policy directions at the Commonwealth level enacted through budgetary measures at the State level have therefore attracted considerable scrutiny by the Committee in its examination of the Budget Estimates for 2009-10.

¹⁴⁰ Council of Australian Governments, Communique, 20 December 2007, p.2

¹⁴¹ Council of Australian Governments, Communique, 3 July 2008, p.1

This chapter provides:

- a commentary on past coverage by the Committee on the COAG Reform Agenda and government responses;
- an insight of the direction taken by COAG in implementing its reform agenda leading up to the release of the Victorian Budget for 2009-10 in May 2009 and post budget;
- a description of accountability mechanisms including the expanded monitoring and assessing role for the COAG Reform Council;
- an analysis of the way in which the economic reform agenda is covered in the Victorian Budget Papers;
- a review of the areas identified by departments for productivity improvement in 2009-10;
- a link to other areas covered by the Committee as part of its inquiry into the budget estimates that deal with key elements of the Victorian budget, grants, asset investment, job creation, transport, health, education, the environment and various social issues; and
- an insight into related issues to be examined as part of likely future inquiries by the Committee.

5.2 Past coverage by the Committee

With the advent of COAG adopting a National Reform Agenda in February 2006, the Committee's reports on the *Budget Estimates and Financial and Performance Outcomes* since that time have regularly featured coverage of this topic. Recommendations made by the Committee over the years have centred on the achievement and disclosure of outcomes realised from implementing this economic reform agenda for Victoria, including the clear need to measure productivity growth.

Table 5.1 sets out a listing of the recommendations made by the Committee relating to the COAG Reform Agenda and Productivity in Victoria that were contained in its previous Budget Estimates report for 2008-09, together with the respective responses by government and further Committee comment where considered appropriate.

Table 5.1: COAG Reform Agenda and Productivity Government responses to the Committee's recommendations made in its Report on the 2008-09 Budget Estimates

Recommendation	Response	Action Taken to Date	Further Action Planned	Committee Comment
<p>2</p> <p>As the COAG Reform Agenda unfolds, a Whole of Government section should be included in the Budget Papers that explains:</p> <p>(a) Victoria's efforts in contributing to the work agenda of the seven working groups including the Productivity Agenda, actual results against performance measures, future requirements and funding allocations; and</p> <p>(b) how outcomes derived from the Reform Agenda have shaped the Victorian budget.</p>	<p>Accept in Principle</p>	<p>The 2008-09 Budget included a chapter on the economic reform agenda, which outlined the actions being pursued by the Victorian Government to maintain Victoria's economic prosperity. This reform program included both State-based actions and national reforms developed through forums such as COAG.</p>	<p>Performance against reform milestones agreed by COAG will be publicly reported by the COAG Reform Council. This will allow the community to understand the Victorian Government's performance both over time, and compared to other States and Territories. This will be the primary mechanism by which all governments will report results against COAG performance measures.</p> <p>The Department of Treasury and Finance will continue to review opportunities for government to transparently report on the outcomes of COAG reforms.</p>	<p>Mindful of the new framework for financial relations introduced on 1 January 2009, involving the creation of five new broad specific purpose payments and National Partnership payments, the Committee believes that the Economic Reform Agenda chapter in the Budget Papers should be expanded to disclose an abridged version of performance data that summarises how Victoria has progressed against agreed objectives, outcomes and outputs where funding has been provided by the Commonwealth Government.</p> <p>While the Committee encourages the transparent reporting of outcomes derived from the COAG reforms at the state level, the Committee recognises that more detailed performance data, including comparisons with other jurisdictions, is to be included in annual reports prepared by the COAG Reform Council.</p>
<p>3</p> <p>Where productivity improvements form part of economic factors evaluated during the development of major new budget initiatives, these considerations forming part of related business cases or output price reviews should be made clearly visible in the Budget Papers.</p>	<p>Accept in Principle</p>	<p>Individual efficiency initiatives, inclusive of productivity improvements, are generally reported in Appendix A of <i>Budget Paper No. 3, Service Delivery</i>. Productivity improvements anticipated arising from individual departmental proposals or output reviews are included in the total funding for these proposals, however it is not always possible or appropriate to separately identify these details.</p>	<p>The Department of Treasury and Finance will endeavour to clearly identify anticipated productivity improvements in future publications, where it is appropriate and possible to do so.</p>	<p>Nil.</p>
<p>4</p> <p>In terms of achieving general efficiencies of an administrative nature that are expected to be derived</p>	<p>Reject</p>	<p>The Government and its departments do not normally apply any income derived from savings or efficiencies to specific projects, as it is contrary to the principles</p>	<p>As part of its commitment to continuous improvement, the Department of Treasury and Finance will continue to review public finance and accountability</p>	<p>The Committee maintains that departments should disclose a breakdown of savings and efficiencies achieved in their annual reports. The</p>

