Submission to the Parliament of the Commonwealth of Australia

Joint Committee of Public Accounts and Audit

Inquiry into National Funding Agreements

Victorian Government

April 2011

State Government Victoria

List of acronyms

CAF	Council for the Australian Federation
COAG	Council of Australian Governments
CRC	COAG Reform Council
IGA FFR	Intergovernmental Agreement on Federal Financial Relations

List of abbreviations

The Committee	Joint Committee of Public Accounts and Audit
Report 419	The Committee's 2010 report on its inquiry into the Auditor-General Act 1997

Executive Summary

All Australian governments are committed, through the Council of Australian Governments (COAG), to the underlying reform principles of the 2008 Intergovernmental Agreement on Federal Financial Relations (IGA FFR).

For the first time in Australia's federal history, intergovernmental transfers of public funds take place within an agreed policy and administrative framework. This reform framework, described by independent observers in Australia and overseas as a significant institutional innovation and a foundational achievement of COAG's recent reform agenda, recognises and utilises the inherent benefits of Australia's federal structure of national governance, by providing for the direct accountability of all governments to the public for outcomes.

The Victorian Government is committed to the full implementation of these reforms. All Australian governments are working through COAG to resolve those national performance reporting framework issues that have emerged since 2009. Alongside these technical and administrative issues regarding the conceptual adequacy and quality of relevant data, however, the key national priority in improving public accountability for funding agreements under the IGA FFR is embedding the cultural change needed to give full effect to the shift to genuinely collaborative and outcomes-based arrangements.

This cultural change includes stronger shared expectations on the relevant roles and responsibilities of different levels of government, including all Australian parliaments and their independent officers. As outlined in this submission, the Joint Committee of Public Accounts and Audit (the Committee) has an opportunity to explore further the central propositions behind current proposals for giving the Commonwealth Auditor-General a greater role and associated authority in examining State-based fiscal and outcomes-based performance under intergovernmental agreements.

It is the Victorian Government's view that these propositions and proposals are based on critical misconceptions about the federal structure of national governance in Australia, and a mischaracterisation of the appropriate accountability mechanisms for public funds under intergovernmental transfers.

Rather than default to mechanisms for additional centralised oversight, the Victorian Government recommends that the Committee consider how all jurisdictions could work together in establishing shared expectations on relative roles and responsibilities, while also supporting greater public engagement with the COAG Reform Council's performance reporting and accountability roles.

In addition, the Victorian Government also recommends that the Committee focus its efforts on exploring the legal and operational barriers to greater cooperation and collaboration by independent Auditors-General.

Introduction

The Victorian Government welcomes the opportunity to provide a submission to the Joint Committee of Public Accounts and Audit ("the Committee") in relation to the Committee's inquiry into the operation of funding agreements between the Commonwealth and State and Territory Governments.

All Australian governments are committed, through the Council of Australian Governments (COAG), to the 2008 Intergovernmental Agreement on Federal Financial Relations (IGA FFR). This commitment was reaffirmed at the most recent COAG meeting, where all jurisdictions agreed that the underlying reform principles of the IGA FFR continue to provide a strong foundation for progressing COAG's agreed reform agenda and achieving better policy and service delivery outcomes for all Australians.

The Victorian Government is committed to the full implementation of the 2008 federal financial relations reforms. This inquiry provides the Committee with a valuable opportunity to explore further central propositions behind current proposals for giving the Commonwealth Auditor-General a greater role and associated authority in examining State-based fiscal and outcomes-based performance under intergovernmental agreements.

It is the Victorian Government's view that these propositions are based on critical misconceptions about the federal structure of national governance in Australia, and an associated mischaracterisation of the appropriate accountability mechanisms for expenditure of public funds under intergovernmental transfers.

Rather than default to mechanisms for additional centralised oversight, the key national priority in improving public accountability for Commonwealth grants to the States is embedding across all jurisdictions the cultural change and shared expectations needed to give full effect to the 2008 outcomes-based federal funding reforms.

