

# The CRC's future: driver or passenger?

A report to the  
COAG Reform Council

July 2013

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## 1. Introduction

The purpose of this paper is to encourage discussion and debate by the COAG Reform Council (CRC) on the ways in which it can best serve COAG and advance performance, public accountability and good governance.

The paper is underpinned by two key assumptions:

1. The CRC's strategies must be shaped by the actual political and policy context it faces, as well as an understanding of institutional needs.
2. Multiple timeframes need to be considered together, despite the imminent strategic choices confronting the CRC being the focus.

This paper reflects desktop research, and the experience and analysis of the author. It has not involved vast original research or stakeholder engagement. Where the paper offers commentary on substantive policy matters, these should be interpreted as provocations rather than prescriptions.

The paper considers Australia's federalist history and international developments only to inform discussion, and does not consider options such as constitutional change, vertical fiscal imbalance and horizontal fiscal equalization in any detail.

This paper is divided into two key sections:

- **Section 2** ('The reform context') examines the political and policy context that shapes federalism and sets boundaries around the role of the CRC.
- **Section 3** ('Towards a more effective CRC') considers the CRC's overall positioning and key functions, and proposes practical next step.

## 2. The reform context

The following section outlines the political and policy context in which the CRC's strategic possibilities ought to be considered.

### 2.1 The political context

This section is informed by public statements relating to the positions of prospective Labor and Coalition Commonwealth Governments, and of the States and key stakeholders, with respect to COAG and reform.

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### Box 1 National Competitiveness Agenda<sup>2</sup>

The Agenda identifies infrastructure, skills, regulation, environmental approvals, business productivity, labour market rigidities and electricity deregulation as the seven priorities for proposed consultation with stakeholders.

The Agenda emphasises the need to build policy consensus across the federal government, business and unions – including in a number of policy areas where change and commitment would clearly be required of the States.

However, the role anticipated for the states – and COAG – is not specified.

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<sup>2</sup> Prime Minister (2013), 'The Australian economy in transition: Building a new National Competitiveness Agenda', speech to National Press Club, 11 July 2013

The implications of Coalition policies seem less clear for the CRC than for federalism. The Coalition has indicated that it will play a smaller role in public transport, health, education, the environment and industry policy. Its 'no blank cheques' language suggests this will involve a retreat of funding alongside involvement.

A key Coalition policy task will be the development of a **White Paper on Federalism**. This will consider the respective responsibilities of Commonwealth and State Governments 'to ensure that the states are sovereign in their own sphere'. It will supposedly reduce waste, duplication and shared responsibilities.

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By virtue of its subject matter, a review of federalism needs to engage the states. And by virtue of the nature of new policy challenges, it needs to engage other significant stakeholders – preferably in an open and transparent manner.

As Gary Banks has suggested<sup>5</sup>:

*The stronger the evidence base for a proposed reform, and the better the consultative processes underpinning it, the greater are the chances that it will end up being a 'successful reform'.*

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### State Government perspectives

State and Territory Governments have diverse perspectives on federalism, reflecting their traditions, economic trajectories, relationships with each other and the Commonwealth, and their policy and governance capabilities.

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<sup>5</sup> Banks, G. (2010), *Successful reform: Past lessons, future challenges*, speech to Australian Business Economists 8 December 2010, p.17

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## 2.3 The policy context

This section examines the underlying economic and policy challenges that are likely to impact on federalism and, by implication, the CRC.

### An economy in transition

The high terms of trade of recent years have brought both benefits and costs – accelerating structural economic shifts that Australia had avoided somewhat by escaping the worst of the global financial crisis.

This structural challenge continues to dominate Australia's economic prospects as we move beyond the investment phase of the mining boom.

Many firms and industries have grown strongly by establishing and strengthening footholds in national and global markets. They have done so by differentiating their products and services, and by focusing on new markets (particularly in Asia).

However, the next phase in this effort has barely been explored – notwithstanding the *Australia in the Asian Century* White Paper.

The understandable assumption is that economic development and the opportunities of the Asian Century are mainly national policy issues. However, the reality of how national and sub-national economies evolve paints a different picture.

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Indeed, the OECD emphasises the need to set economic priorities at a regional as well as national level – with long-term investments and strategies built around unique *local* capabilities<sup>8</sup>. Michael Porter is more direct in noting that<sup>9</sup>:

*There is no national economy ... but a series of regional economies that trade with each other and the rest of the world.*

Porter argues that this observation matters most for geographically large countries – where decentralised economic policy can support regional specialisation, internal competition and local accountability<sup>10</sup>.

