

# COAG Reform Agenda

## COSS Discussion Paper



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### 1. Purpose

This discussion paper is intended to provide information about current processes and directions for reform of Commonwealth/State relations and to identify reform opportunities which will benefit low income and disadvantaged people.

The paper has been written to assist in gaining the views of the community services and welfare sector on desirable directions for reform of Commonwealth/State relations which can then be used to help influence the reform process at various levels of government – Commonwealth, State/Territory and Local Government.

This is a working document for the sector to use and provide feedback on and will form part of a wider consultation process with the sector.

Please refer to the end of the paper for details on how to provide feedback.

### 2. The agenda for reform

At the first Council of Australian Governments (COAG) meeting following the election of the new Commonwealth Government, COAG recognised that there was a 'unique opportunity for Commonwealth-State cooperation to end the blame game and buck passing, and to take major steps forward for the Australian community.'<sup>1</sup>

COAG agreed on the urgency of progressing reform to increase the productive capacity of the economy, address the inflationary pressures that are emerging, and to deliver a higher quality of service to the Australian community.

In its pre-election policies, the Government said that its interest in reforming Commonwealth-State relations came from 'a hard-nosed, real world concern for delivering better services to citizens' and that it intended to work within the principles of cooperative federalism to achieve this.

This concern has been reflected across many of the Government's policies, including the Social Inclusion Agenda. The Government has said that the Social Inclusion Agenda will be underpinned by 'an investment in human capital which will be implemented through a co-operative Federal-State framework based around investment in people and communities.'

The Government has said that this approach will also be characterised by 'partnerships with State and local governments, the not for profit and private sectors to deliver targeted and tailored interventions to address localised systemic disadvantage.' The development of a Compact between the Commonwealth Government and the non-profit sector is expected to be a key part of this partnership approach.

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<sup>1</sup> COAG Communique, 20 December 2007

This agenda, and the current political configuration at the Commonwealth and State levels, provides a unique opportunity for Australian governments to lead lasting beneficial reforms to Australia's federal arrangements in the interests of the whole community, and in particular to people living on low incomes or who are otherwise disadvantaged.

It is an agenda in which the community sector has a deep interest and a major stake in terms of:

- Ensuring the best outcomes for low income and disadvantaged people from the reform process. People living on low income or who are otherwise disadvantaged are particularly affected by current federal dysfunction because they rely more heavily than others on the services and supports which are tangled in confused governmental roles and responsibilities.
- Ensuring that the services delivered under a reformed system are effective and sustainable - the community sector delivers many of the services that are likely to be affected under reforms to Commonwealth/State arrangements and understands what improvements need to be made to service systems.

One area of immediate interest to the community sector will be the Government's proposals to rationalise and simplify Specific Purpose Payments<sup>2</sup> (see below). This is a potentially significant feature of the new federal agenda and one that can be expected to affect the delivery of health and community services – including health care, home and community care, supported accommodation services, disability services and children's services - in the short to medium term.

### 3. Background to reform

In February 2006, the Council of Australian Governments (COAG), following the lead of Victoria, accepted the need for a new wave of reform based on human capital, participation and productivity, which became known as the National Reform Agenda (NRA). The case for reform was essentially threefold:

1. the healthier and more active the population, the stronger the economy
2. the more skilled the population, the higher the productivity
3. the greater the degree of social inclusion, the greater the workforce participation.

In July 2007 COAG agreed that further work under the NRA should proceed initially in early childhood development, literacy and numeracy, diabetes, child care, transport, energy, infrastructure regulation and regulatory reform.

Central to the vision of the NRA was a new way of governments working together, whereby all governments agree common goals (outcomes), but where each retains the flexibility to deliver the solution.