Recommendation	Response	Action Taken to Date	Further Action Planned	Committee Comment
<p>(or any other specific efficiency initiatives announced in future budgets), the Budget Papers should disclose:</p> <p>(a) a breakdown by department and various components that make up such efficiencies; and</p> <p>(b) how savings have been utilised in the budget.</p>		<p>of the Government's financial management and accountability framework. However, in some situations, such as the Government's <i>Efficient Government</i> policy, the value and sources of savings revenue is disclosed. The State Government's financial framework focuses on the delivery of outputs and outcomes, rather than the day-to-day management of departmental inputs. This framework is in line with practice across the Australian public sector and based on international experience. Under this framework, departments are not required to report to the Government how agreed efficiency targets are achieved as this is an internal management concern.</p>	<p>practices for possible adoption.</p>	<p>Budget Papers should include savings estimates for departments.</p>
<p>5 Given that standardised performance measures have not been developed to measure productivity of government services, departments should quantify examples of productivity gains in their annual reports in order to increase accountability to the community. This practice should also extend to local government agencies, statutory authorities and non-government organisations in receipt of substantial grant funding from government.</p>	<p>Accept in Principle</p>	<p>Departments, in consultation with the Department of Treasury and Finance, are continually identifying and implementing productivity improvements and efficiency gains achieved. The Government supports departments in enhancing their annual reporting requirements with the adoption of individual performance productivity measurements, where appropriate. At the COAG meeting in late 2008, the Victorian Government agreed to some high level principles to improve the accountability and performance reporting to the public through simpler, more transparent public performance reporting. The new performance reporting framework will focus on the achievement of results, efficient service delivery and timely provision of the data.</p>	<p>The implementation of the new performance reporting and public accountability arrangements are currently being developed in consultation with the departments.</p>	<p>The Committee would like to see departments include in their annual reports, performance information aligned to any performance indicators established at the federal level that relate to productivity improvement.</p>

Source: Government Responses to the Recommendations of the Public Accounts and Estimates Committee's 80th Report on the 2008-09 Budget Estimates, pp.3-4, tabled out of session on 15 April 2009

- Recommendation 7:** With the advent of a new framework for federal financial arrangements with the states and territories involving a range of National Agreements for Specific Purpose Payments and National Partnerships, the Department of Treasury and Finance expand the Economic Reform Agenda chapter in the Budget Papers by disclosing an abridged version of performance data that summarises how Victoria has progressed against agreed objectives, outcomes and outputs where funding has been provided by the Commonwealth Government.
- Recommendation 8:** Departments disclose in their annual reports a breakdown of savings and efficiencies achieved, while disclosure in the Budget Papers be expanded to include savings estimates for departments.
- Recommendation 9:** Departments include in their annual reports, performance information aligned to any performance indicators established at the federal level that relate to productivity improvement.

5.3 COAG deliberations prior to the handing down of the Victorian 2009-10 Budget on 5 May 2009

COAG met on five occasions during 2008-09. Meetings were held on 3 July 2008, 2 October 2008, 29 November 2008, 5 February 2009 and 30 April 2009. With the global economic and financial crises impacting on Australia during this time, COAG, as the peak intergovernmental forum in Australia, was posed with many issues to consider in order to enhance Australia's productivity and competitiveness during this critical period and beyond.

With this background in mind, a summary of some of the key initiatives introduced by COAG, important areas where agreement was reached and major Commonwealth initiatives that were noted, particularly those that relate to building the economy's productive capacity, are set out below:

29 November 2008 meeting¹⁴²

- Beginning on 1 January 2009, a new federal financial framework was established.
- The new Intergovernmental Agreement on Federal Financial Relations is aimed at:
 - improving the quality and effectiveness of government services by reducing Commonwealth prescriptions on service delivery by the States and increased flexibility in the way they deliver services;
 - providing a clearer specification of roles and responsibilities of each level of government; and
 - having an improved focus on accountability for better outcomes and service delivery.

¹⁴² Council of Australian Governments, Communique, 29 November 2008, pp.2-3

- The number of payments to the states for National Specific Purpose Payments has been reduced from over 90 to five.
- Five new national SPPs have been created which include total funding over five years from 2008-09 of:
 - \$60.5 billion in a National Healthcare SPP;
 - \$18 billion in a National Schools SPP;
 - \$6.7 billion in a National Skills and Workforce Development SPP;
 - \$5.3 billion in a National Disability Services SPP; and
 - \$6.2 billion in a National Affordable Housing SPP.
- The performance of all governments in achieving mutually-agreed outcomes and benchmarks specified in each SPP will be monitored and assessed by the independent COAG Reform Council and reported publicly on an annual basis.