The Victorian Government recommends that the Committee consider how all jurisdictions could work together in establishing such shared expectations on relative roles and responsibilities, while also supporting greater public engagement with the COAG Reform Council's performance reporting and accountability roles. In addition, the Victorian Government also recommends that the Committee focus its efforts on exploring the legal and operational barriers to greater cooperation and collaboration by independent Auditors-General.

Central propositions before this inquiry

This inquiry seeks to build on the Committee's previous review of the *Auditor-General Act 1997* (Cth). That 2009-2010 inquiry was asked to consider, amongst other things -

> *"the [Commonwealth] Auditor-General's capacity to examine the financial and performance outcomes from Commonwealth investments in the private sector and Commonwealth grants made to State and local governments".*

In the relevant section of its December 2010 report titled "Inquiry into the *Auditor-General Act 1997*" (Report 419), the Committee placed considerable (and repeated) emphasis on the Institute of Public Administration Australia's (IPAA's) description of a "glaring gap in accountability" associated with grants to States and Territories. In particular, the Committee noted the Commonwealth Auditor-General's lack of capacity to audit performance, check data validity and reliability, and to "follow the money trail" in relation to

these grants to non-Commonwealth agencies/entities.

As stated in paragraph 5.69:

> *"The Committee considers it imperative that the [Commonwealth] Auditor-General be provided with the statutory authority to address these issues, enabling the [Commonwealth] Auditor-General to more readily 'follow the dollar' and ensure that Commonwealth funding is fully accounted for and the Commonwealth is receiving value for money."*

While recognising that a number of submissions to that inquiry supported exploring impediments to – and developing a framework for – the conduct of joint audits (paragraph 5.16), the Committee ultimately favoured greater Commonwealth parliamentary oversight.

As demonstrated by Recommendations 10 and 11, and related Committee comments, the Committee's analysis particularly focused on the impediments to the Commonwealth Auditor-General investigating – on behalf of the Commonwealth Parliament "and hence the Australian taxpayer" – whether projects are providing 'value for money' (paragraph 5.31).

Critical misconceptions underlying these propositions

The Victorian Government considers that this analysis is founded on critical misconceptions, regarding:

1. the multiple fora for public, financial and performance-based accountability in the Australian federation; and

2. the continued characterisation of intergovernmental financial transfers as "Commonwealth money".

The apparent "glaring gap in accountability" for grants to the States: the federal dimension

The ongoing constitutional relationship between the Commonwealth and the States and Territories is not well understood in the Australian federation. Under the Australian Constitution, the continuing existence and autonomy of the States, subject only to the inconsistency principle in section 109 and a handful of exclusive Commonwealth powers, reflects a deliberate institutional design decision to create a co-ordinate federal structure of national governance.

Unfortunately the dramatic "vertical fiscal imbalance" in Australia undermines this institutional design and subsequently distorts national public policy debates. As is widely recognised, there is a significant mismatch in the Australian Federation between the Commonwealth's dominant share of the national taxation revenue base and States and Territories' responsibilities for policy development, infrastructure and service delivery in their jurisdictions. While some "vertical fiscal imbalance" (VFI) is not uncommon in federations, the situation in Australia is widely recognised as one of the most extreme in the world. The Commonwealth Government's proposed Tax Experts Forum later this year will provide a valuable opportunity to seek solutions to this continuing problem.

The Commonwealth's comparative fiscal strength – and the collective focus of the national media on Commonwealth-level ministerial responsibility and associated parliamentary mechanisms – can fuel a misconception that, in the final analysis, ultimate accountability for all public policy-making, service delivery and implementation in Australia must lie with

the Commonwealth Government, and/or requires oversight by the Parliament of the Commonwealth.