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<sup>2</sup> Specific Purpose Payments (SPPs) are grants the Commonwealth makes to the States, usually subject to conditions as to how the money is spent, in areas such as health and education, which the States administer. They include the Australian Health Care Agreements, the Home and Community Care Agreements, the Supported Accommodation Assistance Program Agreements, the Commonwealth/State Housing Agreement and the Commonwealth State/Territory Disability Agreement, and payments 'through' the states to non-government schools. There are a few very large SPPs – mainly in health and education – and hundreds of small SPPs. In contrast, general purpose ('untied') grants are not subject to conditions. The main component of untied grants is the revenue from the Goods and Services Tax.

The Commonwealth Government has committed itself to continue the work previously agreed under the National Reform Agenda (NRA) and has promised significant policy changes on top of the existing agenda, including implementing an agreed National Health Reform Agenda by mid-2009, rationalising and simplifying Specific Purpose Payments to the States, developing a nationally consistent Early Years Learning Framework, and ensuring every four year old child has access to fifteen hours a week and 40 weeks a year of high quality preschool (an area which had been considered an area of State Government responsibility since 1985).

The Government has identified seven areas for the Council of Australian Government's (COAG) work agenda in 2008:

1. Health and ageing
2. The productivity agenda
3. Climate change and water
4. Infrastructure
5. Business regulation and competition
6. Housing
7. Indigenous reform.

The work under each of these areas is being overseen by working groups headed by the relevant Commonwealth minister. These groups reported to COAG in March 2008 with implementation plans for the major Commonwealth elections commitments which require State and Territory Government cooperation (for example reductions in waiting lists for elective surgery in public hospitals). During the course of 2008, COAG will agree directions for major policy initiatives for longer term reform.

Early action on the health front occurred when Australian Health Ministers agreed that the next Australian Health Care Agreements (AHCAs) should be expanded beyond public hospitals to achieve needed reform. The immediate areas for action include focusing the system on prevention, improving the experience of people who use health services and bringing the different aspects of the system together so that hospitals, ambulatory care, primary health care and care in the community have clear funding, role delineations, paths of engagement and transition and are able to continually improve their use of both workforce and technology.<sup>3</sup>

The Government has also promised to create a Council of Australian Local Governments as a forum in which local government can be involved in addressing issues of national importance. The Council will be charged with developing policy on areas of joint interest to the Federal and Local spheres of government, including:

- Consultation on matters to be discussed at subsequent meetings of COAG.
- Preparation for a referendum on Constitutional recognition.
- Advice on fiscal relations between the Commonwealth and local governments.
- Development of reform opportunities such as in planning, housing affordability and health promotion.
- Improving delivery of jointly provided services in healthcare, transport and community facilities.

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<sup>3</sup> Australian Health Ministers Meeting Communique, 29 February 2008.

## 4. The Government's approach

The Government has signalled five ways in which Commonwealth-State relations will change.

First, the Commonwealth will reduce the number of SPPs and administration and compliance overheads. The States will continue to receive all GST revenue but SPPs will be rationalised, without an overall reduction of funding into:

- A small number of national SPP agreements – in the areas of healthcare, early childhood development and schools, vocational education and training, disability services and housing.
- Some general revenue assistance (for example mining royalty payments to Western Australia and the Northern Territory).
- New National Partnership Payments.

Second, the States will have the flexibility they need for resources to be allocated to areas where they will produce the best results. Each new national SPP agreement will contain a clear, mutually agreed statement of:

- objectives, outcomes and outputs
- performance indicators to accompany the objectives, outcomes and outputs
- the roles and responsibilities of each level of government.

Third, the Commonwealth will provide greater funding certainty to the States. There will be no more five year agreements with 'take-it-or-leave-it offers' when they expire. The new SPPs will be on-going payments with periodic funding and performance reviews.

Fourth, there will be increased accountability to the community through a new reporting framework that will focus on the achievement of results, value for money and timely provision of publicly available performance information.

Fifth, the Commonwealth will provide the States with National Partnership Payments to deliver on nationally significant economic and social reforms. Reward payments will be structured in a way that encourages the achievement of ambitious reform targets. The achievement of these targets will be independently assessed by the COAG Reform Council to ensure transparency and accountability.