5 February 2009 meeting¹⁴³

- Apart from SPPs, a new type of payment in the form of National Partnership (NP) payments commenced in 2009 to fund specific projects and to facilitate and/or reward States that deliver on nationally-significant reforms.
- While the COAG Reform Council will report to the Prime Minister, as chair of COAG, on National Agreements and National Partnerships, the Productivity Commission will also report to COAG on the economic impacts and benefits of COAG's agreed reform agenda every two to three years.¹⁴⁴
- A centrepiece of the Commonwealth Government's response to the global economic downturn is the \$42 billion *Nation Building and Jobs Plan* released on 3 February 2009. The plan, which complements measures previously taken by the Commonwealth and COAG in 2008, includes \$21.5 billion to the states for education, social housing and road and rail infrastructure as well as \$12.7 billion to deliver an immediate stimulus to the economy to support growth and jobs before investment spending and lower interest rates take effect.
- The *Nation Building and Jobs Plan* will help support and sustain up to 90,000 jobs over the next two years.
- The *Nation Building and Jobs Plan*:
 - complements the Commonwealth's \$10.4 billion Economic Security Strategy announced in October 2008;
 - builds on the long-term reforms agreed by COAG in November 2008; and
 - builds on the Commonwealth's nation building agenda announced in December 2008.
- To maximise the timely and effective delivery of the *Nation Building and Jobs Plan* and the *Nation Building Statement*, COAG agreed to new national coordination arrangements, involving national coordinators at Commonwealth and state levels to support monitoring and implementation of the infrastructure and stimulus measures.

¹⁴³ Council of Australian Governments, Communique, 5 February 2009, pp.1-5, 10-11, 12-15

¹⁴⁴ Council of Australian Governments, *Intergovernmental Agreement on Federal Financial Relations*, January 2009, p.6;

- COAG agreed on various timelines for construction with regard to a wide range of initiatives and specific programs under the *Nation Building and Job Plan* that were aimed at stimulating the economy. For example, in relation to the Funding Rounds One, Two and Three connected with the *Primary Schools for the 21st Century* component of the *Building the Education Revolution* program, a key element of the Government's *Nation Building and Jobs Plan*, construction was to start by June 2009, July-August 2009 and by 1 December 2009 respectively (all projects are to be completed no later than March 2011).

30 April 2009 meeting¹⁴⁵

- COAG agreed to a series of education and training measures to meet the challenge of rising unemployment including:
 - a *Compact with Young Australians* for every young person to be able to access an education or training place;
 - a *National Youth Participation Requirement* which will make participation in education, training or employment compulsory for all young people until they reach the age of 17; and
 - the bringing forward of COAG's 90 per cent Year 12 or equivalent attainment rate target from 2020 to 2015.
- COAG noted that agreed milestone dates for the roll-out of the *Nation Building and Jobs Plan* had been met and implementation was moving from the project planning and approval stage to the building and construction phase.

