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[redacted]

25 November 2013

Business Council of Australia

The Honourable Tony Abbott
Prime Minister of Australia
Parliament House
CANBERRA ACT 2600

Meeting of the Council of Australian Governments

Dear Prime Minister

I write to you regarding the upcoming meeting of the Council of Australian Governments (COAG).

In calling for a white paper on reform of the federation, you have recognised the critical importance of COAG to Australia. Many of the most important issues faced by Australia must be dealt with by COAG. Accordingly, it is imperative that COAG is a high-performing institution.

Business Advisory Forum

The COAG Business Advisory Forum, which was held ahead of the COAG meetings in December and April 2012, was initiated by the business community to allow First Ministers and business representatives to canvass issues that COAG needs to tackle in order to lift productivity and economic growth.

It provided business representatives the opportunity to directly raise the most pressing issues facing their companies, and allowed First Ministers to consult collectively with business representative regarding items on the COAG agenda that would impact on industry.

The forum agreed an important agenda of reforms. Unfortunately, however, the previous government did not make as much progress as was hoped. The business community remains committed to the Business Advisory Forum reform agenda and to the forum itself.

I urge you to continue the forum and its reform agenda alongside future COAG meetings.

A medium term agenda for COAG

A number of the agreements that were struck as part of COAG's 2008 reform agenda are now complete or are due to expire shortly. Additionally, some agreements have not delivered the desired outcomes in terms of lifting productivity and increasing Australia's competitiveness.

Given this, the time is right for COAG to renew its medium-term reform agenda and to identify new ways of working to ensure reform outcomes are achieved. Accordingly, I have enclosed for your consideration a paper detailing the priorities that the Business Council would like to see tackled as part of a future medium term COAG agenda. The priority issues are:

- infrastructure
- national tax reform
- environmental regulation
- major project approvals

[redacted]

- energy market reform
- competition and regulatory reform.

The Commission of Audit is examining duplication between the Commonwealth and the states, which must be unwound if governments are to meet their fiscal challenges. One of the things that gives rise to duplication is the recent approach that COAG has taken to progressing its reforms, which often sees the Commonwealth requiring the states to provide detailed reporting against administrative milestones, or lifting regulatory requirements above their current base as part of a national reform.

In addition to administrative and regulatory inefficiencies, this approach has eroded the good will of the states to undertake difficult and necessary reforms.

Identifying a new, more effective way of progressing its reform agenda should be one of COAG's highest priorities. The BCA has proposed a system of National Productivity Payments that we think might make a useful contribution to COAG's endeavours in this regard (more details are included in the enclosed document).

A seamless national economy

The Business Council also urges COAG not to lose sight of important unfinished reforms under the National Partnership to deliver a Seamless National Economy, primarily the National Work Health and Safety scheme and the National Occupational Licensing Scheme.

The National Occupational Licensing Scheme is critical to creating a seamless national economy, lowering business costs, and increasing labour mobility and competition across jurisdictions.

The Business Council acknowledges that all jurisdictions have been working hard to deliver the National Occupational Licensing Scheme so that it can commence in 2014. However, I understand that the final form of the scheme is still subject to debate.

The Business Council strongly supports a national licensing scheme that:

- reduces regulatory costs to businesses in all jurisdictions
- requires no further licensing or proof of competency if licence holders move between jurisdictions
- licences at least possible cost only those skills and competencies that are required to reduce identified risks.

Our strong preference is for such a scheme to be implemented as a national scheme, as opposed to the current mutual recognition arrangements, the benefits of which have proved not to be enduring. I encourage COAG to work through whatever issues remain and, after five years, deliver without further delay a national licensing scheme consistent with the principles outlined above.

On national work health and safety, the Business Council urges COAG to use the scheduled 2014 review of the scheme to improve its operation in those jurisdictions that have implemented it, and to bring Western Australia and Victoria into the national scheme.

The Business Council wishes you well in your first meeting of CAOG and looks forward to working constructively with all jurisdictions to grow the economy and Australia's prosperity.