## 5. Key issues

The Commonwealth Government and the other members of COAG intend to use the principles of cooperative federalism to achieve their reform agenda. This signals that the starting point for thinking about the problems of Commonwealth/State relations is the current form and practice of federalism, rather than with federalism as a system of government itself. It signals that the solutions to these problems will also need to be embedded in Australia's existing federal framework.

At the broadest level, there are three inter-related problems in the current federal divisions across the health, housing and community services systems.

The first and over-riding problem is that there is a lack of policy cohesion and rational priority setting in the planning, funding and delivery of human services at a national level. While this is not an inevitable part of Australia's current divisions in health, housing and community services, historical political divisions between the Commonwealth and the States have certainly made it harder to achieve the kind of sustained integration that is the hallmark of high-quality human service provision internationally.

The second problem concerns the way that Commonwealth funding is dispensed to the States and the overlaps and tensions between federal programs (including those run through the states) and state programs. This provides a rich environment for jurisdictions to blame each other for system failures. Typically, the States will blame the Commonwealth for not providing enough money to fund services properly and the Commonwealth will blame the states for not using the money efficiently and effectively. At times, the Commonwealth may intervene unilaterally through new or existing federal programs, which risks creating greater system complexity from the perspective of both services users and providers.

The third problem is that there is unnecessary complexity and discontinuity at the service level. There are multiple but often closely related health and community service programs delivered by different levels of government, without clear lines of responsibility for system performance in terms of consistency, equity, quality and efficiency. The result is that service users are often left to negotiate these complex systems at their own peril.

## **6. Reform directions**

Taking these core problems into account and acknowledging the Commonwealth Government's commitment to tackling these, below are some principles for reform which could assist in monitoring reform and guiding future developments.

### **6.1 Build on current roles and strengths**

A useful starting point for thinking about the shape of federal relations is to look at the broad existing functions of the Commonwealth, State and local levels of government and to clarify and build on these.

Across most program areas, State Governments have overriding responsibilities for the planning, budgeting and administration of health and community services. The only major exceptions to this situation relate to private medical services, community pharmacy and aged care. State governments have traditional strengths in service delivery and these service delivery functions complement state government responsibilities for land use planning, housing, transport and the provision of basic infrastructure such as electricity, gas, water and sewerage.

The Commonwealth on the other hand has a dominant role in the funding of services which are delivered by the States (whether through Specific Purpose Payments or GST revenue), developing broad national policy directions with the States to guide SPP's, and monitoring of State performance under SPP arrangements.

The Commonwealth has already signalled its intentions to tying Commonwealth funding to the States achieving broad level outputs and outcomes through the broadbanding of SPPs.

Future options that may be considered for institutionalising a more effective split of Commonwealth/State responsibilities include:

- Examining the scope for expanding State Government responsibility for planning, budgeting and administering health and community services by transferring services which are currently Commonwealth responsibilities to the States (such as aged care, private medical care, community pharmacy and child care).
- Clarifying the Commonwealth's role as the major funder of services and its responsibilities for developing agreed national policy directions, establishing independent monitoring of performance against agreed minimum outputs and outcomes and create incentives for states to lift standards across the system.
- Calculate the total quantum of funding to be provided by the Commonwealth and the States for the delivery of health and community services in each State and Territory and the broad level outputs and outcomes which must be achieved by the States in return for Commonwealth funding. Over time and following Commonwealth/State agreement, explore the feasibility of funding health, housing and community services on a weighted capitation basis, with the Commonwealth nominally contributing 70% of funding and the States 30%.

## **6.2 A systemic approach**

Large scale reform to just one element of the health, housing and community services systems is likely to create more challenges than solutions.

Any major change to the structure of joint funding arrangements in any one area would therefore need to take account of the implications for a future broader restructure of Commonwealth, State and Territory health and community services responsibilities.

It is the Commonwealth's intention to rationalise its funding arrangements with the States and Territories and to establish a small number of new SPPs which contain clear and mutually agreed statements of:

- objectives, outcomes and outputs
- performance indicators to accompany the objectives, outcomes and outputs
- the roles and responsibilities of each level of government.