Reflecting the Porter view, regional (sub-national) policy around the world is evolving from top-down, subsidy-based interventions aimed at reducing disparities, to a new focus on promoting bottom-up regional competitiveness<sup>11</sup>.

Australian economic debates understate the significance of the states. Our relatively homogenous language, ethnicity and culture imbue a strong 'national logic' – which needs to be not only acknowledged but also challenged where evidence dictates<sup>12</sup>.

Australia would benefit greatly from a debate about how to grow and diversify regional economies – as this is, in fact, how our national economy grows. Such a debate would be timely given projections of a lower exchange rate over coming years.

Australia's state (and regional) economies are on quite different economic trajectories, with a simplified version of this outlined below:

- Australia's endowment-driven **Resource Economy** will continue to benefit Western Australia, Queensland and the Northern Territory.
- Australia's steadily expanding **Knowledge/Services Economy** will disproportionately benefit Sydney, Melbourne and Canberra.
- Australia's diverse and transitioning **Production Economy** will be particularly challenging for South Australia, Victoria and Tasmania.

The critical policies affecting regional competitiveness – competition, innovation and global engagement – require Commonwealth and State Government cooperation.

Jurisdictions such as Tasmania, South Australia and the Northern Territory face particular challenges. More than others, their future will continue to rely heavily on financial partnerships with the Commonwealth, and on trade and knowledge spillovers from other jurisdictions.

How state, city and regional economies unfold is inextricably linked to the future of federalism; and this needs to find a place in the debate alongside the regular concern shown for the states' relative cost and revenue bases.

<sup>8</sup> OECD Innovation Strategy (2010), Paris

<sup>9</sup> Porter, M. (2007), Clusters and Economic Policy: Aligning Public Policy with the New Economics of Competition, ISC White Paper, Harvard Business School, November.

<sup>10</sup> Porter, M. (2010), Competitiveness in the Post Crisis Era: The Strategic Agenda for the UK, Global Investment Conference 2010, p.20; see also OECD (2011), Territorial Review of Switzerland

<sup>11</sup> OECD Territorial Review of Switzerland (2011), Paris

<sup>12</sup> Hanschell, D. (2013), Mechanisms of Conflict Resolution in Federalist States – The Redistributive of Legislative Power as a Viable Means?

## Rising policy complexity

Many of Australia's reform gains have arisen from areas where public outcomes are driven by policy design – such as forging open, competitive and flexible markets.

The 'recipe' for such reforms is clear: articulate the strategic direction, structure the stakeholder and community engagement well, and communicate consistently<sup>13</sup>.

However, many of today's policy challenges are different. Achieving public outcomes requires using multiple means to affect the behaviours of multiple actors, operating within systems over which government has only limited direct influence<sup>14</sup>.

These 'wicked problems' feature complexity and uncertainty, and dispersed but linked actions that do not always evolve smoothly<sup>15</sup>. Here, expert and leader driven approaches with predetermined solutions must give way to steadier adaptation.

In many policy areas, we see this complexity – alongside rising expectations – racing ahead of the *capabilities* of our policy institutions to manage or meet them.

This can lead to capability *traps* – a vicious cycle in which expectations rise, policy makers struggle and policies fail. This further erodes trust and makes reform harder still. Such traps contribute to a widespread cynicism of government competence.

As Laura Tingle argues<sup>16</sup>:

*The only things we seem to have been sure about over the years are that the government has not met our great expectation that it will look after us.*

Against this backdrop, governments are now being asked to do more with less. The Budget positions of Commonwealth and State Governments will make reform harder<sup>17</sup>. The past practice of 'buying reform' – a feature of the GST reforms, National Competition Policy and the COAG Reform Agenda – may not be available<sup>18</sup>.

While a National Commission of Audit may identify savings and set medium-term parameters, it is unlikely to get to the heart of the challenge. While austerity can drive innovation, such audits typically see innovation only as an afterthought<sup>19</sup>.

Moreover, spending more is no more the answer to Australia's needs than is spending less. While investment can leverage reform – and is needed in some areas – the relationship between public spending and public outcomes is typically weak.

<sup>13</sup> OECD (2009), Political Economy of Reform: Lessons from pensions, product markets and labour markets in ten OECD countries

<sup>14</sup> For example, in health and education it depends on the involvement of not just health departments, but also hospital and school leaders, doctors and teachers, patients and students, and peers and communities.