Yours sincerely

A.F. (Tony) Shepherd AO
President

cc: First Minister
Senior Officials

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Attachment A: Key features of state planning systems for efficient major project approvals

Major project approval status where the minister is the consent authority must make explicit the types of projects to be dealt with by the state, rather than local government.

States developing a 'critical infrastructure' status that means major projects which fall into this category are deemed approved from the outset and not subject to third party approval.

A single agency must have responsibility for development assessment.

Major project assessment should require state authorities to issue upfront the standards, requirements, and the technical studies that need to be incorporated as preconditions for consent to be granted.

These requirements should incorporate the Commonwealth's Environmental Protection and Biodiversity Act requirements so that both levels of government have stipulated these standards for consent and the two levels of government are compelled to work together.

Timeframes for assessment should be made explicit. If a development which is complying (i.e. permissible within the zoning provisions and the local planning scheme) should be deemed approved once the timeframe has elapsed.

There should be no 'stop the clock' provisions for any agency other than the agency with consent powers.

The development consent should be able to be issued in the form of a concept approval, which would allow very complex developments to be staged in over long periods. This would mean a project, which is currently subject to new approvals at various stages, would only be subject to meeting certain conditions, or providing updated information, etc. The merit of the proposal should not be subject to assessment. This would give 'bankable' long-term approvals to major projects to facilitate financing.

Specialist major project assessment teams should be established in state planning agencies. These should have improved resources and specialist expertise. Developer fees could contribute to a 'blind trust' to support these units, who should have the power to command other agencies.

States should set up a major project coordinator (e.g. in South Australia) so there is one point of contact to ensure all approvals are timely.

States should bring all development, pollution and licensing approvals under a major project approval.

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Attachment B: National Productivity Payments

This documents outlines the key features of a system of national productivity payments.

Purpose of productivity payments

The purpose of Productivity Payments is to encourage bottom-up state government competition and regulatory reforms that have a national benefit.

Why are productivity payments needed?

State governments require incentives to initiate and undertake difficult microeconomic reforms that have a national benefit. This is because proportionately fewer of the fiscal benefits of productivity-enhancing reforms accrue to state governments. This is due to national taxation arrangements which see less than 50 per cent of state government revenue collected through state government taxes; the remaining revenue is comprised of Commonwealth grants, the GST and charges.

The current approach to incentivising states to undertake microeconomic reforms that have a national benefit is via National Partnership Agreements. This approach has not delivered the desired results. For example, the Seamless National Economy Reforms have not delivered all the productivity-enhancing outcomes that were intended.

A new approach is need for two reasons. Firstly, the approach taken under the Seamless National Economy, which was characterised by close Commonwealth oversight of milestones that were often not related to reform outcomes, is ill suited to incentivising state government reform.

The Commonwealth adopted a 'micromanagement' approach to incentivising states to deliver reforms. This approach focused on administrative outcomes – such as producing reports or Regulation Impact Statements – rather than reform outcomes. Consequently, states were able to achieve most milestones without necessarily delivering reform benefits on the ground. There were also national partnerships to deliver Commonwealth-own initiatives, which did not necessarily have the buy-in of state governments.

Secondly, many of the big gains from microeconomic reform do not need a national approach. National partnerships are inherently a joint reform agreement between the Commonwealth and states, and this form is ill suited to incentivising state-only reform.

A new system of Productivity Payments would incentivise state governments to undertake microeconomic reforms that have a national benefit by:

- delivering autonomy to state governments in implementing the reforms but only paying upon the achievement of outcomes
- ensuring state governments received increased fiscal benefits from reform

What reforms should be eligible?

Competition and regulatory reforms would be eligible to be included in a National Productivity Payments Scheme. To be eligible reforms would need to meet certain criteria - the proposed reforms:

- would need to have a demonstrable impact on national productivity – the scheme should not reward states for undertaking routine reforms.
- should be innovative and be able to be emulated by other jurisdictions – this will ensure that states that have already undertaken difficult reforms are not penalised for being first movers.

Productivity payments should not be used to incentivise a national scheme – harmonisation and national schemes should be pursued on a multilateral basis, through better use of national partnerships for example.

