

## MANAGING ACROSS LEVELS OF GOVERNMENT AUSTRALIA

### 1. Institutions and authority

#### 1.1 Structures

##### *Description of levels*

The Australian Constitution brought into being the federal government in 1901 by fusing into one nation six states, each with its own parliament, executive government and judiciary. In addition, there are two “territories” -- the Northern Territory (which was granted self-government in 1978) and the Australian Capital Territory (the site of Canberra, the federal capital, which achieved self government in 1989) -- and which, along with the states, are represented in the Senate and the House of Representatives. Each state has its own constitution but which must be read subject to the Australian Constitution. Local government is established by state (or territory) legislation and may be recognised in state constitutions.

There are three levels of sub-national administration in Australia: state, regional and local. But they are not consistent across the country. A distinction can be made between administration at the three levels and governments' operational activities at these levels.

The Commonwealth (or federal) government primarily operates at the national level, but its departments and agencies also have state, regional and local offices. State governments operate at the state level, but have regional and local offices. Local government comes in a range of forms and in addition to operating locally has sought to perform roles at the regional level (e.g. joint arrangements; multifunctional associations of municipalities).

At the **state** level there are six states and two “territories” as shown in Table 1. Most of the country is covered by the states. Of the two territories, one is large in area and it is possible that it may be granted statehood in the future; the other, the Australian Capital Territory, is a state/local hybrid.

**Table 1. Area and population of sub-national governments**

	Population	Area (sq. km)
States:		
New South Wales	6 115 100	801 600
Queensland	3 277 000	1 727 200
South Australia	1 474 000	984 000
Tasmania	473 022	67 800
Victoria	4 502 200	227 600
Western Australia	1 731 700	2 525 500
Territories:		
Australian Capital Territory	304 100	2 400
Northern Territory	173 878	1 346 200
<b>TOTAL</b>	<b>18 051 600</b>	<b>7 682 300</b>

Source: Australian Bureau of Statistics, 1995.

The broad structure of local government is in Table 2. It includes 92 community governments that have been established to reflect the needs of Aboriginal and Torres Strait Islander communities. They are mostly small and remote community councils. Table 3 illustrates some of the key characteristics of selected councils.

**Table 2. Rural/urban structure of local government by state**

State/Territory	Urban	Rural	Total
New South Wales	82	96	178
Victoria	57	21	78
Queensland	30	126 <sup>(1)</sup>	156
South Australia	45	79 <sup>(1)</sup>	124
Western Australia	38	104	142
Tasmania	10	19	29
Northern Territory	5	62 <sup>(1)</sup>	67
<b>TOTAL</b>	<b>267</b>	<b>507</b>	<b>774</b>

1. Includes Northern Territory 51, Queensland 31, and South Australia 5, Aboriginal and Torres Strait Islander community governments.

Source: National Office of Local Government.

**Table 3. Characteristics of selected councils**

Council	Description	Area (sq km)	Population	Total expenditure (\$'000)	General Purpose grant (\$/capital)	Expenditure
Stephen Island	Remote community	0.4	45	66.0	432	1 467
Peppermint Grove	Small Urban	1.5	1 547	1 575.1	21	1 018
Brisbane City Council	Large Urban	1 218	786 442	401 183.7 <sup>(1)</sup>	20	510
East Pilbara	Remote	378 533	9 436	8 535.2	122	905
Windouran	Small Rural	5 065	430	1 295.0	462	3 012
Gosford	Fringe Urban	1 028	142 150	142 072.0	37	999
Marngarr	Remote Community	2.7	206	45.5	43	221
Wanneroo	Urban Fringe	786	197 134	62 760.3	14	318

1. Excludes expenditure related to water and sewerage and public transportation.

Source: State Grants Commission data.

#### *Creation, elimination and restructuring*

The Commonwealth Government is established by, and state governments recognised under, the Australian Constitution. Local government is established by state (or territory) legislation, and this may include recognition in state constitutions. The creation of administrative units, and their field operations at different levels, is a question for government decision making, and occurs at the departmental level. Departments can be established without legislation although it is common for specialised authorities to be so enacted.

A recent development has been the emergence of the “service agency” within the federal sphere. In the 1996-97 Budget the Government announced its decision to form a new Commonwealth Services Delivery Agency. The Agency, which is based on the “one stop shop” concept, will bring together services from different Commonwealth Departments, so that people can get the help they need in one place. Once the necessary legislation is passed, the Agency will deliver the full range of income support and related services. From September 1997 the Agency will progressively deliver student assistance services, some employment services and, from January 1998, child care payments.

*Local government:* Extensive reform of local government has been occurring in recent years. This has involved the legislation governing councils, relations between levels and boundary review. A complete reorganisation of the external boundaries of local government has occurred in Tasmania and Victoria, and South Australia is implementing a widespread reform of boundaries. Several amalgamations have occurred in Queensland and some interest exists in other states.