As recognised by the Committee, however, it is the role – and indeed ***the responsibility*** – of State Parliaments and State Auditors-General to scrutinise the activities of State Government agencies.[1] Unfortunately, the balance of the Committee's analysis has not given sufficient weight to those mechanisms in relation to State and Territory governments' public accountability for agreed outcomes. State and Territory governments are directly accountable to the residents of their jurisdiction for their inter-governmental and intra-State policy commitments, service delivery and implementation – and in particular the spending of Commonwealth grants – through the relevant mechanisms of State and Territory parliaments and, ultimately, elections.

Importantly, as discussed below, these State-own accountability mechanisms are further enhanced by the accounting and performance mechanisms under the IGA FFR, particularly the independent national performance reporting function of the COAG Reform Council (CRC).

Taking into account both the federal structure of Australia's system of government (including State parliamentary oversight of all State spending, incorporating grants from the Commonwealth), and the outcomes-based public accountability framework established under the IGA FFR, what may initially seem like a "glaring gap in accountability [to the Commonwealth Parliament]" is not in fact the case. Rather than being barriers to good governance and public accountability, this federal structure and the IGA FFR actually provide the institutional framework for better policy, service delivery and implementation outcomes.

'Following the dollar' on "the use of Commonwealth funds under agreements"

There is no doubt that Australian taxpayers are entitled to expect from their governments both financial and performance-based accountability for the use of public funds. Our language can lead us astray, however, when those public funds are described as "Commonwealth money". Such shorthand comes at a cost to analytic rigour, a cost that is starkly illustrated by fact that the Committee does not distinguish ***in principle*** between collaborative funding arrangements with States and Territories and performance-managed contracts with private sector or other related entities.

The transfer of public funds between different levels of government in a system of co-ordinate federalism is practice a policy decision of two executive governments, duly subject to relevant legislation and parliamentary oversight. Large Commonwealth grants to the States will remain a feature of Australian federalism so long as the extreme imbalance between the Commonwealth's revenue-raising and expenditure responsibilities continues to distort national public policy.

It is the Victorian Government's view that understanding why this "Commonwealth money" terminology is inappropriate for intergovernmental transfers is precisely the sort of "cultural change" intended by the IGA FFR and which the independent COAG Reform Council has described as necessary if the key benefits of the IGA FFR are to be realised.[2]

Given this context, the Victorian Government notes the carefully circumscribed role of the

[1] Report 419, paragraph 5.40.
[2] CRC, *COAG Reform Agenda: Report on Progress 2010,* Report to the Council of Australian Governments, 30 July 2010, p xi.

Commonwealth Government under many intergovernmental agreements involving financial transfers. Where an intergovernmental agreement clearly specifies that States and Territories are responsible for implementation, it is entirely appropriate that the Commonwealth Auditor-General (and other Commonwealth Parliamentary processes, such as Senate committees' estimates hearings) focus on the Commonwealth's decision-making and coordination processes, and rely on State and Territory Auditors-General (and parliamentary processes) to review State and Territory implementation, performance and expenditure.

In short, the Victorian Government does not agree – as a general principle – that "[Commonwealth] administering agencies remain accountable to responsible [Commonwealth] Ministers and the [Commonwealth] Parliament for the use of Australian Government funding [under the IGA FFR]".[3] Instead, the Victorian Government supports a genuinely federal approach to accountability for financial management and the achievement of outcomes under intergovernmental agreements, which recognises all jurisdictions' relative roles and responsibilities.

In many cases, such an approach would highlight the limited ongoing role of the Commonwealth after the decision to transfer public funds to the States and Territories, and the direct accountability of those jurisdictions to the public.

Institutional oversight of intergovernmental financial transfers should serve public accountability. The Victorian Government's view is that this outcome is not best served by including – as a default requirement – access clauses in intergovernmental funding agreements, or by extending the investigative authority of the Commonwealth Auditor-General. Rather, public accountability is maximised by State Auditors-General performing their legislative (and in some cases, as in Victoria, constitutional role) and by the kind of public performance reporting undertaken by the CRC.