While these criteria will define broad eligibility, further focus on particular reform areas will be required. For this reason, there should be three year periods of focus on specific reform areas. For example, in the first three year period, the Commonwealth should call for competition and regulatory reform proposals (consistent with the above criteria) relating to:

- state government planning processes
- access to natural resources (water, energy and minerals)
- project costs and construction sector regulation (construction codes)
- local government reform
- retail sector deregulation.

Governance and institutions

The Productivity Commission should be responsible for, and given full authority and independence to carry out the following functions:

- Assessing eligibility for proposed reforms
- Defining the outcomes/achievements must be met to obtain payment
- Ranking the reforms by their potential to lift productivity
- Determining if reform objective have been achieved and eligibility for payments
- Publishing its assessments and rankings

The Treasurer will ultimately be responsible for determining if a reform is included in the scheme and if a payment should be made.

The National Productivity Payment Scheme could be established by way of intergovernmental agreement negotiated with state government heads of treasuries.

Payments

Payments should only be made once the reform outcomes (as originally determined by the PC) have been achieved. In this regard there should be four options open to the Treasurer when making payments:

- Make a payment in full
- Make a partial payment where the reform has not achieved the full desired outcome
- Suspend a payment until an outcome is delivered
- Suspend all productivity payments to a jurisdiction where a key reform outcome has not been delivered, or previous reforms have been unwound or reversed.

Funding

It is important to note that payments need not flow immediately with the design of the scheme and reforms all taking time before outcomes are realised.

Business Council of Australia

A Medium Term Agenda for The Council of Australian Governments

NOVEMBER 2013

Contents

The Business Council of Australia (BCA) brings together the chief executives of more than 100 of Australia's leading companies, whose vision is for Australia to be the best place in the world in which to live, learn, work and do business.

Introduction

The new federal government has announced plans to deliver a white paper on reform of the federation, this presents a tremendous opportunity to reform the governance of the nation to enhance economic growth and prosperity.

However, many of the important issues confronting all Australian governments will not wait.

The Council of Australian Governments (COAG), must develop a medium term agenda that gives all Australian's confidence that our growing population will be managed well and that vital infrastructure and services will be delivered. Similarly, businesses want to be reassured that the federal and state governments are working cooperatively on a plan to deliver major national tax reform and to create a single national economy.

This paper outlines the issues that the BCA thinks should be tackled by COAG over the medium term. It also sets out achievable institutional changes to COAG that we think will improve the delivery of its commitments and pave the way to more substantive reforms that will be proposed in the white paper on reform of the federation.

The paper proposes that COAG should build a medium term agenda around:

- infrastructure
- national tax reform
- environmental regulation
- major project approvals
- energy market reform
- competition and regulatory reform.

The BCA also urges COAG to not lose sight of important unfinished reforms under the National Partnership to deliver a Seamless National Economy, primarily the National Work Health and Safety Scheme and the National Occupational Licensing Scheme.

Why a medium term agenda is necessary

COAG set itself an ambitious program of reform when it adopted the 'national reform agenda' in 2006 (which later became the COAG reform agenda). Since then, a major program of policy and programmatic change has been pursued. Significant institutional changes have also been adopted.

For some reform areas progress has been mixed and not all outcomes have been achieved. The COAG Reform Council's (CRC) report, *Lessons for Federal Reform*, showed that COAG's pace of reform has further slowed, and that 15 out of 32 key performance indicators show little to no progress or, in some cases, have gone backwards.

The report also shows that only nine of 19 competition reforms have been delivered.

More concerning is that, of those reforms that have been delivered, they have not always achieved their objectives.

Many of the agreements that were commenced under COAG's reform agenda are due to expire over the coming years. Difficult decisions need to be made on whether or not to continue with the services provided under these agreements.

And finally COAG's institutional reforms, centred around the Intergovernmental Agreement on Federal Financial Relations, have not produced a more streamlined process, enhanced cooperation or materially clarified roles and responsibilities.

It is vital that COAG has a medium term agenda that tackles the biggest and most important reforms facing our nation – national tax reform, infrastructure, government services, competition and regulatory reform, environmental regulation – most of which require a response from both the Commonwealth and the states.