An effect of the reorganisation in Victoria has been to resolve the tensions between the residential and business interests of the council for the central business district of the state capital, Melbourne. This has involved minimising the residential areas served by the council while extending the council area to include nearby commercial areas, including the port of Melbourne. Similarly, in Western Australia, the former council responsible for the central part of the state capital, Perth, was subdivided

such that there remained one council responsible for the central business district and new councils were created for the surrounding residential areas.

Additional informal bodies located in remote areas continue to be recognised as local governments for purposes such as to receive Commonwealth financial assistance. These bodies are usually outside of areas serviced by councils, populated by indigenous peoples and provide essential services. Provision of Commonwealth assistance to these bodies commenced in 1985-86 with grants totalling \$290 000. In 1996-97, a total of 92 bodies received grants of \$13.4m and served 50 000 people.

In addition to boundary reform, state governments have introduced a number of other reforms of local government through legislation. These vary between states but include subjecting minimum specified proportions of expenditure to market testing (compulsory competitive tendering); prescribing increasing reporting and accountability provisions and rate capping. State governments are also requiring local government to conform with undertakings made to the Commonwealth government concerning competition policy. In short, this policy requires that significant government owned businesses should not enjoy any competitive advantage as a result of their ownership, unless shown to be in the public interest.

A long term trend has favoured centralising sub-national responsibilities at the state level (i.e. vertical movement of responsibilities from local to state government). At the same time new legislation controlling local government has been more empowering and less prescriptive of functions performed, and councils are increasingly diversifying their functions into local community needs not met by other levels.

*State government:* State governments have been comprehensively reforming their public sectors for a decade or more. This has received renewed impetus with the election of new style conservative governments (i.e. managerialist) in recent years (in comparison with the 1980s when new style Labor governments, also managerialist, were dominant at this level). For example, traditional core functions may now be subject to market testing and contracting out through competitive tendering; and the non-budget sector has experienced significant privatisation.

### *Control bodies*

Several different types of institution are involved in the control of the legality and/or efficiency of actions of sub-national bodies. They are both internal and external to the administration and include both central agencies (responsible for co-ordinating finance, personnel and policy) and external review bodies. There are, for example, central agencies of the Commonwealth government such as the Local Government Division of the Department of Environment, Sport and Territories, and the Department of Finance. There are also the central agencies of the state governments, which go under different names, but include a finance/treasury department and some form of public management office. Externally, parliaments have a role with the ministers being accountable for their departments. Audit offices in the states report to parliament, and maintain oversight of financial management and efficiency. The local government department/office of each state is responsible for many local government activities; other financial or policy related activities would involve the relevant state (and possibly Commonwealth) government department or ministry. There is also a Commonwealth Ombudsman and an ombudsman in each state and in the Northern and Australian Capital Territories.

## 1.2 Powers

### *Nature of sub-national institutions*

Sub-nationally, there are two levels of directly elected government: state and local. The sub-national legislature is bicameral-cameral for five states. One state (Queensland) and the two territories have unicameral parliaments. The authority of some state governments is affected by the composition of upper houses (and the single chamber in the case of the Australian Capital Territory) where independents hold the balance of power. State representatives are directly elected by single-member (sometimes multi-member electorates). There is also extensive use of appointments to administrative positions (boards of agencies etc.) at regional and state levels.

The cabinet, based on portfolio ministers, is the main decision making body at the state level. Under this system responsibility is normally delegated to the minister for his/her portfolio, with the expectation that matters of political and strategic importance or with cross-portfolio implications will be raised with cabinet.

State governments rely on the ministerial department for the core public sector (i.e. the public service) and on the government business enterprise for commercial activities. Various forms of statutory authority are also widely used.

Local government authorities have elected councils of between 9 and 21 members (for the most part). Councils are directly elected by a variety of systems depending on the state. These vary from the single-member electorate system in the largest City (Brisbane) to multi-member electorates with staggered elections.

Administration in local government is usually divided into several departments, responsible to a chief executive officer (traditional statutory positions such as the shire or town clerk now becoming uncommon) who is increasingly likely to be employed on a contract. Two significant trends are changing the nature of local administration: one is curtailing the role of elected representatives by explicitly limiting their roles to policy not administration, the other has been the introduction of modern management methods to improve the effectiveness and efficiency of councils.

### *Type and degree of autonomy*

The states are among the most powerful intermediate governments in the world because of the breadth of their functions and their substantial role in service delivery (in large part a function of the centralisation at the sub-national level, which occurs at the expense of local government). The states enjoy considerable autonomy based on constitutionally prescribed rights. However, overlapping roles and responsibilities between state and federal levels reduces this in practice. Nevertheless, the states (and territories) have the capacity to initiate policy and a range of mechanisms for pursuing it. The degree of autonomy varies according to the policy field.

Local government has often been described as a 'creature of the states'. It has always been confined to a relatively narrow range of functions (on a world scale). This plus the fragmentation of the system -- small in population and often in area (where urban) -- has worked against high autonomy.

*Tax powers:* The states ceased imposing separate income taxes in 1942 when the Commonwealth imposed uniform income tax arrangements as a wartime measure. The states were compensated by grants from the Commonwealth and have not imposed income taxes since then. Broad-based taxes on the production and sale of goods are not available to the states. Consequently about three-quarters of all tax revenue is collected by the Commonwealth.