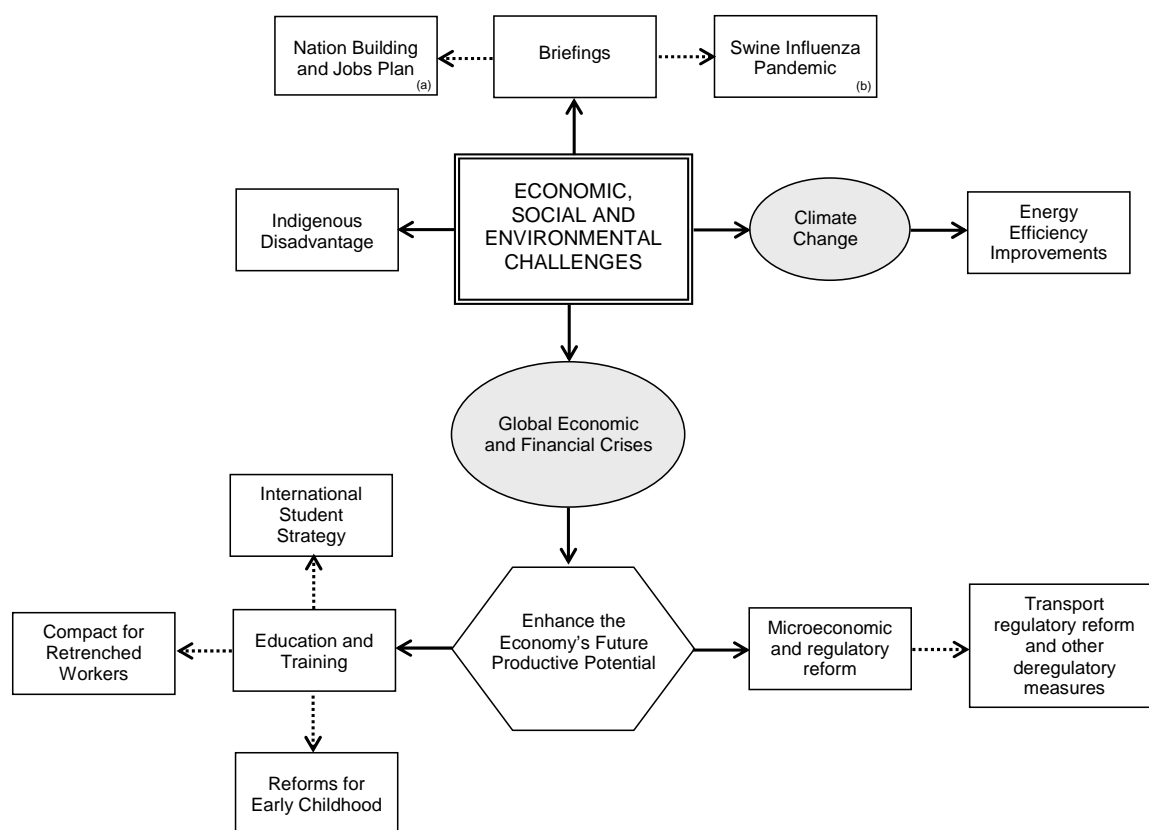
5.4 COAG recent deliberations subsequent to the handing down of the 2009-10 Budget

The Committee noted that at the most recent meeting of COAG, held in July 2009, discussion continued to take place on the ongoing challenges facing Australia and progressing the new *Framework for Federal Financial Relations* that underpin the COAG reform agenda. Included among the deliberations was a broad ranging discussion of the importance, against the background of the global economic and financial crises, of bolstering education, training and retraining efforts and securing further microeconomic and regulatory reform to enhance the economy's future productive potential.¹⁴⁶ A diagrammatic presentation of the broad areas discussed is shown in Figure 5.1.

¹⁴⁵ Council of Australian Governments, Communique, 30 April 2009, pp.1, 6

¹⁴⁶ Council of Australian Governments, Communique, 2 July 2009, p.1

Figure 5.1: COAG Meeting 2 July 2009: Broad areas discussed



- Notes: (a) Briefing by the Coordinator-General regarding the implementation of the National Building and Jobs Plan.
 (b) Briefing by the Deputy National Security Advisor on the Swine Influenza pandemic.

Source: Figure compiled by the Public Accounts and Estimates Committee, 2009

COAG acknowledged that the global economic crisis underscores the importance of further microeconomic reform, including regulatory reform. In this regard, COAG formed the view that:¹⁴⁷

There are widespread concerns that the global economic and financial crises will lower trend economic growth in key developed countries around the world because of higher risk aversion, less access to finance and higher required returns on capital. Continued domestic microeconomic reform will enhance Australia's productivity and competitiveness, raising potential growth rates and living standards, and better enable Australia to deal with difficult international economic circumstances.

¹⁴⁷ Council of Australian Governments, Communique, 2 July 2009, p.7

The Committee also noted with interest that according to a summary report of the Coordinators-General on the *Nation Building and Jobs Plan* presented to COAG, construction activity was underway across all of the infrastructure elements of the *Nation Building – Economic Stimulus Plan*. Importantly, a significant surge in new construction had taken place in June-July 2009 in schools, social housing and community infrastructure programs. In quantifying construction activity that was underway or completed nationally, particular elements covered in the report included:¹⁴⁸

- essential repairs to social housing dwellings and construction work and approvals for new homes as part of the social housing construction program;
- construction projects connected with school halls, libraries and new classrooms; and
- ceiling insulation and solar hot water programs.

Given that it will be important for the national reforms that build the economy's productive capacity to be implemented in a prompt manner, the Committee will be interested in examining in its inquiry into *Financial and Performance Outcomes 2008-09*, how Victoria has performed in terms of fulfilling its obligations to the Commonwealth under the *Nation Building – Economic Stimulus Plan*.

5.5 National Agreements/SPP and National Partnerships - accountability measures

The Committee wishes to draw attention to the following element of the Intergovernmental Agreement on Federal Financial Relations relating to accountability:¹⁴⁹

As improved accountability is a key objective to the framework for federal financial relations, the Parties commit to improve service delivery by ensuring that the appropriate government is accountable to the 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.