While the cost of inaction is large, so too are the potential gains from successful reforms:

- Tax reform has the potential to lift GDP of $25 billion according to the Grattan Institute, and without it Australia will become increasingly uncompetitive
- Reform of government health services has the potential to generate 'a plausible 4-5 per cent improvement in total factor productivity in the delivery of health care services' translating to a cost saving of around $3 billion according to the Productivity Commission.
- Delivering on the final pieces of the energy market reform agenda has the potential to improve competition and deliver substantial benefits to energy consumers and the economy. The Energy Reform Implementation Group estimated in 2007 that once completed these reforms would increase real GDP by about $400 million per year.
- 'Best practice' reforms to reduce regulatory burdens were estimated in 2006 to lower business compliance costs by 20 per cent, leading to a 0.8 per cent increase in GDP or around $7 billion.

The BCA thinks that the time is now right for COAG to assess which reforms on its agenda should be continued or modified, and determine new priorities and the best way of delivering on these priorities.

We think a new, simplified medium term agenda is required.

A medium term agenda for COAG

The BCA thinks COAG's medium term agenda should be focused on the most significant reform tasks facing the nation, and which offer the biggest potential to boost productivity and lower business costs.

Infrastructure

What should be on the agenda

- The federal government should collaborate with the states to produce a new national infrastructure policy that:
  - clarifies the roles and responsibilities of each level of government (with the federal government continuing to play a substantive and clearly defined role)
  - prioritises infrastructure market development, private investment in infrastructure and the application of user pays wherever possible
  - commits to delivery models using appropriate risk-sharing arrangements as a means of delivering projects with the private sector
  - sets out arrangements for long-term investment needs planning across the federation, in collaboration with industry, that consistently produce a rolling pipeline of 'ready-to-go' infrastructure projects capable of private sector investment and delivery
  - promotes within government the use of infrastructure funds with legislated rules that spending should be allocated to projects with high net economic benefits, established through cost-benefit analysis
  - assesses Australia's infrastructure priorities for the next 10 years and outlines a broad strategy for how to plan, fund and deliver them

 – commits to new sectoral infrastructure policies for the development of national water, energy, transport and communications markets.

- COAG should prioritise the implementation of its Heavy Vehicle Charging and Investment Scheme and apply the principles in that scheme more widely toward the development of a nationally consistent approach to road pricing and road funding.
- COAG should task Infrastructure Australia to form its own view on new infrastructure projects and policies it considers to be of national significance (in addition to its current focus on evaluating project proposals from the states), and prioritise these projects based on the contribution to productivity.
- There should be a new, long-term federal-state government infrastructure funding agreement that spells out how funding will be allocated to Infrastructure Australia-approved infrastructure projects. The agreement should include principles that detail how project funding will be broken down between user charges and state and federal contributions, as well as the types of funding support that might be offered (block grants, availability payments, concessional loans, loan guarantees, etc.). Under the agreement states that continue to own mature infrastructure businesses should have to justify to Infrastructure Australia why they cannot first source funds from divesting those businesses.

Why it should be on the agenda

The timely and cost-effective provision of infrastructure is the lifeblood of a successful economy and of vibrant cities and communities. While infrastructure spending by all governments has increased since 2008, the decision making framework for long-term infrastructure policy is still not adequate.

A national infrastructure policy should redefine the role of governments to enable higher private investment and user pays while also ensuring adequate market regulation and public infrastructure planning, prioritisation and funding. It should ensure better coordination of infrastructure responsibilities across the federation. It is also important to set out clear long-term policies for each infrastructure sector to recognise their unique attributes – urban transport, road, rail, ports and freight, telecommunications, energy and water.

If Australia doesn't get its future infrastructure investment right, there are likely to be two major impacts:

- The liveability of our communities will be affected, with this in turn likely to result in pushback from many sections of the community about economic and population growth.
- Failing infrastructure will undermine Australia's economic growth prospects by constraining efficiency, particularly in our ports and freight network.