Local government is able to strike a rate based on property valuations, but is otherwise limited in its right to tax. Councils have the right to make policy within parameters determined by state government, and this certainly extends to organisational design. (A general competence power was given to councils in Queensland but this was eroded over time by state legislation.)

The powers of the Commonwealth are defined by the constitution. The states can undertake the residual. Only a small number of functions can be regarded as exclusive to a level. In practice most functions are shared to some degree.

### **1.3 Responsibilities**

#### *Distribution of responsibilities*

The 1990s have been unusual for the level of debate and exchanges among the larger units of the federal system (Commonwealth and the states/territories) about the distribution of responsibilities and the need to achieve rationalisation and efficiencies in accordance with the national micro-economic reform agenda.

All levels of government have competencies related to policy implementation. Service delivery is not automatically moved among the levels of government but is often retained by the two upper tiers (i.e. the Commonwealth and the states) which implement policy through their own forms of deconcentration. This may become less common in the future. The relationships are increasingly being conceptualised in purchaser/provider terms.

As a creation of state legislation, local government is not directly controlled by the Commonwealth government. The Commonwealth does however share some responsibilities with local government by providing it with specific purpose grants. The Commonwealth also shares general revenue with local government by providing general purpose funding.

#### *Mandatory, optional and shared responsibilities*

At the federal level the Commonwealth is entirely responsible for external affairs, defence and air transport, and plays a major role in social security and welfare payments. However, shared responsibilities have been highly prevalent. Major fields of overlap are education, health and transport, as although they are state responsibilities, they are mostly financed by Commonwealth funds.

Overlapping competences are dealt with in several ways. State governments have been inclined to seek rationalisation of the overlaps with local governments by legislating for their centralisation at the state level. Ministerial councils have existed as part of co-operative federalism for handling broad-based overlaps between the Commonwealth and the states. Otherwise these may be negotiated on a bicameral-lateral basis. A standard practice has been for each of the two or three levels to assume specific roles

(planning, financing, co-ordinating, monitoring and delivery), although the mix varies between policy fields.

Responsibilities may be redistributed by constitutional amendment, but this approach has rarely been successful. There has been a Council of Australian Governments (COAG) since 1992 (described below), which has had among its briefs the question of reviewing responsibilities. Current examples of responsibilities being reviewed include regulation in the areas of environment and food standards.

COAG has recognised that an explicit allocation of a functional responsibility to one level may be desirable and that where shared responsibilities are maintained roles should be delineated in order to avoid duplication, improve accountability and minimise inefficiencies.

States currently have *exclusive* powers for most areas of service delivery and education, energy, agriculture, health, transport, housing and development, police and justice systems, and local government. Local governments, on the other hand, are mostly responsible for service delivery in the areas of community services, recreation and culture, and road transport. Most also exercise an array of planning and approval responsibilities.

## **2. Management functions**

### **2.1 Policy-making and co-ordination**

The Australian Constitution was originally written to create two sets of authorities -- federal and state -- that would act independently of each other in their respective spheres. That is, relations between federal and state governments are constitutionally based on a "co-ordinate federalism". Referenda have rejected constitutional amendments proposing more co-operative structures.

#### *Coherence, consultation and conflict resolution*

Various devices are used for conflict resolution and consultation between levels and with citizens/groups. The concept of co-operative federalism, which involves joint action between levels of government, covers a range of mechanisms designed to handle intergovernmental relations. The key ones have been mentioned above. Nationally, the ministerial councils have been a prime means for providing a consultative policy forum, with over 40 at their peak. Informal contact and negotiation between officials in specific policy sectors from different levels is also a constant feature.

With the advent of 'client focus' in the 1990s, and the move away from the 'top-down' approach of the 1980s, linkages with customers and citizens have been developed. Customer councils and other types of consultative mechanisms are increasingly used by state departments. Precinct committees exist in some council areas. Overall, however, consultative mechanisms are still not well developed.

#### *Formal and informal mechanisms*

The following mechanisms have been used for vertical co-ordination:

- Formal bodies with defined financial powers: Commonwealth Grants Commission (which advises on the allocation of Commonwealth general purpose funding among the states); Loan Council; and the Premiers' Conference. Through the Commonwealth Grants Commission there has been a long tradition of fiscal equalisation between the states.
- Premiers' Conference: the annual meeting of the Commonwealth and State and Territory Ministers evolved out of meetings confined to state premiers. Its main focus has been co-ordination of economic policy and financial matters (Treasurers usually meet at the same time).
- Ministerial councils: conferences of Commonwealth and State and Territory Ministers for specific policy sectors (and associated meetings of officials).
- Intergovernmental agreements of many kinds (which range from formal written agreements and contracts to informal arrangements).
- Intergovernmental programmes which specify conditions (and which may be the subject of intergovernmental agreements), and include programme monitoring and evaluation.