<sup>15</sup> Pritchett (2013) argues that the relevance of this lens depends on whether many agents are required to act, whether fine contextual judgments are needed, whether agents know how to solve the problem and whether organisations or agents face strong alternative incentives.

<sup>16</sup> Laura Tingle (2012), Great Expectations: Government, Entitlement and an Angry Nation, Australian Quarterly Essay 46

<sup>17</sup> See Grattan Institute (2013), Budget pressures on Australian Governments, April 2013

<sup>18</sup> Nations that have been forced to confront severe austerity challenges are ahead of Australian policy thinking in this respect, as a lack of funding has been a binding constraint in their reform deliberations.

<sup>19</sup> For a discussion of past Audit Commissions at the Commonwealth and State level, see ACIL Tasman (2013), Reforming Federal Finances, report for the Business Council of Australia, January 2013

Achieving systemic reform in the absence of new funding places heavy demands on jurisdictions' governance as well as economic capabilities – particularly in the case of smaller jurisdictions such as Tasmania, South Australia and the Northern Territory<sup>20</sup>.

## 2.3 Views on Australian federalism

Federalism has played an important role in Australian public policy – both in the old protectionist settlement and its modern era of openness and competitiveness.

The National Competition Policy and COAG Reform Agenda belong squarely in this modern era – with governance reforms involving devolved policy autonomy for states alongside greater public accountability for outcomes<sup>21</sup>.

However, the achievements of Australian federalism are only partly reflected in public opinion – where some relatively clear views have been established:

- 92% of Australians believe that federalism should enable different levels of government to **collaborate in problem solving**, but only a third believe this is done well. This latter figure is not significantly different to other federations such as US, Canada and Germany.
- 75% of Australians believe that when state governments are not doing their job well, **the federal government should step in**. Australia differs from other federations in the public's view that the federal government does not interfere too much in state decision-making.
- 80% of Australians believe that the federal government should **redistribute resources from richer to poorer states** to even out economic differences. Views on the inequity of current arrangements are strongest in Western Australia and South Australia (in differing directions).

While these views are generally stable, those of influential stakeholders are stronger and more varied. The Business Council of Australia – which proposes replacing COAG with a strategic First Ministers' Meeting and stronger Ministerial Councils – argues that<sup>22</sup>:

*Despite the best intentions, COAG has failed.*

This judgment is a harsh one. Anyone with extensive experience of COAG knows that it has its faults, but equally that it also gets a lot done.

So while most Australians agree that we do not have a well functioning federation, their desire to see our federal system continue to offer the insurance of 'checks and balances' and the possibility of 'collaborative problem solving' has substance.

<sup>20</sup> Tax reform – which is beyond the scope of this paper – is one of few areas offering the prospect of reform dividends. For an example of how this can be achieved, see the ACT Government's approach at [http://apps.treasury.act.gov.au/\\_\\_data/assets/pdf\\_file/0008/399788/factsheet\\_Overview.pdf](http://apps.treasury.act.gov.au/__data/assets/pdf_file/0008/399788/factsheet_Overview.pdf)

<sup>21</sup> Such a deal is a direct recommendation of those involved in large-scale governance questions more broadly – for example, see Rodrik (2013), Harvard Business School

<sup>22</sup> Tony Shepherd (2013), 'When Business Works, Australia Works', speech to the National Press Club, 17 April 2013

### 3. Towards a more effective CRC

This section examines the CRC's broad positioning and key functions, in order to identify practical actions that it could consider.

#### 3.1 The CRC's positioning

The CRC's role is underpinned by the Intergovernmental Agreement on Federal Financial Relations, the objective of which is to<sup>23</sup>:

*... enhance collaborative federalism by reducing the previous complexity of the Commonwealth's financial relations with the States and the Territories, promoting greater flexibility in service delivery, and enhancing public accountability for achieving outcomes.*

Consistent with this, the CRC's positioning to date has involved:

- **establishing credibility** by diligently reporting to COAG and the public as required, and establishing solid administrative processes.
- **monitoring progress** as the primary activity, with this reflected in public reporting of assessments against agreed milestones and benchmarks.

The CRC has essentially done what has been asked of it, and done it well.

A critical backdrop to the CRC's positioning is the need to sustain the trust of all governments, not merely the Commonwealth.

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As the CRC reviews the CRA and major agreements are renewed, it is an opportune time to consider how the CRC might now build on its activities and achievements.