National tax reform

What should be on the agenda

- COAG should play an important and constructive part in the development of the white paper.
- COAG should commit to:
  - working constructively to remove the most inefficient state taxes through the white paper on national tax reform
  - better aligning revenue collection with expenditure responsibilities between the levels of government.
- COAG should agree to distribute the GST on the basis of population (equal per capita distribution) and develop options to lessen the immediate fiscal impact on those states that would need to adjust to such a reform.

- These commitments should be supported by COAG working groups, which should commence detailed economic and distributional modelling in support of the white paper.

Why it should be on the agenda

As the Henry review noted, Australia has too many taxes and too many complicated ways of delivering multiple policy objectives through the tax system. With around 90 per cent of Australia's tax revenue raised through just 10 taxes and 115 other taxes levied on businesses and individuals accounting for the remaining 10 per cent, there is considerable scope for reform of the system to make it more competitive and less onerous.

Put simply, our overall tax mix is not right for a small, open economy and does not offer the right incentives.

In spite of this consensus, major national tax reform remains a major political challenge. The federal government's white paper on tax reform is a critical opportunity to make progress. COAG should play an important and constructive part in the development of the white paper.

The way that the GST is currently distributed creates incentives against major tax reform for some jurisdictions. However, more importantly, it has become a major political obstacle to broader national tax reform. COAG should commence work now to remove these obstacles to broader reform.

The BCA acknowledges the current tight fiscal situation faced by all governments. However, this should not prevent COAG from mapping out a transition path to an EPC distribution. Such a transition path should lessen the fiscal impact on recipient states and may require Commonwealth support.

Environmental regulation

What should be on the agenda

- All states and territories should agree to negotiate with the Commonwealth to establish one-stop-shops for environmental approvals by accrediting state government approvals under the Environmental Protection and Biodiversity Conservation (EPBC) Act.
- COAG should undertake a structured process to progress more strategic assessments under the EPBC Act, which subsequently provide for complying projects to proceed without further assessment or approval.

Why it should be on the agenda

The Commonwealth has signed a memoranda of understanding with Queensland and New South Wales to establish one-stop-shops for environmental approvals by accrediting state government approvals under the EPBC Act.

This momentum should be maintained.

Numerous independent and industry reports have examined environmental regulation and found ample opportunity to remove duplication and inefficiencies. Most recently the Productivity Commission recommended that the Commonwealth seek to establish approval bilateral agreements with the states. Duplication, inefficient assessment and approval processes and onerous conditions present real costs.

- The Productivity Commission found the cost of delaying an average-sized Australian oil and gas extraction project valued at $17 billion, by one year, could range from $300 million to $1.3 billion.
- One of our members advises that duplication between the Commonwealth and states, and within both governments, delayed operations at a cost of around $1 million per day.

- The BCA has examples of quadruple handling of assessments and approvals, as various Commonwealth and state regulators considered ostensibly the same environmental issues arising from a seismic study.
- The Minerals Council estimates that Australian coal projects take 1.3 years longer to approve than their overseas equivalents.
- The Australian Petroleum Production and Exploration Association provided nine detailed case studies of duplication between and within Commonwealth and state governments.

Major project approvals

What should be on the agenda

- COAG should develop a joint response to the key findings and recommendations of the Productivity Commission's draft report on major project approvals (updated as appropriate for the final report).
- Each jurisdiction, including the Commonwealth, should develop an implementation plan that demonstrates how this response will be implemented.
- State governments should adopt similar and improved best practice arrangements for assessments of major economic and resource projects (further details are in Attachment A).

Why it should be on the agenda

Australia's growth opportunities are highly dependent on investment and tied to the growth in our trading partners. Total gross investment was 28.5 per cent for the calendar year of 2012, which we estimate make Australia the most investment-intensive OECD economy. By comparison the OECD average investment intensity of GDP is around 19 per cent. Much of this invested capital relates to the delivery of major capital projects.

The Productivity Commission report on Major Project Development Assessment Processes identifies several unnecessary regulatory burdens on project proponents, lengthy approval timeframes, lack of regulatory certainty and transparency, conflicting policy objectives and inadequate consultation, which result in higher project costs and increase the likelihood of avoidable adverse impacts.

As all governments have a role in facilitating major projects, COAG should develop a coherent and thorough response to these issues.