In 1990, the heads of the Commonwealth, states, and territorial governments began to meet in regular Special Premiers' Conferences (SPC) to pursue a common micro-economic reform agenda including deregulation, harmonisation, mutual recognition, and regulatory co-ordination between federal and state governments. The ad hoc SPCs were replaced in 1992 by the permanent Council of Australian Governments (COAG). It co-exists with the Premiers' Conference (having generally the same membership except COAG also includes the President of the Australian Local Government Association). They may meet separately or on consecutive days. COAG's role is to increase co-operation among governments on reform of the economy and ongoing structural reform of government. It also provides a forum for consultation of major whole-of-government issues. COAG therefore provides a formal mechanism during a period of public sector change which specialises in the reform agenda. It is served by a number of working groups (see below).

Horizontal co-ordination within the state level is pursued through central and independent performance monitoring and review of policy outcomes. At the local level it has been sought through state government monitoring of programme implementation. There has often been insufficient co-ordination of funding programmes involving state and local governments (including the various aspects of the funding system: policy development, programme planning, programme administration and resource allocation).

There have also been various experiments at the regional level (the aspirations extending to regional budgeting) including attempts at standardising regional boundaries in order to achieve greater consistency.

At the federal level, the Department of the Prime Minister and Cabinet has the prime responsibility for policy co-ordination across the Commonwealth departments and for relations with the states. Horizontal co-ordination within the Commonwealth has also been pursued through the Regional Advisory Management Committee, consisting of key Commonwealth Departments and agencies. Amongst its purposes is the encouragement of policies and programme design and delivery which is capable of responding to the particular economic development needs of individual regions. It is also a

forum through which RDOs have been able to present and promote their regional development strategies and priorities to the Commonwealth Government.

At the state level, the Premier's department (known usually as Department of Premier and Cabinet) is responsible for policy co-ordination. Finance/Treasury is also important. Two other types of body are the state co-ordination council which has been used for bringing together CEOs, and the management council composed of senior officials from the central agencies. The local government department (or its equivalent office) is responsible for co-ordinating local government matters. For specific policies (e.g. health) the line department will be responsible for vertical linkages (either with the federal or local levels). Cabinet committees have also played active roles (possibly with the assistance of officials groups).

## 2.2 *Financial management*

Federal fiscal arrangements in Australia are characterised by a significant difference between the relative revenue and expenditure responsibilities of the Commonwealth and state and local governments. The amount of own-source revenue raised by the Commonwealth is considerably larger than its own-purpose outlays. In contrast, state and local government own-purpose outlays outweigh the amount which they fund from their own-source revenue. Table 4 shows the composition of general government own-source revenue and own purpose outlays in 1995-96.

**Table 4. Composition of General Government Revenue and Outlays, 1995-96  
(percent shares)**

	Own-Source Revenue	Own-Purpose Outlays
Commonwealth	72	58
State	24	38
Local	4	4

The distribution of relative revenue and expenditure responsibilities necessitates a substantial flow of funds from the Commonwealth to the sub-national levels of government. In 1996-97, payments to state and local government (excluding very large one-off items) are expected to account for around 26 per cent of total Commonwealth outlays, with these grants from the Commonwealth expected to account for 42 per cent of state and local government revenue.

Commonwealth payments to state and local government are in the form of either general purpose payments (GPPs) or specific purpose payments (SPPs).

### *General purpose payments to the states*

GPPs are funds that are provided free of any conditions attached to their use by the states. In 1996-97, GPPs are expected to account for around 48 per cent of Commonwealth funds provided to the

states. The growth and distribution of GPPs are considered annually at the Premiers' Conference and are expected to total A\$16.4 billion in 1996-97. The main components of GPPs are detailed below:

- Financial assistance grants represent the bulk of GPPs and are expected to total A\$15.4 billion in 1996-97.
- Special revenue assistance is provided to some states to address specific circumstances and is expected to total A\$480 million in 1996-97.
- National competition payments will commence in 1997-98 under a Commonwealth/State agreement (Agreement to Implement the National Competition Policy [NCP] and Related Reforms) to implement microeconomic reform. Under the Agreement, the Commonwealth will provide the states with a payment of around A\$215 million in 1997-98 which will be distributed among the states on an equal per capita basis.
  - A state must meet its obligations under the NCP Agreement before receiving its payment.

#### *Financial Assistance Grants (FAGs)*

Since 1994-95, FAGs have been indexed for population growth as well as for inflation. A rolling three year real per capita guarantee for FAGs was extended to 1999-2000 at the 1997 Premiers' Conference. The per capita component of the guarantee is conditional on the states complying with their obligations under the NCP Agreement.

FAGs are distributed among the states on the basis of horizontal fiscal equalisation (HFE) principles which are reflected in the per capita relativities recommended by an independent body called the Commonwealth Grants Commission (CGC). The CGC seeks to ensure that each state has the capacity to provide the average standard of state type services, if it makes the same effort to raise revenue as the states on average and it operates at an average level of efficiency. The CGC takes into account the differences in the capacities of the states to raise their own revenue and also takes into account factors which affect the relative cost of providing the average level of state-type public services (such as population dispersion and isolation). The estimated 1996-97 distribution of FAGs between the eight jurisdictions which are included in the HFE arrangements is shown below in Table 5. The Table indicates that in 1996-97 five jurisdictions will receive a greater amount of FAGs under the HFE arrangements than if FAGs were allocated solely on the basis of population.