#### The CRC's alignment with central agencies

**Central agencies are 'keystone' actors in Australia's federal system – with systemic influence far beyond what their formal authority might suggest.**

While the CRC enjoys little institutional power, it has a unique relationship with First Ministers' agencies. This is critical to maintaining the trust of jurisdictions as a whole, even when its assessments and reporting displease individual Ministers or agencies.

Central agencies provide advice to leaders, Cabinets and COAG, but also reach down to provide guidance to agencies within their jurisdictions. Their policy and Budget authority is a compelling force for well-managed change.

It is often central agencies that support First Ministers and Treasurers to drive major reforms. Behind the scenes, they develop and articulate the policy case and support their political leaders through stakeholder and implementation challenges.

However, this privileged inside position comes at a cost. While a source of trusted and independent advice to governments, they lack public visibility. Hence, they sometimes complement their direct influence with other mechanisms and vehicles.

An example is the relationship between the Treasury and the Productivity Commission ('PC'). The PC provides a *critical* public perspective on important policy

<sup>23</sup> From the COAG website, accessed 18 July 2013

matters (referred to it by the Treasurer). This injects an independent Treasury-like (i.e. challenging) perspective to the public debate in a way that Treasury itself cannot.

Consideration could be given to how the CRC might play a parallel role for COAG and Senior Officials. This might focus on the **ex-post and constructive promotion of policies** – compared to the PC's ex-ante and critical analysis of policies.

This could involve wider knowledge sharing among practitioners to simultaneously enhance peer and public accountability, and promote innovation. Such a role would reinforce, not replace, the CRC's role in monitoring progress.

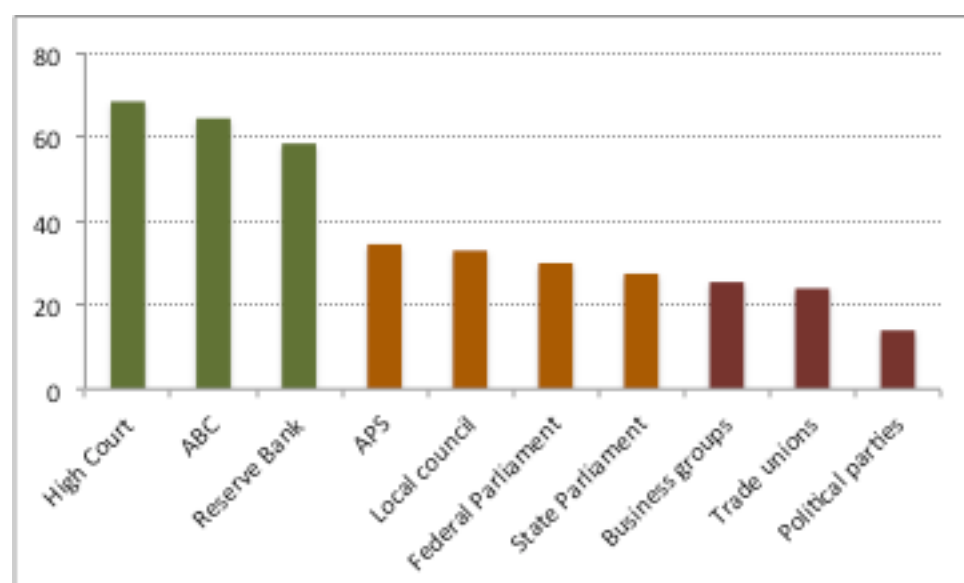
### The CRC as a 'trusted institution'

Despite its actual independence, the CRC's limited functions mean that it has very little public profile – an issue that itself is worthy of discussion.

Figure 1 summarises public sentiment towards our major public institutions:

- *Trusted institutions* that provide an independent, public interest perspective are respected and supported by a strong majority of Australians.
- *Policy bureaucracies* engaged with the task of making decisions and administering policy enjoy the confidence of just one third of Australians.
- *Political interests* embodied in our political parties, and to some extent their related interest groups, enjoy very low levels of public confidence.

Figure 1 Trusted Institutions, Policy Bureaucracies, Political Interests<sup>24</sup>



One simple interpretation of this might be: 'we want to see quality decisions being made, but we don't care much about who makes them and we're sick of politics'.

The CRC's unique position presumably places it somewhere between a 'trusted institution' and a 'policy bureaucracy', although its brand might also be affected by its connection to the highly politicised public face of COAG.

<sup>24</sup> Essential Research, accessed 20 June 2013

A notable feature of trusted institutions is the gradual translation of their formal independence into the practice of publicly justifying their decisions. For example, the High Court explains its decisions and the Reserve Bank releases Board minutes.