The Committee noted that the creation of five new National Specific Purpose Payments, entered into between the Commonwealth Government and the states and territories, included total funding in 2009-10 of \$24.3 billion which comprised:¹⁵⁰

- \$11.2 billion - National Healthcare SPP;
- \$9.7 billion - National Schools SPP;
- \$1.3 billion - National Skills and Workforce Development SPP;
- \$0.9 billion - National Disability Services SPP; and
- \$1.2 billion - National Affordable Housing SPP.

A review by the Committee of the National Agreements covering the SPPs showed that they contain a wide range of objectives, outcomes, progress measures, outputs and reform directions.

¹⁴⁸ Council of Australian Governments, Communique, 2 July 2009, p.9

¹⁴⁹ Council of Australian Governments, *Intergovernmental Agreement on Federal Financial Relations*, January 2009, p.5

¹⁵⁰ Ministerial Council for Federal Financial Relations (website), accessed 24 August 2009, http://www.federalfinancialrelations.gov.au/content/specific_purpose_payments.aspx

With regard to the National Partnership Agreements, the Agreements also specify that detailed reports are to be provided to the Commonwealth on an annual basis against milestones and timelines to be detailed in Implementation Plans.¹⁵³

The expanded role of the COAG Reform Council in the accountability process is explained in the next section of this chapter.

5.6 COAG Reform Council

The COAG Reform Council has been established by COAG as part of the new arrangements for Federal Financial Relations to assist COAG to drive its national reform agenda. The Council, which comprises five members, is independent of individual governments and reports directly to COAG.¹⁵⁴

As indicated earlier in this chapter, the goals of the COAG Reform Agenda are 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.

The Council aims to strengthen accountability for the achievement of results through independent and evidenced-based monitoring, assessment and reporting of the performance of all governments.¹⁵⁵

The COAG Reform Council issued a report in March 2009 titled *2009 COAG Reform Council Report: Report to the Council of Australian Governments on Implementation of the National Reform Agenda*. This is the second report of the COAG Reform Council on the implementation of the competition and regulatory reforms in seven areas referred to the Council for monitoring by COAG in April 2007, namely:¹⁵⁶

- Electricity Smart Meters;
- National Energy Market Reform;
- Transport Pricing Reforms and Research Agenda;
- National Rail Safety Reforms;
- National System of Trade Measurement;
- Building Regulation Reform; and
- Infrastructure Regulation.

In relation to the above areas of competition and regulatory reform, the Committee intends reviewing the progress made by Victoria against agreed milestones as reported by the Council during its next examination of Financial and Performance Outcomes.

¹⁵³ Council of Australian Governments, *National Partnership Agreement on Preventative Health*, January 2009, p.10

¹⁵⁴ Council of Australian Governments, COAG Reform Council (website), accessed 17 August 2009, <http://www.coag.gov.au/crc/index.cfm>

¹⁵⁵ Council of Australian Governments, COAG Reform Council (website), accessed 17 August 2009, <http://www.coag.gov.au/crc/index.cfm>

¹⁵⁶ Council of Australian Governments, 2009 COAG Reform Council Report, *Report to the Council of Australian Governments on Implementation of the National Reform Agenda*, March 2009, pp.iv-x

As indicated in the report, the Council has the responsibility for monitoring and assessing the performance of government under three new forms of agreements, in addition to monitoring the aggregate pace of activity in progressing the new COAG Reform Agenda that was agreed at its meeting of 26 March 2008. This expanded role for the Council is aimed at enhancing accountability and promoting reform.¹⁵⁷ A description of these agreements and the role of the Council in each case are set out in Table 5.2.

Table 5.2: COAG Reform Council monitoring and assessing responsibilities

Agreement	Description	Council's role
National Agreements	Define the objectives, outcomes, outputs and performance indicators and clarify the roles and responsibilities of the Commonwealth and the states and territories in delivering services in healthcare, education, skills and workforce development, disability, affordable housing and Indigenous reform.	For each National Agreement, the Council must provide annual reports to COAG on performance information for all jurisdictions, comparative analysis of government performance and examples of good practice and performance.
National Partnerships	Define the objectives, outputs and performance benchmarks related to specific projects to facilitate reforms or to reward jurisdictions that deliver on national reforms or service delivery improvements.	For National Partnerships, the Council will provide an independent assessment of whether pre-determined milestones and performance benchmarks have been achieved before a reward payment is made in recognition of this achievement.
Water Management Partnerships	Water Management Partnerships are part of the Agreement on Murray-Darling Basin Reform between the Commonwealth and the Basin states and territory (New South Wales, Victoria, Queensland, South Australia and the Australian Capital Territory). This Agreement is an undertaking to implement the reforms necessary to meet the current needs of the Murray-Darling Basin and to protect and enhance the social, environmental and economic values of the Basin in the long-term. Under the Agreement, the Commonwealth and each Basin states or territory will agree on a Commonwealth-State Water Management Partnership (WMP) to implement water saving infrastructure projects, return water to the environment and adapt to climate change in an environment of reduced water availability. Each WMP will be a public document containing the outcomes to be achieved, reform actions, timeframes and performance benchmarks.	The Council is responsible for assessing the performance of the Commonwealth and the Basin states and territory in relation to these WMPs.