**Table 5. Impact of Horizontal Fiscal Equalisation  
on Estimated Distribution of Financial Assistance Grants, 1996-97**  
(\$ million)

	HFE Distribution	Equal Per Capita Distribution	Difference
New South Wales	4 371	5 200	-829
Victoria	3 211	3 814	-602
Queensland	3 004	2 860	144
Western Australia	1 537	1 513	24
South Australia	1 512	1 221	291
Tasmania	665	394	271
Australian Capital Territory	233	269	-36
Northern Territory	902	164	738
Total	15 436	15 436	0

In light of the Commonwealth's fiscal position, the states have agreed to make payments to the Commonwealth of A\$619 million in 1996-97, A\$627 million in 1997-98 and A\$313 million in 1998-99 to contribute to the Commonwealth's deficit reduction programme. The method of payment varies among the states and has been by way of direct payments to the Commonwealth, deductions from FAGs or reductions in the Commonwealth's contribution to an SPP.

#### *Specific purpose payments to the states*

Most SPPs are paid to the states on the basis that policy objectives set by the Commonwealth, or national policy objectives agreed between the Commonwealth and the states, are met. It is because of the conditions attached to SPPs that they are sometimes called 'tied grants'.

In 1996-97, SPPs (excluding very large one-off items) are expected to total A\$18.0 billion and account for around 52 per cent of Commonwealth payments to the states. SPPs paid 'to' the states (these are made direct to state governments for funding expenditures by the states) are expected to be A\$10.2 billion, and SPPs paid 'through' the states (payments to state governments to be passed on to other bodies or individuals such as higher education and local governments) are expected to be A\$7.8 billion.

The conditions imposed on individual SPPs vary considerably in both degree and form. They may involve a requirement that the payment be expended for a specified activity, with varying degrees of budgetary discretion available to the states according to conditions placed on payments; or general policy requirements on states (for example, that the states provide free public hospital treatment to Medicare patients as a condition of receiving hospital funding grants).

SPPs that are paid 'through' the states have a minimal impact on state budgets as they are essentially Commonwealth own-purpose outlays, with the states acting as the Commonwealth's agent.

#### *Commonwealth payments to local government*

Local government receives financial assistance from the Commonwealth in the form of untied general purpose assistance and some SPPs which are paid direct to local government. In 1996-97, general purpose assistance is expected to account for almost 83 per cent of total Commonwealth payments to local government.

General purpose assistance to local government is increased each year on the basis of an escalation factor which is determined by the Commonwealth Treasurer in light of the underlying movements in FAGs and special revenue assistance provided to the states. In 1996-97, these payments are expected to amount to A\$1 216 million, comprising A\$843 million of local government FAGs and A\$374 million of identified road funding.

Local government FAGs are distributed among the states on an equal per capita basis, while identified road funding is distributed on the basis of historical shares. The distribution of local government funding within each state is on the basis of recommendations of independent State Grants Commissions which are determined on the basis of fiscal equalisation.

The SPPs which the Commonwealth makes direct to local government are expected to be A\$260 million in 1996-97. These tied grants are utilised in certain areas of interest to both Commonwealth and local governments, such as home and community care and environmental management.

### *Sources of revenue and expenditure responsibilities*

The main sources of revenue and expenditure responsibilities of each sub-national level of government are set out in Table 6 and Table 7 respectively.

**Table 6. Main revenue sources of state and local governments 1995-1996** <sup>(1)</sup>

(percentage)			
<b>State Government</b>		<b>Local Government</b>	
Taxes, fees and fines:	39	Municipal rates	55
-- Payroll tax (9%)		Fees and fines	5
-- Taxes on financial and capital transactions (8%)		Other own source	18
-- Motor vehicle taxes (4%)		Grants from Commonwealth <sup>(3)</sup>	15
-- Franchise taxes (6%)		Grants from states <sup>(4)</sup>	7
-- Other (11%)			
Other own sources	26		
Grants from Commonwealth <sup>(2)</sup>	35		
<b>TOTAL</b>	<b>100</b>	<b>TOTAL</b>	<b>100</b>

1. On a non financial public sector basis. Some data are preliminary.
  2. Grants from Commonwealth for own use.
  3. Direct payments and general purpose assistance.
  4. Data abstracts from the financial effects of the transfer of roads from the state government sector to the local government sector in NSW in 1995-96. This transfer resulted in a temporary increase in grants to the local government sector of A\$8.0billion.
- Source:* ABS, Government Financial Estimates, Australia (5501), ABS, Taxation Revenue, Australia (5506) and unpublished ABS data.