Recognising that SPPs are essentially financing agreements which implement policy, and that objectives, outcomes and outputs need to be linked to desired policy outcomes, it is important that SPPs are linked to clear policy frameworks, including a broad framework which describes how the separate SPPs and policy frameworks relate to each other.

## **6.3 Policy framework for health, aged and disability services**

The National Health and Hospitals Reform Commission has been asked to develop a long term plan for the reform of the health system. Given the close but currently dysfunctional connections between the health system and aged and disability services, it is important that the Commission take a broad view of the health system and health policy and deal with the nexus between the health system, disability services, community care, aged care and patient transport.

The overarching purpose of the Commission should be to develop a feasible long term health, disability and aged care reform plan which would ensure the health and related community services system is substantively universal, affordable and accessible.

The plan should include strategies to ensure the orientation of the health and community services system to primary care and prevention to raise the health status of socio-economically disadvantaged groups to the same level as the most advantaged groups.

The work of the Commission will need to be informed by other relevant developments in Government, and in particular the development of a National Disability Strategy which will provide leadership in disability policy and draw on the experience of States and Territories to ensure the needs of people with disabilities and their families are addressed through coordinated and comprehensive policy planning across all Government departments and services.

#### **6.4 Policy framework for early childhood education and care services**

As with health reform, there should be a process for developing national policy directions in relation to early childhood education and care. The development of a National Early Years Learning Framework could provide the starting point for this process, particularly if it focuses on how to bridge the gap between care and learning under the current Australian system and provides opportunities for community input into the desired future shape of early childhood education and care.

It is suggested that an Early Childhood Education and Care Commission be established to develop a long term strategy for the delivery of high quality universal Early Childhood Education and Care Services.

#### **6.5 Policy framework for housing**

A new National Affordable Housing Agreement (NAHA) is currently being negotiated between the Commonwealth and the States as part of the broader reforms to SPPs. The Government has indicated that the Agreement is the key to delivering a coordinated set of solutions to the housing affordability problem and that it will be the overarching framework for Australia's affordable housing strategies.

It appears that the NAHA will subsume the following existing programs:

- Base funding for public and community housing under the Commonwealth State Housing Agreement;
- Community Housing Program;
- Crisis Accommodation Program;
- Aboriginal Rental Affordability Scheme;
- National Rental Affordability Scheme;
- Commonwealth Rent Assistance; and
- First Home Owner Grant Scheme.

The current program of housing and infrastructure for Indigenous people in remote areas and the promised program of extra housing for homeless people ('A Place to Call Home') may also be included.

It is not yet clear whether the NAHA will cover:

- the provision of services currently provided under the Supported Accommodation Assistance Program (SAAP);
- the Housing Affordability Fund and First Home Saver Accounts; or
- issues of planning, transport and other infrastructure.

## **6.6 Improving the interface between Commonwealth and State programs: employment services and health and social support services**

A range of social programs are best administered by the Commonwealth Government.

These include:

- Transfer payments, since these are related to and predominantly funded by the personal income tax system and there is a strong case to maintain national legislated entitlements
- Employment assistance and workplace relations programs, since these contribute to the effective functioning of the labour market which is a key Commonwealth responsibility.

A good working relationship between these Commonwealth programs and State Government administered programs such as health and social support services is important for socially excluded individuals and communities.

One example that illustrates the importance of this interface is the provision of employment assistance to people with social and health barriers to work such as mental health conditions or addictions.

Commonwealth funded employment services have difficulty mobilising the resources and supports required by people with health and social barriers to work if they are to achieve sustainable employment. Federal employment programs that specialise in assisting these job seekers are designed on the assumption that State funded programs (such as mental health services) are available to their clients and will work together with employment service providers to achieve employment goals. However, State funded health and social support services are often not available on the ground, and if they are they often lack the resources or financial incentives to cooperate with employment service providers to achieve employment objectives. That is, they are funded to achieve health and other objectives.