Source: 2009 COAG Reform Council Report, Report to the Council of Australian Governments on Implementation of the National Reform Agenda, March 2009, pp.iii–iv

¹⁵⁷ Council of Australian Governments, 2009 COAG Reform Council Report, Report to the Council of Australian Governments on Implementation of the National Reform Agenda, March 2009, pp.iii–iv

Importantly, as referred to earlier in this chapter, the Council is to report to the Prime Minister, as Chair of COAG, on National Agreements and National Partnerships, with the Productivity Commission assisting in this role by also reporting to COAG every two to three years on the economic impacts and benefits of COAG's agreed reform agenda.¹⁵⁸

The Committee noted that the Council has provided a separate report to COAG on its proposed Workplan for 2009, setting out the tasks to be undertaken to fulfil its expanded role. The Committee also acknowledges that due to the complex nature of the new agreements, 2009 is to be a period of transition whereby the Council will work with the jurisdictions and other key groups to agree on methodologies and approaches.¹⁵⁹

In this regard, the Committee intends exploring during this transitional period, issues associated with the role that the Auditor-General may have in verifying the accuracy of information to be reported for Victoria against performance indicators and performance benchmarks outlined in the various agreements. Such a role could serve to establish more effective Commonwealth-State working arrangements with regard to securing an appropriate level of accountability for the way in which special purpose and national partnership payments are used at the state level. The Committee will review this matter as part of its new inquiry into Victoria's *Audit Act 1994*, which is aimed at strengthening financial accountability, where appropriate, by clarifying the powers of the Auditor-General.

The Committee views the monitoring and assessing role of the COAG Reform Council as a strong feature of the new *Framework for Federal Financial Relations* and a positive step to holding states and territories to account for fulfilling their responsibilities under the agreements. The Council's reports will serve to provide very useful information for analytical purposes.

Recommendation 11: **In terms of clarifying the appropriate role of state and territories' Auditors-General for enhancing state accountability under the new federal financial framework, the Victorian Government initiate discussions with COAG on what role, if any, they should have.**

5.7 How is economic reform and productivity addressed in Victoria's May 2009 Budget Papers?

The Committee noted that the Budget Papers contain various announcements connected with economic reform and numerous points of explanation as to how the Government's budget strategies are designed to improve productivity.

In particular, the Government has continued with its practice of devoting an entire chapter to discussing Victoria's Economic Reform Agenda. In the light of the economic downturn, the Government states that it continues to encourage productivity growth through skills reform, infrastructure initiatives (refer to Chapter 4 of this report for further analysis by the Committee) and reducing the burden of state regulation on businesses (refer to Section 5.9 of this chapter for further comment). The Government indicated that the current financial situation made it imperative for the public sector to improve even further the efficiencies of its operations with a view to safeguarding jobs and maintaining key government services.¹⁶⁰

¹⁵⁸ Council of Australian Governments, *Intergovernmental Agreement on Federal Financial Relations*, January 2009, p.6

¹⁵⁹ COAG Reform Council, *Report to the Council of Australian Governments on Implementation of the National Reform Agenda*, March 2009, p.iv

¹⁶⁰ Department of Treasury and Finance, *Budget Paper No. 2, 2009-10 Strategy and Outlook*, May 2009, pp.71, 83

As has been the case of past budgets, numerous output and asset initiatives that form part of the economic reform agenda of the Commonwealth and that of Victoria are disclosed in the Budget Papers, particularly in Budget Paper No. 3.