**Table 7. Main expenditure patterns of state and local governments 1995-1996** <sup>(1)</sup>

(percentage)			
<b>State Government</b>		<b>Local Government</b>	
Education	31	Transport and communication <sup>(2)</sup>	27
Health	21	Housing and community amenities	21
Transport and communication	12	Recreation and culture	20
Public order and safety	9	General public services	18
General public services	5	Social security and welfare	6
Other expenditure	22	Other expenditure	8
<b>TOTAL</b>	<b>100</b>	<b>TOTAL</b>	<b>100</b>

1. On a non financial public sector basis. Some data are preliminary.
2. Abstracts from the temporary increase in expenditure of \$8 billion as a result of the transfer of roads from the state government sector to the local government sector in NSW.

*Source:* ABS, Government Financial Statistics, Australia (5501) and unpublished ABS data.

### 2.3 *Performance management*

#### *Mechanisms*

A range of audit and accountability mechanisms operate within and across levels. Government bodies are subject to external audit. State audit offices carry out financial and performance audits and may take on special reviews and investigations. They independently assess and report on the operations of the public sector organisations and seek to improve accountability. The Australian National Audit

Office has also conducted audits of financial programmes (e.g. specific purpose payments) and commented on Commonwealth-state agreements.

State governments have for some time been reforming their management systems in accordance with accountability for results principles and have been moving towards improved public reporting of performance. Accrual accounting and output budgeting have become widely accepted. Attention has also been given to improving internal auditing.

Local councils use annual plans and performance-based controls for senior staff, and reporting to enhance accountability for performance. State governments conduct management reviews. Annual reports to voters is a new device which is being used in some local government jurisdictions.

Benchmarking has become accepted as a standard means for comparing performance and determining best practice. A benchmarking project, sponsored by the Local Government Ministers' Conference, has recently reported on the potentiality for extending benchmarking systematically, and the constraints on covering up to 800 councils and 100 services. A system for assessing the efficiency of councils in delivering selected services is being implemented which will allow comparisons of performances nationally and over time.

A Review of State and Commonwealth Service Provision was commissioned by the Premiers' Conference at its July 1993 meeting. Its purpose is to develop and publish performance indicators to allow governments to assess relative efficiency and effectiveness in service provision. Its focus is on results benchmarking in the areas of education, public housing, community services, hospitals and justice. It has provided two reports in 1995 and 1997.

In 1994 the Local Government Ministers Conference funded a national Benchmarking Project to be undertaken by the Victoria Office of Local Government. The first phase was a pilot study to develop and test benchmarking methods. The second phase was the production of aids for benchmarking and a Practical Guide was published in September 1995. As a follow-up, Commonwealth and State Local Government Ministers and the President of the Australian Local Government Association have now decided to implement a major benchmarking and efficiency programme.

In its May 1995 Budget, the Commonwealth Government allocated up to A\$ 2 million per year for the next five years for benchmarking and efficiency projects as part of its new Local Government Development Programme, starting in 1995/1996.

#### *Service quality standards*

Service quality standards have become common. Performance indicators are widely used although their effectiveness is variable. The Review of Commonwealth and State Service Provision (for the Council of Australian Governments) is collecting and publishing quantitative performance indicators in order to permit comparisons of efficiency and evaluation of service provision reforms.

Citizen's Charter-like arrangements have been increasingly adopted at the state/territory level: e.g. Guarantee of Service, Community Contracts and Service Commitment program. In the Commonwealth sphere, from July 1997 all government bodies which provide services to the public will be

required to develop individual Government Service Charters. Where relevant, charters will guarantee specific standards for service delivery.

Service quality standards are established in a variety of ways but usually through a review process which involves customers and staff (although the extent and quality of consultation varies). The standards are generally more concerned with service delivery (i.e. process matters such as timeliness and accuracy) than outcomes, although aspirations are in the latter direction. The changes taking place in this field include the recognition of the limitations of existing procedures, the need for greater attention to performance indicators and the use of standards, the importance of involving customers more effectively in these processes and a range of performance improvement tools.

Studies have reported problems with accountability in service provision stemming from lack of clarity in objectives and roles. Inter-governmental agreements may not be subject to proper public scrutiny, and this affects performance.

State governments have been moving towards demanding more explicit performance requirements of local government. For example, councils are being required to employ the Australian Accountancy Standard requirements, a move which is designed to permit benchmarking and comparisons of performance.

## **2.4 Human resource management**

### *Statutory distinctions*

Statutory and status distinctions are specific to personnel at each level. Most states have established a Senior Executive Service. Complicated classification systems have generally been revised, and the trend is to reducing classifications further. There is a move towards broadbanding which means a reduction in levels (perhaps to five or less), and which may be linked to pay increases by performance rather than routine increments.

Local government has normally made a distinction between officers and outdoor staff. There is a trend towards abolishing statutory positions. For example, most town or shire clerks have been replaced by officials called chief executive officers or city managers; and statutory positions such as “city engineer” have been abolished.

*Managerial autonomy:* The sub-national levels of government have managerial autonomy with regard to employment, pay, recruitment, promotion and dismissal. Negotiation is organised sub-nationally.