Specific comments on the inquiry's terms of reference

The changing dynamics of grants to States and Territories, the types of grants that are made and the principles, agreements and legislation governing these grants

At the time the Committee's previous inquiry into the *Auditor-General Act 1997* (Cth) took written submissions and conducted hearings, in early 2009, COAG's 2008 federal funding reforms were in an early implementation phase, having only taken effect from 1 January 2009 and with the first round of national performance reporting under the IGA FFR not due until later that year.

This timing point is relevant as, together with the Committee's reliance in Chapter Five of Report 419 on a 2005 Finance Circular in outlining Commonwealth payments to States, it explains the tentative assessments in that report and those inquiry submissions regarding the IGA FFR's still maturing National Performance Reporting System.

It is the Victorian Government's view that the 2008 federal financial relations reforms represent a significant watershed in Australian federalism. Since Federation, the potential for the Commonwealth's fiscal dominance to overwhelm the constitutional division of powers and the policy and budget autonomy of States and Territories has been widely recognised. At the same time, throughout those 107 years there was no agreed national

[3] Compare with: paragraph 22, ANAO Report No. 30, 2010-2011, Performance Audit on the Digital Education Revolution.

framework against which to assess the form and public benefits of Commonwealth financial assistance grants to the States under section 96 of the Australian Constitution.

Through the IGA FFR, all jurisdictions have – in the national public interest – made a number of important institutional commitments. The underlying reform principles and strategic policy logic of the IGA FFR challenge all jurisdictions to continue clarifying intergovernmental roles and responsibilities. From a systemic perspective, these reforms also recognise and utilise jurisdictional autonomy to drive innovation, inter-jurisdictional comparison and competition, and promote a rigorous focus on the achievement of outcomes.

Achieving a shift from Commonwealth prescriptions on State expenditure to a shared commitment that the appropriate government is to be accountable to its community is an ongoing challenge. Importantly, the audit and governance arrangements cited by the Committee in relation to the "Building the Education Revolution" program need to be understood – as they were by the Commonwealth Government at the time – as exceptions to this new framework.[4] Indeed, the key lesson and national priority that emerges from the ANAO's performance review of that program (and subsequent commentary on that review) is the importance of clearly delineating roles and responsibilities, and establishing shared expectations in relation to relevant accountabilities, ***consistent with the underlying reform principles of the IGA FFR.*** The expectation that the ANAO's performance review would cover State-level management delivery of specific projects is precisely the sort of unspoken assumption that needs to be corrected through cultural change.

In more practical terms, there are immediate implementation challenges under the IGA FFR and all Australian governments are working through these data quality, conceptual adequacy and related governance issues. None of these specific challenges, however, detract from the public policy merits of the IGA's underlying reform principles (reaffirmed by COAG at its 13 February meeting this year) and institutional achievements.

That assessment is shared by the 2010 Heads of Treasuries' review of IGA FFR agreements, which found that:

> *"Stakeholders are unanimously of the view that the IGA represents a significant improvement in federal financial relations, specifically the increased focus on policy outcomes, national reform priorities and collaborative working relationships.*
>
> *While significant work has been done to build awareness, knowledge and experience of the federal financial relations framework amongst Commonwealth and State portfolio agencies, the IGA represents a significant cultural shift. All parties are committed to implementing and improving the framework".*[5]

The ongoing public value of these reform principles has been recognised beyond these intergovernmental forums. In 2010 the OECD observed that the IGA FFR, in the context of Australian institutional innovations that facilitate regulatory reform –

> *"provides an opportunity to enhance the effectiveness of financial transfers by allowing more responsibility to States to deliver services, while promoting a culture of accountability and transparency through regular monitoring of performance."*

[4] See ANAO report No.33, 2009–10, Performance Audit on the Building the Education Revolution—Primary Schools for the 21st Century program, paragraphs 1.14, 2.10, 2.43-2.48, and Appendix 1.
[5] The HoTs' Review report has been endorsed by the Ministerial Council on Federal Financial Relations and its recommendations are being taken forward in 2011 by a joint COAG/HoTs working group.