Energy market reform

What should be on the agenda

- COAG should seek agreement from the remaining state governments to privatise their energy assets and invest the proceeds in critical infrastructure.
  - To support this reform, COAG should commission a report into the economic benefits of privatisation to provide greater transparency to the public.
- COAG should seek agreement from the remaining state governments to remove retail price caps where effective competition exists.
- COAG should agree on a set of actions to introduce greater transparency and competition in Australia's gas markets and the need to address the inefficiencies and regulatory barriers to developing Australia's gas resources.
- COAG should agree to establish a national energy consumer advocacy body, as part of the institutional infrastructure of Australia's energy markets, and ensure the body has sufficient capacity to effectively represent consumers in the development of Australia's energy markets.

- COAG should agree to adopt an economically efficient national framework for the setting of distribution and transmission reliability standards.
- COAG, through the Standing Council on Energy and Resources, should:
  - Agree to the need for reforms in the way electricity network tariffs are structured to ensure an equitable distribution of the total fixed costs amongst network customers.
  - To better understand the implications of lower electricity demand for a number of policies, commission a range of modelling to forecast changes in electricity demand in response to various scenarios of economic restructuring that could occur and projections of renewable energy uptake and its implications for:
    - the efficient operation of Australia's electricity markets and the responsiveness of the network regulatory regime.
    - Australia's electricity generation mix
    - Australia's greenhouse gas emissions.

Why it should be on the agenda

Privatisation and retail price monitoring

The energy market reform agenda began in 1990s where Australia's previously disaggregated state based electricity markets on the east coast were brought together to create the National Energy Market (NEM).

The early reforms occurred with pace, and while progress has been made since, there are critical outstanding reforms that are holding back the NEM from being the truly national, competitive and liberalised market it was intended to be.

The onus is now on state governments to make the necessary decisions to complete the outstanding reforms of privatising state-owned energy assets and remove retail price caps. This is supported by the Productivity Commission which found that the sale of state owned energy assets facilitates more efficient service delivery with the benefits flowing to consumers.

Only once these reforms are carried out can the full potential of productivity improvements from the energy sector be realised and retailers be given the incentives to compete to deliver choice and real savings to consumers.

Gas market and resource development

Australia's east coast gas market is expected to triple in size by 2020 once liquefied natural gas exports from Curtis Island move to full production. As coal seam gas projects ramp up and demand for gas increases, domestic gas market conditions will continue to tighten putting upward pressure on price.

To avoid the risk of unnecessary price rises, Government's together with industry should develop a clear set of actions to ease the tightening demand-supply situation, improve market transparency and remove any constraints to domestic supply availability.

Consumer representation

Effective representation of all consumer interests (large or small), as part of the institutional arrangements of Australia's energy markets and a strong and independent regulator, are essential if the regulatory framework is to be enforced effectively.

Reliability Standards

The quantum and application of network reliability standards should ensure the delivering of low cost electricity to consumers with a level of reliability that accords with economic probability and a consumers' willingness to pay.

Network tariffs

The rising uptake amongst Australian households of solar PV and air conditioning units means that the way electricity network tariffs are structured needs to change in order to ensure the total fixed costs of network infrastructure is equitably recovered by the diversity of electricity consumers.

Demand Forecasting

For the first time in the short history of the National Electricity Market demand for electricity is actually declining and it remains to be seen whether this turnaround since 2009 is a short-term development or part of a broader trend. Further analysis is needed to fully understand the likelihood of this trend continuing and the broader implications for the sustainability of the market and Australia's carbon emissions profile.

Competition and regulatory reform

What should be on the agenda

- COAG should ensure that unfinished reforms, particularly the National Work Health and Safety Scheme and the National Occupational Licensing Scheme, are delivered.
- COAG should start developing on a future wave of competition and regulatory reforms.

Why it should be on the agenda

The continuing task of competition and regulatory reform is critical to lifting Australia's productivity and competitiveness.

The need for further reform is amply demonstrated by the number of unfinished competition reforms (10 of 19 reform priorities remain incomplete), and key regulatory reforms, such as the National Work Health and Safety Scheme and National Occupational Licensing Scheme, which remain incomplete.