The Public Service Board/Commissioner (or equivalent) has traditionally been the employer at the state level. This function has been increasingly devolved from state central agencies with the emergence of enterprise bargaining which envisages the development of agency-based roles and the application of the principle that the department or agency should be the employer for bargaining purposes. The chief executive officer is responsible for the negotiation of enterprise agreements. In some states, however, there continues to be a significant role for the agency responsible for employment or industrial relations.

Staffing decisions about levels once were the preserve of a state's central agency, the Public Service Board, but since its demise they are generally made at agency level. Standard practice is for staffing to be handled through the Budget process: the chief executive determining the number of designations of employees subject to available funds.

The Australian Public Service accounts for 9.1% of employed wage and salary earners in the public sector, and 2.4% of employed wage and salary earners in the whole labour force.

*Mobility:* Programmes have existed for facilitating mobility between levels of government, but the transfer of benefits has continued to be problematic. A working group of COAG has considered obstacles to mobility of public employees between jurisdictions. There were no significant constraints on short term secondments, but new employees have experienced a significant impediment with the transfer of superannuation. COAG policy is to support mobility, and bilateral arrangements are seeking to overcome the superannuation problem.

## 2.5 *Regulatory management and reform*

### *Regulatory relations between national and sub-national governments*

The development of an institutional basis for inter-governmental co-ordination in the early 1990s through "co-operative federalism" has provided substantial scope for regulatory reform.. The impetus for reform has been based on the realisation of the benefits in moving further away from fragmented state-based markets to a single national market, thereby improving the efficiency of the national economy. The core of the new federalism is a set of creative administrative power-sharing arrangements between federal, state, and even local governments.

With the creation of the permanent Council of Australian Governments (COAG) in 1992, new frameworks were created in which federal, state, and territorial governments can adopt common policies, co-ordinate programmes, and draw up common legislation. Among the key outputs of these co-operative frameworks have been a series of intergovernmental agreements that create new regulatory processes and institutions in which powers are shared, responsibilities are delegated, and single bodies are left to develop regulations without interference from multiple levels of government.

Many Commonwealth-State Ministerial Councils and National Standards Setting Bodies (NSSB) have a regulatory role and produce standardised national regulations and, to a lesser extent, strategies for enforcing these standards. By 1995-96, over 40 Councils and eleven NSSBs were operational. These processes have produced a mix of national regulatory institutions carrying out a variety of tasks.

The regulatory proposals of these bodies are adopted into law via a range of processes. For example, the Australia New Zealand Food Authority (ANZFA) and National Road Transport Commission (NRTC) recommendations are considered by the relevant ministerial councils and then implemented by the states and Commonwealth via two different forms of parallel legislation. ANZFA recommendations are adopted by the Australia New Zealand Food Standards Council into the Food Standards Code, which is adopted "by reference" in state and territory laws. The NRTC operates on a 'template legislation' model, in which an act containing the regulation is passed in one jurisdiction, and other jurisdictions adopt

its provisions in their own law. Ministerial Councils set binding national standards, the enforcement of which typically is retained at the state and local level.

Given concerns about the quality of the regulations and standards in April 1995, heads of federal and state governments adopted a set of *Principles and Guidelines for National Standard Setting and Regulatory Action* that specified that all national standards made by such bodies must be subject to a nationally-consistent assessment process and that regulatory impact statements would be prepared. The federal Office of Regulatory Review advises agencies on the quality of their impact statements and suggests ways they could be improved. These guidelines are currently under review.

Under the Competition Principles Agreement, an intergovernmental agreement signed in April 1996, all jurisdictions will review by the year 2000 all of their respective legislation that restricts competition. The guiding principle for the review process is that legislation should not restrict competition unless it can be demonstrated that the benefits of the restriction outweigh the cost and that the objective of the legislation can only be achieved by restricting competition.

#### *Regulatory relations between states*

A major concern about state regulation has been its effect on interstate trade and mobility of persons in registered occupations. Inconsistent regulatory controls and laws between the states in areas such as transport, food and packaging standards, and occupational qualifications have created trade barriers and major inefficiencies in the Australian economy.

In May 1992, a Mutual Recognition Agreement (MRA) was signed, establishing two principles:

- if goods comply with the regulations of the state or territory in which they are manufactured or to which they are imported, then they can be sold in any other participating state or territory without further need to comply with that jurisdiction's regulations; and
- a person registered to practise an occupation in one state or territory can obtain registration to practice an equivalent occupation in all other participating states or territories.

Exemptions and exceptions (including occupational health and safety, regulations for the use of goods etc.) to the MRA are allowed, and jurisdictions can trigger a temporary twelve month exemption, pending a review. The MRA also provides for harmonised national standards where significant social and environmental externalities exist and where uniformity would improve national economic efficiency. As a vehicle for harmonisation, the Australian governments relied on an increasing number of joint regulatory bodies - such as the Commonwealth/State Ministerial Councils or the national commissions - with the authority to develop national regulations and standards.