One option to address this problem would be to fund the employment service providers to purchase health and social supports for job seekers. A problem with this approach is that these services may overlap or conflict with treatment plans already in place for the individuals concerned. A deeper problem is that, contrary to the spirit of the NRA and the Social Inclusion Agenda, this would maintain a strict division between Commonwealth funded 'employment' services and State administered 'health and social support' services for clients who need an integrated package of supports.

The NRA provides an opportunity to break down such divisions between Federal and State programs. Options might include:

- Requiring State and Territory Governments, perhaps under a National Partnership Payment, to include work readiness targets (and a requirement to

partner with Commonwealth employment assistance providers to achieve them) into their funding priorities and performance indicators for certain health and social support services; or

- Allocating a pool of funds (which could be drawn from both Commonwealth and State and Territory sources) to address the specific needs of deeply disadvantaged people, which could be administered by local partnerships between employment, health and other services.

### **6.7 Service guarantees**

The overarching purpose of re-aligning Commonwealth/State responsibilities for human service delivery is to ensure that services of a sufficient standard are delivered to all who need them or would benefit from them, and not simply about increasing bureaucratic efficiency.

One area of concern here is that the community is assured that this reform process will not lead to a decline in the overall level of service. Another concern is that some small SPPs, such as the Public Health Outcomes Funding Agreements (PHOFAs), which were originally established to ensure the States funding public health programs, may be subsumed and lost within the broad-banded SPPs. To use the PHOFA example, the concern is that public health outcome funding will be used by State governments to fund acute public hospital services.

Another example relates to the future of the Supported Accommodation Assistance Program (SAAP) and how services delivered under this program will be funded, administered and supported under the SPP reforms.

The Government has said that while the overall funding package has not yet been negotiated, it has made a clear commitment to the States that, at a minimum, no State will be worse off than they would be under the current arrangements and that incentive payments will be in addition to existing payments. The new SPPs will be ongoing payments with periodic funding and performance reviews.

In order to ensure that reforms are aimed at ensuring that services of a sufficient standard are delivered to all who need them or would benefit from them, it is important that reforms to Commonwealth-State funding arrangements be accompanied by a joint Commonwealth-State commitment to achieve minimum level entitlements to health, housing and community services for all residents, wherever they live and whatever their means.

In terms of financial arrangements, this would mean not only broad-banding of SPPs and tying these to specific outcomes, but also tying a proportion of currently untied GST funding to the States achieving agreed outputs and outcomes in health, housing and community services.

## **6.8 Rationalising user contributions**

Direct user contributions to the funding of health and community services are a significant feature of the Australian system, with a contribution of \$22.3 billion in 2004-05 or 19% of total funding.<sup>4</sup>

User co-payments are generally insensitive to the unequal distribution of wealth and income and the unequal distribution of the need for human services in the community. Such arrangements can therefore discourage people, especially those least able to afford the payments, from seeking desirable services or make the cost of using those services so burdensome as to deprive people of other desirable consumption, e.g. food and heating.

There is no consistent approach or policy to guide user co-payments in Australia and little research on the impact of user co-payments on the utilisation and cost-effectiveness of services.

Any substantial reform to Commonwealth/State arrangements in human services should therefore be accompanied by a review of the impact of user payments on consumers across the spectrum of human services, with a view to rationalising user payments so that incapacity to pay is not a barrier to access to essential services.

## **6.9 Setting priorities**

No system of health and community services can provide everything to everyone and, in this regard, systems differ internationally only in terms of how explicit the choices are about what is provided to whom and on what terms. This is so in even apparently open-ended, universal, entitlement-driven programs because all services rely on actual resources (people in the form of attendant care workers, nurses, doctors, pharmacists and so on) which are in finite supply.

Australian governments have not been explicit about these choices, but if we are to move to an expanded and more 'universal' system of health and community services, then it is important that the community debates these choices.

It has been consistently observed that the legitimacy and sustainability of major policy decisions depends on how well they reflect the underlying values of the public. As governments try to deal with difficult choices, policy needs to be informed by ordinary "unorganised" citizens, as well as powerful "organised" interest groups.

