

## COAG National Reform Agenda - Monitoring Performance and the COAG Reform Council

SPEECH BY

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## **INTRODUCTION**

I am delighted to be back with CEDA, given the contribution that you have made to the policy debate in Australia over the last almost 50 years. CEDA's willingness to address in an objective and non-partisan way many of the economic strategic challenges we as a nation have faced since 1960 is a unique achievement.

The last time I spoke to CEDA was when I was Cabinet Secretary, and given the current political cycle can I say how relieved I am to be talking to you today about COAG and its Reform Council.

I not only respect the contribution CEDA has made to the cause of strategic public policy, but it also has a special significance for me personally. Part of that significance is my father's contribution to the early development of the organisation, and I am delighted that he has put aside his birthday celebrations to be here today.

The other part is that CEDA hosted a speech from the Prime Minister in 2002 that explained the framework I worked on when running the Cabinet Policy Unit. That speech remains a rare example of whole of government policy work, and the priorities it set have stood the test of time quite well.

I have recalled that speech not only to reminisce on shared experience, but also to argue the importance of the task of the COAG Reform Council, an importance that is clear from the priorities themselves. This was an analysis from a Government into its third term of office, setting out the new areas of whole of government policy work that would be the focus of the following few years.

The speech announced nine cross portfolio policy challenged priorities set in 2001: **national security, work and family life, demographics, science and innovation, education, sustainable environment, energy, rural and regional, and transport.** The relevance to today's topic is that if you look at those areas you will see that Commonwealth/State relations lie at the heart of nearly all of them. Whilst no-one was saying then that Federalism was our next big challenge, the real issues identified made that conclusion obvious.

Much has changed since 2001, and the Federalism agenda is now more in focus, with a debate greatly encouraged by groups like CEDA and the BCA. Yet it could be argued that progress in making this system work better has not matched this growing awareness. Attempting a critique of the Federal system in the current political climate may be seen as courageous in the Sir Humphrey meaning of the word, but I will conclude with some remarks in that area.

Our political leaders continually remind us that in a rapidly changing world we are unable to rest on our laurels. This is particularly so when one considers the challenges going forward to maintaining our economic success include:

- intense global competition; and
- demographic changes leading to a reduction in workforce participation and an increase in public sector expenditure.

On the latter, the second Intergenerational Report, released by the Commonwealth Treasurer in April, shows a slowing of economic growth reflecting a marked reduction in total labour force participation rates over the next 40 years as the population ages, giving the Commonwealth a fiscal gap projected to be of the order of three and a half per cent of GDP.

While the gap has narrowed from the first Report, it is still large and underlines the need to limit the projected slowdown in the growth of real GDP per person over the next four decades by lifting productivity growth from its historic averages and further reducing barriers to workforce participation.

It was against this background and the need for Australia to remain globally competitive that the Council of Australian Governments (COAG) at its meeting in February 2006 agreed to pursue the National Reform Agenda. The National Reform Agenda comprises three streams:

- the **competition reforms** include energy, transport and economic regulation of nationally-significant infrastructure;
- the **regulatory reforms** include the promotion of best-practice regulation processes and a number of specific regulatory reforms covering areas such as rail safety, trade measurement, occupational health and safety and personal property securities; and
- the **human capital stream** is widely defined but so far includes actions to combat type 2 diabetes and specific reforms in the areas of vocational education and training, literacy and numeracy and child care.

The National Reform Agenda is critical to ensuring Australia's economic infrastructure – our roads, rail, ports and energy supply systems – is up with the best in the world. With the human capital stream included it touches almost all aspects of Australia's competitive position. The Productivity Commission has estimated that there are very significant potential "outer-envelope" economy-wide returns from ambitious competition, regulatory and human capital reforms in the longer run.

### **COAG REFORM COUNCIL**

Let me now turn to the COAG Reform Council, and here I will give some details of our brief and thinking as this is the first opportunity I have had to put this on the public record.

As well as adopting the National Reform Agenda, COAG also agreed in-principle in February 2006 to establish the COAG Reform Council (CRC) to report annually to it on progress in implementing the Agenda. At its April 2007 meeting, COAG agreed the institutional arrangements surrounding the CRC.

The CRC has been commissioned by COAG to undertake two roles:

- to monitor the progress in implementing National Reform Agenda reforms; and
- to assess the costs and benefits of reforms referred to it by COAG.

The CRC is independent of governments and will report directly to COAG in relation to its responsibilities. It is to be supported in its work by an independent secretariat. The

members are myself as Chairman, Dr Geoff Gallop as Deputy Chairman and Mr Peter Corish, Dr Doug McTaggart, Mr John Langoulant and Ms Helen Silver.

### Monitoring

Initially we expect to concentrate on monitoring two things:

- the implementation of those agreed reforms that have been referred to us by COAG; and
- the pace of activity in progressing the National Reform Agenda more generally, including in areas of the National Reform Agenda where reform packages have not been specifically referred to the Council.