It is absolutely correct to say, as the Commonwealth Auditor-General did to the Committee during its previous inquiry, that assessment of performance, and the quality of performance information, has become more significant under the IGA FFR (Report 419, paragraph 5.10).

But, as noted by the Council for the Australian Federation in its submission to the current inquiry of the Senate Select Committee on the Reform of the Australian Federation, the IGA FFR is a significant national reform that provides a practical framework for clarifying ongoing roles and responsibilities between levels of government. At this time, a key national priority should be to ensure that these reforms are properly implemented ***prior*** to considering other far-ranging reform options.[6] The Victorian Government would agree with this assessment.

The extent to which the current systems for funding agreements satisfy the requirements of all levels of government, and any suggestions for changes to the process

The IGA FFR currently provides mechanisms for monitoring inter-governmental fiscal accountability (through treasury-level payment reporting: paragraphs D16 and D33) and, as outlined above, enhancing the accountability of all jurisdictions to the public through improved outcomes-based performance reporting.

This framework also promotes continuous improvement through a shared commitment to ongoing performance reporting, including all parties working together to improve performance reporting for the sake of enhanced public accountability (IGA FFR paragraph 16). As part of that commitment, the IGA FFR expressly provides for the Ministerial Council for Federal Financial Relations to oversee and coordinate improvements in data quality, collection, and timeliness, and further empowers the COAG Reform Council to advise COAG on where changes might be made to the performance reporting framework (IGA FFR paragraphs C29 and C30).

The adequacy of the substantive requirements of this framework for the requirements of all levels of government was a specific issue raised during the 2010 HoTs Review. **With respect to Commonwealth requirements, the Australian National Audit Office advised that, if implemented fully and correctly, the IGA FFR and associated framework provides the overarching policy framework against which Commonwealth portfolio agencies discharge their obligations under the *Financial Management Act 1997* (Cth) and relevant regulations.**

With respect to the States' own financial and performance audit and public accountability processes, Victoria has a robust and independent regime of parliamentary and institutional oversight of government actions. This regime includes the Victorian Auditor-General, whose status as an independent officer of the Victorian Parliament is enshrined in Part V, Division three of the Victorian Constitution, and the Public Accounts and Estimates Committee, a Joint Investigatory Committee of the Parliament of Victoria. In addition, departmental financial accountability and public administration obligations are separately governed by the *Financial Management Act 1994* (Vic) and the *Public Administration Act 2004* (Vic), and overseen by associated agencies and parliamentary mechanisms.

Finally, in this context it is important to qualify an assertion made in IPAA's submission to the previous inquiry, that CRC reports and the reports of the Steering Committee for the Review of Governments Services (RoGs) are not audited.

[6] In the context of that inquiry, constitutional reforms.

While it is true that these compiled final reports are not separately audited, jurisdictions do their own quality assurance on the administrative and other data provided to and incorporated in these reports. The Productivity Commission also provides resources to support the RoGs process, including reviewing this data.

As recognised above, improving data quality is an ongoing shared commitment under the IGA FFR. Given existing mechanisms to drive their resolution, an expanded role for the Commonwealth Auditor-General and/or Commonwealth Parliament in this context is not necessary.

The need to balance the flexibility to allow States and Territories to determine their own priorities with mechanisms for monitoring accountability and ensuring that the objectives of funding agreements are being achieved, noting the role of the COAG Reform Council

The IGA FFR does not simply "allow" States and Territories to determine their own priorities; more fundamentally, it recognises their primary (and constitutional) responsibility for many of the service sectors covered by relevant National Agreements and associated Special Purpose Payments.

The twin principles of flexibility and accountability are central to the IGA FFR, which promotes clarification of roles and responsibilities and facilitates all jurisdictions' accountability to the public for agreed outcomes.