A threshold issue for the CRC is whether it can establish itself as a more visible, trusted and independent institution – one that is seen to serve the public interest in a way that also achieves its policy aims and maintains the trust of all jurisdictions.

### **The CRC as a voice for Australian federalism**

While federalism and a two-party system both serve moderating purposes, it is at the intersection of these factors that the most collaborative outcomes often emerge.

In themselves, two party systems tend to promote adversarial politics and moderate policy. They dampen ambition, constrain debate and reduce the prospects for reform.

Federal systems, where responsibilities and capabilities are shared between levels of government, can also obscure accountability for performance. However, in some cases they can also expand the scope for collaborative problem solving<sup>25</sup>.

By creating a forum for policies to be negotiated beyond the adversarial and specialised contexts of jurisdictional and portfolio politics, First Ministers often use the authority and 'cover' of COAG to deliver what cannot be delivered elsewhere.

Some elements of Australian federalism are not broadly appreciated:

- Australian federalism has avoided the German 'joint decision trap' – where competing power claims have seen centralisation of powers accompanied by an extension of the veto power of the Landers (states) in the Federal Parliament and the re-emergence of party politics to stifle reform<sup>26</sup>.
- Australian federalism has achieved what larger federations such as the US have not – agreement among national and State Governments to national reform frameworks that have driven significant progress – most notably the National Competition Policy and the COAG Reform Agenda<sup>27</sup>.

In Australia, the interaction of federalism and a two-party system enables diverse approaches to evolve around the nation and over time – sustaining progress<sup>28</sup>.

Moreover, the 'repeated game' dimension of federalism means that governments (and officials) understand that relationships must outlast specific negotiations.

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For the CRC to retain the trust of all jurisdictions, it needs to offer a consistent voice for Australian federalism in the face of both criticisms and practices that serve to undermine it. It also needs to explain the benefits of this to all jurisdictions.

<sup>25</sup> Jamet, S. (2007), Meeting the challenges of decentralization in France, OECD Economics Department Working Paper No.571

<sup>26</sup> Hanschell, D. (2013), Mechanisms of Conflict Resolution in Federalist States – The Redistributive of Legislative Power as a Viable Means?

<sup>27</sup> The only major federal agreement of significance in the US in recent decades was the mid-1990s TANF welfare reform under the Clinton Administration – which devolved policy autonomy to the States in return for basic maintenance of effort requirements.

<sup>28</sup> Adapted from Ostrom, E. (2005) Understanding Institutional Diversity, Chapter 1, p.22

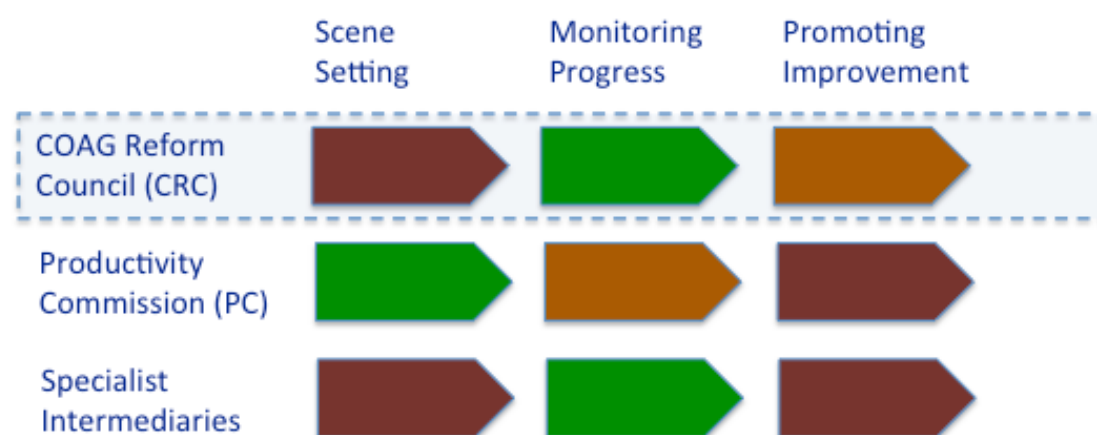
### 3.2 The CRC's functions

Figure 2 maps the role of major independent institutions against their key functions in supporting public policy. Implicit in this representation is the recognition that actually deciding on strategy and policy is a task for elected governments.