The Committee noted that, in discussing the concept of reforming Commonwealth-State Financial Relations, the Victorian Government indicates that a key determinant of the success of future nation-building reforms will be the nature of financial relations between the Commonwealth and state governments.¹⁶¹ Among other areas, the Victorian Government draws on the Commonwealth review of Australia's tax and transfer system, welcoming it as an opportunity to identify major taxation and transfer payment reforms that will drive economic growth.¹⁶² The Budget Papers make reference to the implementation of national reforms designed to build the economy's productive capacity. For example, mention is made of the action taken by the Commonwealth Government to support economic growth by announcing two discretionary fiscal stimulus packages, namely:¹⁶³

- the \$10.4 billion Economic Security Strategy, announced in October 2008, consisted of \$8.7 billion in payments to pensioners, carers, and low and middle income families, \$1.5 billion to help first home buyers purchase a home as well as \$0.2 billion for new training places; and
- as previously mentioned, the \$42 billion *Nation Building – Economic Stimulus Plan* which includes:
 - a total of \$28.8 billion in direct public investment in schools, housing, energy efficiency, community infrastructure, roads and support to small businesses, mainly delivered in 2009-10 and 2010-11; and
 - a total of \$12.2 billion in payments to low and middle income Australians, mainly in late 2008-09.

With regard to the Commonwealth payments to the states by way of the National Agreements and the National Partnerships as well as other economic stimulus plans, a useful breakdown according to department is disclosed in the Budget Papers (further comment is made by the Committee in Chapter 3 of this report).¹⁶⁴

5.8 Areas earmarked for productivity improvement in 2009-10 by departments

In examining the *2009-10 Budget Estimates* the Committee was interested in ascertaining from departments a description of any areas earmarked for productivity improvement in 2009-10. Information provided by departments in May 2009 is set out in Table 5.3.

The Committee noted that the majority of the areas earmarked for productivity improvement related to efficiency initiatives aimed at administrative cost savings (i.e. specific program savings formerly described by the Committee as 'micro' impacts) rather than areas where productivity gains in terms of output generation in core business areas could be realised (i.e. wider productivity action formerly described by the Committee as 'macro' impacts). To draw out the distinction, efficiency gains can be achieved through introducing smarter purchasing practices, buying less, utilising shared services, using resources such as vehicles more efficiently and better utilisation of ICT services (refer to Chapter 16 of this report for further comment). Productivity growth, on the other hand, relates to areas where outputs grow in terms of goods produced or services supplied

¹⁶¹ Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, p.80

¹⁶² *ibid.*, p.81

¹⁶³ *ibid.*, p.25

¹⁶⁴ Department of Treasury and Finance, Budget Paper No.4, *2009-10 Statement of Finances*, May 2009, pp.209-211

per unit of input such as labour, capital and technology. For example, growth in admissions to public hospitals and declining waiting lists for elective surgery relative to additional resources, growth in expertise, and new treatment technologies and processes, are examples of productivity growth.

In terms of examining the key elements of the reform agenda and the impact on productivity, the Committee has made various comments in the past which have included the following.¹⁶⁵

It also recognises that major activity in regard to productivity improvement will take place at the macro level and that the improved provision of health and education services, which are the two largest sections of state government outlays, will in the long term make the biggest contribution to productivity improvement in Victoria. The Committee noted the range of proposals in these areas that are being pursued as part of the National Reform Agenda.

Table 5.3: Areas earmarked for productivity improvement in 2009-10

Department	Areas earmarked for productivity improvement
Parliamentary departments	Renegotiation of information technology and communications contracts. Re-scheduling of staff appointments.
Department of Education and Early Childhood Development	The main areas earmarked include reducing central office costs associated with the administration of the Department.
Department of Human Services	<p>Nine major improvement projects were delivered in 2008. A further 10 projects are planned for 2009, which will focus on areas of operational administration within head office and regions.</p> <p>Productivity improvement is also addressed through Enterprise Bargaining Agreements negotiated by the Department. For some time various settlements in respect of human services workforces have included provisions for productivity offsets, which have the effect of improving workplace practice or removing restrictions which impede productivity improvement.</p>
Department of Innovation, Industry and Regional Development	The Department has identified a number of largely staff and administrative related costs earmarked for productivity improvement in 2009-10 without impacting on the delivery of outputs. The productivity improvements assigned for 2009-10 are: reductions in consultancy and contractor costs – achieved via: mix of project scope changes and/or cancellations, delivering projects through VPS staff that previously may have been contracted out, and achieving price reductions due to more favourable labour market conditions.
Department of Justice	<p>Departmental Response</p> <p>In line with Government savings direction, the Department has adopted a number of strategies targeted at reducing head office and corporate expenditure to maintain the current level and quality of service delivery.</p> <p>Victoria Police Response</p> <p>Productivity improvements aimed at ensuring required Efficiency Savings are to be achieved through corporate rationalisation.</p>
Department of Planning and Community Development	The use of shared services, consolidated activities and business process will be examined to achieve savings.