As noted by the CRC in the context of its first overarching, strategic stocktake of the aggregate pace of activity in progressing COAG's agreed reform agenda (its "COAG Reform Agenda: Report on Progress 2010") –

> *"reform of the institutional arrangements for intergovernmental cooperation and financial relations represents an important foundational achievement of the COAG reform agenda".*

COAG's intention through the IGA FFR *is* to balance jurisdictional flexibility and outcomes-based public accountability, *by holding all jurisdictions directly and publicly accountable for delivering against their agreed outcomes*. In this context, the assertion "historically a lack of accountability has been a problem with Commonwealth grants to the States and Territories"[7] should be challenged, particularly given the counter-productive nature of Commonwealth prescriptions and input controls in those grants.[8]

The Victorian Government fully supports exploring options to enhance all Australian governments' outcomes-based public accountability, through jurisdictionally appropriate mechanisms consistent with the IGA FFR. As outlined above, any such proposals should recognise and utilise the federal structure of national governance in Australia, by supporting the direct accountability of the relevant government to the public for agreed outcomes.

The adequacy of parliamentary scrutiny of funding agreements, noting that such agreements are typically negotiated at executive-to-executive level

[7] Report 419, para 5.8.

[8] For further information on the overlapping and overly-prescriptive predecessors to National Agreements and National Partnerships under 2008 IGA FFR, see the Victorian Government report, *Governments Working Together? Assessing Specific Purpose Payments* (June 2006).

As observed by the Commonwealth Treasurer, Mr. Wayne Swan, in his Second Reading speech on the *Federal Financial Relations Act 2009* (Cth), the centralisation of all intergovernmental financial transfers (other than Commonwealth own-purpose expenses) through treasuries under the IGA FFR is a major step forward in federal fiscal transparency.

This centralisation of payments may seem a minor administrative change, but the ongoing reform and public accountability potential of this change should not be underestimated. As noted above, the IGA FFR has – for the first time in Australia's federal history – established an ongoing policy and administrative framework for intergovernmental transfers. Facilitating these transfers through a single piece of Commonwealth legislation is a dramatic improvement in Commonwealth-level parliamentary accountability. It also provides for a much more coherent and comprehensive approach to these transfers, particularly the outcomes-based policy and reform objectives of the IGA FFR.

Clarifying public and parliamentary expectations of the accountability arrangements for intergovernmental transfers is a critical shared challenge. Within the Commonwealth Parliament, it is appropriate that the Commonwealth Government (through its ministers and officials) are called to account for its own areas of direct responsibility, including the Commonwealth's decision-making in agreeing to an intergovernmental transfer of public funds under the IGA FFR; Commonwealth Ministers and officials should not, however, be asked to answer for the performance of State and Territory governments.

At a State-level, the Victorian Government notes the recommendations of the Victorian Parliament's Public Accounts and Estimates Committee "Report on the Inquiry into Victoria's Audit Act 1994" in relation to facilitating Commonwealth-State joint audits (an option noted by a number of submissions to the Committee's previous inquiry). The Victorian Government supports greater cooperation and collaboration in-principle, but notes the need for further careful consideration of the legal and operational issues involving information-sharing and joint work by these independent agencies.

Beside parliamentary scrutiny, however, the Victorian Government concurs with public comments by the CRC and the Business Council of Australia that the key institutional "gap" in relation to effective intergovernmental cooperation in the Australian Federation is in fact the institution of COAG itself.

The Victorian Government considers that simple reforms to the operation of COAG, such as establishing a regular schedule of twice-yearly meetings, would give further momentum to the Prime Minister's call for a renewed focus on performance and accountability within this national strategic decision-making and coordination forum.