Figure 2 considers three key policy functions:

- **Scene Setting:** bringing 'perspective' to policy by using analysis and stakeholder engagement to increase the prospects for good reform choices.
- **Monitoring Progress:** the direct measurement, assessment and reporting of policy performance, ideally in terms of public outcomes.
- **Promoting Improvement:** the practice of sharing knowledge, experiences and lessons, including across portfolios and jurisdictions.

Figure 2 Policy institutions and their key functions<sup>29</sup>



These functions are discussed in turn, with a focus on the opportunities for the CRC.

#### Scene setting

An important policy function that receives limited discussion is the use of analysis and stakeholder engagement to shape the reform environment.

The CRC has a number of set-piece opportunities for such scene setting. Periodic opportunities arise with regular performance reports, while the CRC's Annual Report provides a regular strategic opportunity to consider the progress of federalism.

The CRC's five yearly review of the COAG Reform Agenda ('the CRA') progress takes on particular significance in this context. There is no comparable institutional voice in Australian federalism, notwithstanding the occasional contributions from the Council for the Australian Federation (CAF) and specific stakeholders<sup>30</sup>.

<sup>29</sup> This representation in terms of functions contrasts with the standard representations that tend to focus on formal governance roles rather than activities – for example, see KPMG (2011), Report on Intergovernmental Institutions, prepared for the Council for the Australian Federation, November 2011, Figure 5.2, p.18. In the Figure, green represents a primary function, orange a secondary function and red no role.

<sup>30</sup> CAF plays this role primarily through its commissioned research.

The CRC can also influence the policy debate through the public comments of the Chair – which are often just as likely to be reported and heard as official reports.

Other institutions play larger scene setting roles. For example:

- The PC plays a scene setting role across many policy areas, through inquiry processes and reports on policy matters referred to it by the Government<sup>31</sup>.
- The Treasury itself achieves this through its role in framing the annual Commonwealth Budget and periodic Intergenerational Reports<sup>32</sup>.
- Taskforces, Reviews, Commissions and White Papers – led externally or internally – shape strategies in response to requests from Governments<sup>33</sup>.

It is also worth recalling from section 2.4 that Australians trust independent institutions that encourage debate (such as the ABC) and in some cases even make major decisions (the Reserve Bank and the High Court).

Given its institutional positioning, this may suggest a more active role for the CRC – although a more public face needs to be tempered by jurisdictional sensitivities.

Institutions that support scene setting help to address what Roger Martin describes as a key to strategy: 'doing the most important thing *that you can*'<sup>34</sup>.

Not all policy problems are ready for policy and public resolution<sup>35</sup>. Experienced policy makers understand this, which is why they often propose processes that analyse complex problems thoroughly rather than trying to solve them too quickly.

**At any one time, Governments (and COAG) have limited bandwidth** – agendas can only be so broad before a sense of purpose is eroded, public service leaders become spread too thinly and the community struggles to absorb what is happening.

In considering the most important things *that can be done*, a sensible starting point is the unfinished business from competition reform and the CRA. Over recent years, a consistent set of competition and regulation policy priorities have been identified and the CRC's Annual Reports have identified priorities within the CRA<sup>38</sup>.

The proposals of recent reviews on tax reform and Australia in the Asian Century are also likely to be priorities.

Many of these possibilities are picked up in the major parties' agendas. One issue that is not is the pattern of economic development across Australia discussed in section 2.3. This may yet feature in the forthcoming election campaign.

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<sup>31</sup> Most states do not have equivalent institutions, although the Victorian Competition and Efficiency Commission (VCEC) plays a similar role in Victoria.

<sup>32</sup> While these documents are ultimately owned by the government of the day, they are heavily imbued with the Treasury perspective.

<sup>33</sup> Recent examples include the Expert Panel on Asylum Seekers, the Gonski Review into School Funding, the National Health and Hospitals Reform Commission, and the White Paper on Australia in the Asian Century.

<sup>34</sup> Lafley, A.G. and Martin, R.L (2013), *Playing to Win: How Strategy Really Works*

<sup>35</sup> A Wikicurve measures the 'social maturity' of issues as a guide to whether they are ready to be tackled by policymakers and accepted by the community. See <http://wikicurve.org/>

<sup>38</sup> Productivity Commission (2009), *Australia's Productivity Performance*: submission to the House of Representatives Standing Committee on Economics, September 2009; OECD (2010), *Towards a Seamless National Economy*

## Monitoring progress

The core role of the COAG Reform Council to date has been to monitor progress:

- *assessing* progress against measures and performance benchmarks agreed under National Agreements and National Partnerships.
- *reporting* progress against these measures and performance benchmarks, directly to COAG but also to the community.