¹⁶⁵ Public Accounts and Estimates Committee, *Report on the 2007-08 Budget Estimates – Part Three*, p.74

Department	Areas earmarked for productivity improvement
Department of Premier and Cabinet	Whilst no specific areas are earmarked for productivity gains, the Department will continue to support Whole of Government efficiency initiatives through shared services for IT, facilities and accommodation, carpool and library services.
Department of Primary Industries	In line with the Department's Strategic Plan, the Department will implement savings through: <ul style="list-style-type: none"> • being more efficient/productive; • eliminating lower value activity; and • taking advantage of new revenue opportunities. <p>The Department's recent focus has been on consolidation of research and other accommodation/facilities; consolidation (in Victoria) and collaboration (with other jurisdictions and industry) in research and science; sharing of support services and examination of opportunities for revenue generation.</p>
Department of Sustainability and Environment	Further information is unable to be provided by the Department regarding efficiencies, as the specific areas and actions and the attributed savings are not recorded. Savings are applied across the Department and its portfolio entities on a pro-rata basis on their discretionary expenditure base.
Department of Transport	The 2009-10 Budget includes a new efficiencies savings requirement for the Department of \$15 million in 2009-10, \$22.5 million in 2010-11 and \$30 million in 2011-12. These savings will be met mainly from increased administrative efficiency.
Department of Treasury and Finance	From a whole of Victorian Government perspective, the Department will deliver: <ul style="list-style-type: none"> • an intra-government secured network; • efficient technology services; and • ancillary services.

Source: Departmental responses to the Committee's 2008-09 Budget Estimates questionnaire (Question 1.3)

In future, the Committee would expect to be provided with more quantified examples of where growth in productivity in terms of 'macro' impacts is expected to occur in core areas of business activity rather than efficiency cost savings of an administrative nature. A good example of productivity growth was provided to the Committee by the Department of Justice during the Committee's examination of financial and performance outcomes for 2006-07, which the Committee recommended should be used as a benchmark but clearly has not been followed or understood by departments. In that example of productivity improvement, the Department of Justice cited a reduction in the number of WorkCover claims as described below:¹⁶⁶

The department's key achievements in 2006-07 included a drop in reported incidents and standard claims. The average cost of a claim also fell from \$39,461 in 2005-06 to \$33,692 in 2006-07. The focus on good injury management, effective early intervention strategies and factors such as stress in the workplace, achieved positive outcomes, reducing the cost to the department in terms of time and actual cost of total claims. The figures as of 30 June 2007 are:

Year	Number of standardised claims	Number of lost time claims
2005-06	138	63
2006-07	120	44

¹⁶⁶ Public Accounts and Estimates Committee, *Report on the 2006-07 Financial and Performance Outcomes*, May 2008, pp.104-105

Recommendation 12: **Departments consider adopting best practices in productivity improvement reporting such as that presented by the Department of Justice.**

5.9 Productivity Commission's review of business regulation

By way of background, 'Business Regulation and Competition' is one of COAG's seven working groups and the regulation reduction agenda is a key part of the COAG Reform Agenda. The 'Productivity Agenda' is also one of COAG's other working groups.

The Committee noted that the Productivity Commission issued a draft research report on 26 June 2009 titled, '*Annual Review of Regulatory Burdens on Business: Social and Economic Infrastructure Services*'. The draft research report has been prepared for further public consultation and input.

In reviewing the draft report, the Committee observed that the Productivity Commission found that national regulation of the social and economic infrastructure services sector is particularly heavy. The review identified seven main areas – aged care, child care, information media, telecommunications, energy, air transport and education where regulations could be made less burdensome. Many of the industries in this sector are subject to current review or reform activity.¹⁶⁷

The Commission reported that reducing red tape in these sectors will enhance productivity. The Commission also stated that it is important to ensure that the reforms are fully implemented in a timely fashion and in a way that minimises the regulatory burden.¹⁶⁸

The Commission found that COAG's reform agenda, if realised, would help in creating a seamless national economy, however the potential benefits remain to be realised. The Commission reported that:¹⁶⁹

... the difficulty arises in converting [brokered reform deals] to actionable, practical rules and regulations to be implemented at an individual business level. Too often the 'ball is dropped' with reforms and the intended results of more uniform regulations do not materialise at the business level.

According to the Commission, attempts to achieve uniformity have not all been successful.¹⁷⁰

In terms of preparing its *Report on Financial and Performance Outcomes for 2008-09*, the Committee will be interested in reviewing the findings contained in the final report with regard to the implementation of regulation reduction reforms in Victoria and the impact on productivity. Comparisons with other states will be included where appropriate.

¹⁶⁷ Productivity Commission, Draft Research Report, *Annual Review of Regulatory Burdens on Business: Social and Economic Infrastructure Services*, June 2009, p.xvi

¹⁶⁸ *ibid.*

¹⁶⁹ *ibid.*, p.xxiii

¹⁷⁰ *ibid.*, p.xxii