Clearly, it is very important that reforms agreed by COAG are implemented in a timely and effective manner. On the energy and transport reforms, for example, I understand that the preparatory process leading to COAG agreement in April to specific reforms took some two years, including COAG commissioning and considering detailed reports on transport pricing by the Productivity Commission and on energy reform by the Energy Reform Implementation Group headed by Bill Scales.

It would be a tragedy for Australia if those agreed reforms were now not properly implemented. This has not traditionally been a strong point of government – when I became Cabinet Secretary I thought the key difference from a Board and Cabinet is that Cabinet was not regularly involved in the oversight of the implementation of its previous decisions. Since then the Commonwealth and several state governments have established units to monitor and assist with the implementation of government decisions. This has begun to contribute to Cabinets being kept abreast of major developments and shortfalls in programs they have already approved.

### Assessment

As reforms are implemented and economic, fiscal and other benefits are being realised, the CRC will provide COAG with a broad **ex-post** assessment of the costs and benefits of individual reform packages. The CRC's assessments may be either qualitative or quantitative in nature and will have due regard to economic, demographic, and geographic and other differences between jurisdictions.

COAG's intent is that actual, realised costs and benefits be assessed. The CRC will make judgments about when the implementation of each specific reform is sufficiently progressed to enable the CRC to provide sensibly a report to COAG on the ex-post costs and benefits of each reform. I expect that we will commence work early on performance and assessment methodologies to help guide the information gathered from jurisdictions. We will also draw on the work the Productivity Commission has already done and may further undertake in relation to modelling of reform benefits.

COAG envisaged in its April 2007 communique that following receipt of the CRC's assessment of a specific reform, the Commonwealth, State and Territory Governments will consider if any 'fair-sharing' payments are required by any government, given the relative costs and benefits of the reforms.

### Referred Reforms

COAG agreed in April 2007 to refer the following reform proposals to the CRC for monitoring of progress and subsequently for assessment:

- transport pricing reform;
- electricity smart meters;
- the new National Energy Market Operator and transmission planning function, and related reforms;
- economic regulation of nationally-significant infrastructure (including streamlining third-party access regimes and each jurisdiction undertaking public reviews of regulation and competition in significant ports by end 2007);
- implementation of national rail safety legislation and a nationally-consistent rail safety regulatory framework;
- establishment of a national system of trade measurement administered by the Commonwealth; and
- ensuring that best-practice regulation making and review processes apply to the Building Code of Australia and removing unnecessary state-based variations to that Code.

The exact nature and timing of our reports is something the CRC is working through but I would expect that their usefulness will be maximised if they occur in the lead up to COAG meetings and are as current as possible. Unless COAG agrees to the contrary, I would expect that the CRC's independent progress and assessment reports will be publicly released.

### **LOOKING FORWARD**

Looking forward, if further new national reform initiatives are agreed by COAG, COAG will consider referring them to the CRC. It is important to note, however, that COAG has not given the CRC a policy advising role. Nor have we been given an adjudication role, including any responsibility under Part III A of the Trade Practices Act, and in that sense our role is very different to the National Competition Council.

While the CRC will certainly advise COAG on implementation issues that emerge, the CRC does not set reform agendas, provide advice on alternative reform solutions or actually implement reforms. Nor will it make recommendations on funding shares. Policy and funding decisions and advice remain the domain of COAG members and their officials respectively. It is, of course, open for COAG to agree at future meetings to supplement the CRC's agreed roles, and it is clear that there are different views amongst governments on this point.

In the meantime we are in the throes of establishing in Sydney the permanent Secretariat to support the CRC in its work, including advertising for staff and looking for accommodation. We have also begun talking to our constituents – groups like CEDA and the BCA, and the COAG member governments – to compare notes on expectations.

I said at the beginning of my remarks that I would chance some general remarks on the state of federalism in Australia today. When I first became interested in public policy nearly forty years ago my most significant role model was John, later Sir John, Carrick, whose interest in Federalism was well known. It was driven by the realities of his policy passions, particularly education and energy. These challenges needed a new level of cooperation between levels of Government, a long term and sustained commitment to team well, and most of all a respect for each other's role and competence. They also needed high quality, dedicated resources at both state and Commonwealth to service this new level of integration.

If that challenge is not met – and I do not think it is being met adequately today – then the contribution of the CRC will be very limited.

So, in conclusion, I and my fellow councillors fully intend to play our part in keeping governments accountable for the commitments they have made in the areas of reform that have been referred to us, but I am sure CEDA understands that broad stakeholder interest and support is also critical to successful implementation.

As new players on the field we acknowledge those of you who have been here earlier and staked out the ground. Our unique position, partly inside the system, should add one more valuable voice to those in our society, like CEDA, arguing for ongoing reform.

Thank you.