In addition, to give greater practical effect to 2008 federal financial reforms, and to further embed this shift to outcomes-based public accountability, it is important that all jurisdictions more actively support greater intra-governmental, public and stakeholder engagement with the national performance reports produced by the CRC. As noted by the CRC Chairman (in the context of COAG's overall reform agenda), "our heads of governments and key ministers have not done enough to promote the agenda and the new governance approach".[9]

[9] CRC Chairman Paul McClintock, "Renewing the mandate: COAG and its reform agenda in 2011", speech to the Committee for Economic Development of Australia, Sydney, 9 February 2011, available online at *http://www.coagreformcouncil.gov.au/media/speeches/speech_20110209_CEDA.pdf* Accessed 8 March 2011.

Other constitutional, legal and operational issues

In providing specific responses to this inquiry's terms of reference, this submission has particularly highlighted overarching conceptual issues in relation to the current arrangements for national funding agreements: specifically, the federal nature of public accountability and the unintended consequences of mischaracterising intergovernmental transfers.

With regard to the Committee's related Recommendations 10 and 11 from its Report 419, however, the Victorian Government also notes some specific constitutional, legal and operational concerns with the proposal to confer additional functions on the Commonwealth Auditor-General.

First and foremost, as has been argued earlier, conferring powers on the Commonwealth Auditor-General to audit a State agency in receipt of "Commonwealth funding" is inconsistent with the basic constitutional structure of the Australian Federation. Secondly, the Victorian Government has serious concerns with the extent to which the agreement of a Commonwealth Minister would actually serve as a "constraint" on Recommendation 11 (giving the Commonwealth Auditor-General the power to conduct a performance audit of a State agency in relation to the receipt of "Commonwealth funding").

More generally, the proposed extensions of the Commonwealth Auditor-General's powers into areas for which the relevant State Auditor-General is ordinarily responsible could lead to administrative inefficiencies. Rather than a coordinated or joint approach, it could lead to two auditors (Commonwealth and State) performing overlapping functions and thus imposing burdensome compliance requirements on the entities being audited. It would also risk confusing accountability at the entity-level, as the audited entity is effectively reporting to two auditors and, in a sense, to two parliaments.

Additionally, the Victorian Government notes that there could be unintended practical and legal consequences flowing from such an extension of the Commonwealth Auditor-General's powers. Extending the Commonwealth Auditor-General's powers into existing State regimes is likely to create difficulties. There would also be questions about the extent of the Commonwealth's constitutional power to enable the Commonwealth Auditor-General to perform such functions, and the interaction with any State legislation.

Conclusion – direct accountability to the public for outcomes: the national benefits of a mature federation

In commenting on the operation of funding agreements between Australian governments, the Victorian Government is mindful of all jurisdictions' responsibility for preserving, realising and extending the public benefits and institutional legacy of the federal structure of national governance established by the Australian Constitution.

As has been well argued elsewhere,[10] whether the issue at hand is one of policy-setting, regulation, implementation or public accountability, it is not in the national interest to "default" to one level of government. Instead, Australia's federal structure in fact facilitates good governance and rigorous national strategic policy, by prompting systematic and evidence-based deliberations on the best governance and public accountability arrangements for areas of shared responsibility.

[10] Anne Twomey and Glenn Withers report for the Council for the Australian Federation (CAF), *Federalist Paper 1: Australia's Federal Future (April 2007)* is a valuable summary of the public benefits of Australia's federal system, and the Victorian Government recommends it to the Committee; see also last year's CAF submission to Senate Select Committee on the Reform of the Federation.

The Committee's emphasis on the Commonwealth Government's accountability to the Australian people for its policy decisions and service delivery outcomes, through the Commonwealth Parliament and the work of the Commonwealth Auditor-General, is entirely appropriate.

In considering the practical operation of national funding agreements under the IGA FFR, however, the Victorian Government invites the Committee to reflect on both the detailed arrangements and underlying reform principles of this still maturing framework, particularly all jurisdictions' commitment to being directly accountable to the public for the expenditure of public funds and the achievement of agreed outcomes.

ENDS