It is therefore suggested that a renewed Commonwealth/State commitment to providing health and community services should include a rigorous process for identifying the values and priorities that the public wishes to see reflected in the Australian health and community services systems.

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<sup>4</sup> Total funding is estimated to be \$116.2 billion comprising \$87.3 billion in health (\$16.5 billion in user contributions) and \$28.9 billion in community services (\$5.8 billion in user contributions). Source: AIHW Health Expenditure Bulletin 2004-5, Welfare Expenditure Bulletin 2005-06.

## **6.10 Implementation and monitoring**

Implementing such significant and complex reforms as those envisaged will require robust processes and careful handling of issues where there is a perception that people may be worse off under a reformed system or organisational/professional interests threatened.

Communication and consultation will be critical, as will guarantees that current total funds available for particular purposes will be maintained.

It is therefore suggested that reforms to the funding and delivery of human and social services be accompanied by a joint Commonwealth/State guarantee that existing services will continue to receive funds at current or increased levels, provided they meet the requirements of new service frameworks.

The large scale restructuring of Commonwealth/State responsibilities for health, housing and community services in Australia now being undertaken is welcome, but at this stage it is not clear how the Commonwealth intends to draw its many processes together to develop agreed national policy directions or how it intends to consult the community about the broad directions of Commonwealth/State reform. For example, how will the COAG Working Groups interact with other processes such as the Health and Hospitals Reform Taskforce, the Green Paper on Homelessness, and the development of a National Early Years Learning Framework?

It would be helpful if the Commonwealth clarified how it intends to draw together the multiple processes which relate to the reform of Commonwealth/State responsibilities in human services and consult with the community about the directions of reform.

## **6.11 Handling 'spill-over' effects**

While the approach outlined in this paper would establish much clearer lines of responsibility for the funding and delivery of health and community services and overcome much of the inefficiency and inequity in the current system, there will still be 'spill-over' effects where the activities of one tier of government affect the other. For example, Commonwealth immigration policy has a direct effect on the capacity of State and Territory services to meet resident needs (or Commonwealth employment policies which put strain on state mental health services, rehabilitation services, education and training services). So alongside a clearer and more sensible division of responsibilities, there need to be arrangements which assist the three tiers of government to work together to address major policy issues.

It is therefore suggested that alongside COAG and the Ministerial Councils, an independent Federal Commission could be established to (1) identify emerging challenges and opportunities that will require a collective response from Commonwealth, State and Local governments; (2) develop and analyse potential policy responses to these issues and report the results to COAG; (3) monitor progress by governments in implementing reforms that have been agreed by COAG and report the results to COAG.

It should be noted that the COAG Reform Council will undertake monitoring and reporting as well as identifying broad ex-post assessment of the costs and benefits of reform, but this is a narrower role than that envisaged for the Federal Commission.

## **6.12 Data collection and monitoring**

Progress needs to be made in defining and agreeing a consistent basis for measuring government performance before the broad-banding of SPPs is implemented to ensure community confidence that reforms will deliver improvements in service delivery and outcomes for people and that these can be measured and regularly reported on.

Despite significant improvements to social welfare and service data, there are still many gaps and the resources to collect data in the field have sometimes been lacking.

It is therefore suggested that the Commonwealth: (1) seek community input to defining what should be measured and monitored and how it should be publicly reported; (2) work with the States to improve intergovernmental coordination in the collection and policy application of social data; (3) invest in research capacity to help measure performance against desired outcomes; (4) further develop data linkage (with accompanying privacy safeguards); and (5) build service delivery knowledge in the Commonwealth Government to enable constructive dialogue on implementation of national policy frameworks and performance against agreed outcomes.

## **7. Where to next?**

This document will form the basis for a round of consultations with the sector over the coming months. Comments and feedback on this draft of the document are welcome.

Please email comments to [nra@acoss.org.au](mailto:nra@acoss.org.au).