A system for assessment and reporting is critical to reducing information asymmetries between different levels of government, and provides a solid basis for ensuring that the community is well informed. Making this system work, while maintaining jurisdictional support, has been an early priority for the CRC.

The CRC is supported in these roles by a number of other institutions:

- The PC supports the CRC by providing relevant data to inform the CRC's assessments of progress, and advises on the quality and reliability of data through its Report on Government Services (RoGS) Steering Committee<sup>39</sup>.
- Specialised intermediaries such as AIHW, ACER and NCVET<sup>40</sup> collate, analyse and report data that is used by others, including the CRC.

Achieving reliable and useful data across a range of portfolios (and even areas within portfolios) increasingly requires *specialised* expertise – a trend that will continue.

The growing use of specialised intermediaries in data collation, analysis and reporting – including as part of new intergovernmental agreements – could produce important benefits if seen as part the wider system for monitoring progress.

The involvement of these third parties in the measurement and assessment process makes measures more collaborative, credible and dynamic<sup>41</sup>.

In recent years, more specialised reporting mechanisms have also emerged – such as MySchool and the National Health Performance Authority. These mechanisms customise their reporting to have impact at the coalface – strengthening the accountability of local institutions (e.g. schools, hospitals) to the community.

It is important to recognise that the CRC plays a different reporting role, more akin to the 'scene setting' perspective discussed. Specifically:

- the CRC reports **system-level public outcomes** for which governments, Ministers and agencies are held accountable to each other and the community.
- the CRC's broad assessment and reporting of progress enables **comparisons across portfolios and jurisdictions**, which can be valuable for central agencies in particular.

While CRC reports offer a potentially valuable resource for policy makers, stakeholders and the community, it is less clear that the CRC's reporting has visibility

<sup>39</sup> RoGS also reports annually on jurisdictional service performance in justice, early childhood, education and training, emergency management, health, community services and housing. RoGs and the CRC have also considered data issues. New accountability frameworks for the links between activity, user satisfaction, capability and system impact – including open and live reporting systems – will also affect future evaluation possibilities.

<sup>40</sup> Acronyms refer to the Australian Institute for Health and Welfare, the Australian Council of Educational Research and the National Centre for Vocational Education and Research.

<sup>41</sup> Lizell (2008), OECD, Working Paper No.5. The CRC may also need to consider the ongoing relevance of performance measures agreed in 2008.

with the media, the public and practitioners. Given this, there is a case for reconsidering public accountability goals and how they might be met<sup>43</sup>.

One area where the CRC could meet an immediate need is in making more effective use of evidence and evaluation. For example:

- **As major policies are being negotiated**, the CRC could offer its guidance – where it possesses relevant expertise – on the key policy design features that the evidence suggests are important (either within Australia or overseas). This could support for example, regulatory harmonization processes.
- **As major policies are being implemented**, the CRC could play a stronger monitoring role. This need is most evident in areas where experimentation and learning are critical – such as the rollout of Disability Care Australia – and could support the ongoing refinement and iteration of policy.
- **As major COAG agreements are being renewed**, the CRC could play a stronger role in ensuring that the lessons of past and existing agreements are considered in the design of new agreements. COAG could require that COAG Councils demonstrate this – with the CRC to validate that this has occurred<sup>44</sup>.

## Promoting improvement

The CRC's basic framework for outcomes-based accountability remains solid.

However, a clear gap in the performance management framework is the lack of focus on **demonstrating and disseminating knowledge, experiences and lessons**. To rectify this, it is proposed that the CRC embrace wider performance improvement. this would also encompass<sup>45</sup>:

- critical reflection, questioning, challenging practices;
- effective dialogue, collaboration and communication;
- research and evidence base to underpin decision making; and
- action planning and effective implementation.

A similar debate to this is occurring in the field of development economics. That debate is between traditional institutions advocating the spread of generic best practices and practitioners questioning how much this helps to solve real problems that involve *particular circumstances, contexts and cultures*.

Proponents of the latter view promote a model of Problem Driven Iterative Adaptation<sup>46</sup> ('PDIA'). This values policy diversity not merely for its ability to compare and learn, but also for its necessity in solving problems in different contexts.