A further wave of reform should focus on microeconomic adjustments targeted at lifting the competitiveness of key industry sectors such as tourism, agriculture, mining, retail and so on.

Government services

What should be on the agenda

- COAG should develop a joint response to the Commonwealth's Commission of Audit regarding recommendations that are relevant to Commonwealth-state duplication.

Why it should be on the agenda

The government's proposed National Commission of Audit provides a timely opportunity to thoroughly review and consider how governments respond to the changing needs and priorities of the Australian community and deliver on these in the most efficient, effective and fiscally sustainable manner into the future.

COAG should develop a detailed response to the Commission's recommendations that impact on services that are a shared responsibility of the Commonwealth and states and territories.

COAG institutional and governance reforms

What should be on the agenda

- COAG should formally adopt a best practice approach for considering, adopting and implementing reforms on its agenda (see Exhibit A).

- COAG should develop a system of productivity payments to foster and reward 'bottom-up', state-led competition and regulatory reform (see Attachment B).
- The institutional basis of COAG should be strengthened by:
  - making the COAG secretariat independent of the Prime Minister's department
  - making the CRC fully independent and allowing it to comment on the efficacy of policies designed to achieve COAG's reform targets.

Why it should be on the agenda

COAG's agenda has become cluttered and unfocussed with well over 100 National Partnership Agreements active currently, and many more MoUs, Implementation Plans and other formal and informal agreements. Additionally it is not clear that all reforms warranted COAG's attention in the first place, with the financial value of payments to the states under these agreements declining over time.

Finally, the approach to implementation, which focuses on administrative hurdles, has made it difficult to determine if reform outcomes are being delivered.

To ensure that only the most significant reforms are adopted and that these reforms are implemented in a way that delivers outcomes, COAG should adopt a formal for considering, adopting and implementing reforms on its agenda (see Exhibit A).

This approach should be supported by a COAG secretariat that is sufficiently independent to facilitate intergovernmental co-operation and ensure COAG's reform process is executed in a manner that delivers outcomes in the national interest.

A system of Productivity Payments is to encourage bottom-up state government competition and regulatory reforms that have a national benefit (see Attachment B). This approach would avoid the problems in implementing the National Partnership to Deliver a Seamless National Economy where jurisdictions were able to achieve most milestones without actually delivering on reform objectives.

Productivity payments could also encourage microeconomic reforms that do not need a national approach. National partnerships are inherently a joint reform agreement between the Commonwealth and states, this form is ill suited to incentivising state only reform.

The CRC should use its extensive experience in monitoring intergovernmental cooperation to provide advice on which policy approaches are, or are likely to, yield successful outcomes. This will necessitate a change to the CRC's governance arrangements and charter – it is currently not able to comment on policy, only on jurisdictions' progress in meeting agree targets (often administrative targets).

Exhibit A: COAG best practice model for considering, adopting and implementing economic reforms

Competition and regulatory reforms

One COAG body should be given the task of selecting, prioritising and taking forward future competition and regulatory reforms, under the supervision of COAG and COAG Senior Officials.

Reforms should be selected because they need the involvement of more than one level of government to make progress, and because there is an appetite and capability to undertake the reform (not all reforms will require the involvement of all jurisdictions to be of benefit).

Reforms should also be of sufficient significance to warrant the attention of the nation's First Ministers.

Prioritise reforms that will improve competition and lift productivity

Reforms should be prioritised on the basis of their potential to lower costs, increase competition and lift productivity. The Productivity Commission should be given the short-term task of determining the potential value of reform ideas.

Focus on achieving outcomes

In implementing reforms, COAG needs to focus on achieving the outcomes of lowering costs to business, improving competition and lifting productivity. This should be done by:

- using the regulatory impact assessment processes to examine all approaches to implementing reforms – from a state-based schemes, to harmonisation through to a centralised approach
- investigating if any jurisdiction will incur net costs under a new national scheme, and making appropriate amendments
- allowing states the autonomy to deliver – the Commonwealth should focus on outcomes and not seek to micromanage the process
- staggering reforms so that the agenda is manageable and new initiatives are not started until current reforms are delivered.

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