PDIA still requires policy and political leadership, but usually in a manner that empowers others. It also still promotes accountability through outcomes-based

<sup>43</sup> Barca, F. et al (2005), Measuring for decision making: Soft and hard use of indicators in regional development policies, OECD

<sup>44</sup> This could work in a similar manner to how the NCC independently advised COAG on jurisdictions' regulatory processes under NCP

<sup>45</sup> Micheli, P. and M. Kennerley (2005), 'Performance Management Frameworks in Public and Non-profit Sectors, *Production, Planning and Control*, 16(2), March, p.127

<sup>46</sup> Matt Andrews (2013), *How do Governments Get Great?*, Harvard Kennedy School, RWP 13-020, June 2013. Note that the alternative to Problem Driven Iterative Adaptation is referred to as Solution and Leader Driven Change.

monitoring, evaluation and incentives. However, it complements these feedback loops with the pro-active sharing of knowledge, experiences and lessons.

This approach gives greater effect to the CRC's *existing function* of 'highlighting examples of good practice and performance so that, over time, innovative reforms or methods of service delivery may be adopted by other jurisdictions'<sup>47</sup>.

It is proposed that the CRC position itself as a visible, trusted and independent institution that **constructively demonstrates and disseminates leading and innovative policy practices** – enabling experiences to inform understanding.

Given the importance of context to policy innovation, this would focus on a variety of practices that jurisdictions, stakeholders and the community could understand – rather than merely a 'best practice' model that too easily recedes into 'one size fits all' mindset that already has too prominent a place in Australian policy.

The CRC could showcase a range of leading and innovative policy practices across policy areas and jurisdictions in an exploratory rather than judgmental space.

This could help to forge a culture in which performance improvement becomes more reflective, iterative and adaptive. This would complement the existing and important data and outcomes-based performance measurement framework.

Any such effort should be positioned as reinforcing rather than replacing existing mechanisms of dialogue and joint problem solving – particularly the COAG Councils.

The CRC could promote and convene communities of practice through a series of partnerships:

- with jurisdictions, through COAG and MINCOs.
- with central agencies, through SOM and HOTs.
- with public sector leaders, through potential collaboration with ANZSOG.
- with the wider community, through incorporation into the CRC's other publications such as performance reports and Annual Reports.

### 3.3 Final reflections

Given its mandate and expertise, the CRC is well placed to be a voice not only for Australian federalism, but also for a better Australian federalism.

The CRC's forthcoming five-year review of progress provides a unique opportunity to present a balanced view on COAG's achievements, challenges and opportunities.

Such a balanced view might suggest that:

- with our small number of jurisdictions, we have managed to reach agreement on large-scale reform frameworks where other federations have not;
- these large-scale reform frameworks have provided a consistency of purpose, creating the conditions for jurisdictional and organisational innovation; and.
- now, Australian federalism is struggling to exploit the trend to experimentation, innovation and learning, and beyond compliance and control<sup>48</sup>.

<sup>47</sup> The CRC's Centre of Excellence already promotes reflection, innovation and learning to some extent, but has limited visibility and impact.

<sup>48</sup> Blochliger (2013), Decentralisation and Economic Growth – Part One: How Fiscal Federalism Affects Long-Term Development, OECD Working Paper No.14, 3 June 2013

The most immediate priority for the CRC is to lock in a strong relationship with central agencies, most particularly through Senior Officials.

The next step could be to develop concrete options on how the CRC could support the next government's federalism agenda, informed by the key limitations of current proposals.

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The other proposals described in the preceding analysis are mapped out in Figure 3.

Figure 3 Short-term priorities and strategic directions

	Short-Term Priorities	Strategic Directions
<b>Scene Setting</b>	Strengthen central agency support, particularly through Senior Officials, for the CRC as a voice for Australian federalism	Establish CRC influence in the next Commonwealth Government's approach and framework for federalism
<b>Monitoring Progress</b>	Strengthen the CRC's ability to inject evidence and evaluation in policy development, implementation and renewal	Retain (but refresh) a strong outcomes-based and systems-level approach to assessing and reporting progress
<b>Promoting Improvement</b>	Develop strategies to disseminate and demonstrate leading and innovative practices, covering a range of areas and all jurisdictions	Grow an active community of practice around performance improvement, as a basis for federalism's sustainability

Together, these proposals reflect two core propositions. The first is that the CRC needs to adopt a constructive stance that focuses more on what is working and what is possible – to ensure a balanced public representation of federalism.

The second is that the CRC be more pro-active than it has been thus far – by developing a community of practice and interest that regularly reflects on leading and innovative policy practices.

These propositions are modest next steps for the CRC, but if done well could provide a basis for policy improvement that is continual and sustainable – and for a better Australian federalism.