A recent evaluation indicates that the MRA is having the desired impact:

- for goods, mutual recognition appears to have enhanced interstate trade in some sectors of the economy by removing regulatory impediments to such trade. It has contributed to the development of national standards in some sectors, and has not resulted in the sale of goods with unacceptably low standards;

- for occupations, mutual recognition seems to be achieving its primary goal of overcoming many regulatory barriers to the movement of people in registered occupations. It does not appear to have had any significant unintended consequences.

Further impetus for regulatory reform at a state/territory level is the desire to reduce regulatory barriers to new investment within each state's boundaries

### 3. Trends in redistributing authority across levels of government

All levels of government have been experiencing reform for at least twenty years, although the pace and magnitude of change accelerated in the 1980s and early 1990s, and the reform agenda has shifted over time.

Australian government is distinguished by four relevant features in this context:

- a federal system which mixes the devolution between the levels of government with extensive decentralisation within levels;
- sub-national centralisation at the state level (which means a weak and limited local government level);
- fiscal imbalance with regard to revenue, which entails a major transfer role for the federal revenue collector;
- limited capacity or inclination to engage in significant redistribution of authority across levels, particularly downwards.

#### 3.1 *Evolving tendencies*

The most significant recent changes to the distribution of powers are not readily summarised. There has been a long term centralisation of powers at the federal and state levels, usually at the expense of the level immediately below. There have been experiments with general grants based on personal income tax as well as general revenue. The reviews of Commonwealth-state relations and responsibilities is producing some rationalisation, but progress has been relatively slow. Local government's discretion has been affected over time, with the clearest trend being reductions in its capacity to act. But the pattern is variable and the potential of local government is meant to be enhanced by recent reforms.

Public sector reforms at the *state* level started in the 1980s and have been rather comprehensive. They have covered financial management of the budget sector, workplace reforms, structural reorganisation, new management practices, service delivery (customer/consumer focus), restructuring (corporatisation) of government business enterprises, new asset management and information systems.

The main trends in redistributing authority across levels are as follows:

- continuing pressure for review and rationalisation as Australia moves towards the centenary of the federal system and the micro-economic agenda continues to dominate;

- specific exercises designed to produce clarification of roles and responsibilities (under the Council of Australian Governments);
- greater emphasis on performance management within and between levels;
- the increasing interest in applying the purchase/provider principle to traditional inter-governmental arrangements;

While there has been some support for overlapping jurisdictions (particularly from some advocates of state rights), in the 1990s the desire for rationalisation has acquired great prominence. The duplication of services and management between levels has become a focus for intergovernmental reform. The problems have included substantial bureaucracies at more than one level and the resultant complexities and inefficiencies of the system. One argument is that responsibilities relevant to running the national economy should reside with the Commonwealth and that therefore, for example, industrial relations (which was originally regarded a state matter, except for issues spanning states) should form one system. The states' position has been that the Commonwealth is duplicating their services in areas such as environment, education, health and housing.

National standards have been developed and inconsistencies in the regulations of different jurisdictions have been reduced. A more national (rather than a state-based) approach is increasingly being adopted for judging performance and reforms. There has been some rationalisation of shared responsibilities (e.g. road funding), and integration of aspects of national infrastructure networks (electricity and gas).

Work is being undertaken by governments on the relationship between inputs, outputs and outcomes, but there is certainly scope for greater progress. The quality of services and their delivery, which has attracted much recent attention, also offers potential for further development.

Reform has been extensive within levels. National reform -- that is reform of sectors -- has made some progress. With regard to inter-level reform, it is arguably more advanced for the local-state relationship than the state-Commonwealth. The general view is that progress with the latter has been slow but that the foundations have been laid and that the inter-governmental reform agenda will continue to be important for the rest of this decade as it was for the corresponding decade last century which culminated in the Australian federation in 1901.

### 3.2 *The current debate*

The current debates are not clearly about centralising or decentralising, although participants will variously view them as one or the other. The nature of the discussion depends on whether it is intra or inter level.

The federal debate involving the Commonwealth and the states recognises the need for some decentralisation. The most explicit agenda on this has been the one mounted by the state governments. This has envisaged both a reduced role for the Commonwealth in some functional areas and a shift from tied grants to general revenue payments.

Within the Commonwealth and state government levels, deconcentration has been proceeding for some time. The Commonwealth, for example, adopted 'devolution' (which included deconcentration) as a central element of its reform agenda in the 1980s.

The local government reforms encompassed in the new Act and in separate state initiatives (especially those in Victoria and South Australia), concentrate specifically on the local government sphere, and will achieve improved efficiency and effectiveness in that level of government. While state/territory statutory responsibility will remain in the foreseeable future, the national principles and national reporting required by the Act and the national system of benchmarking and performance indicators will provide a national focus on the reform process.

### **3.3 *Driving forces and influences***

The micro-economic agenda which has been running now since the mid-1980s, continues to provide a major impetus for change. Following the agreement by the Council of Australian Governments (COAG) in April 1995 to implement the national competition policy regime, recent emphasis has been placed on reducing the regulatory burden on small business. Working groups, established under the auspices of COAG, are to report on a range of matters including the development of nationally consistent occupational health and safety and workers' compensation arrangements, the development of a national framework for building regulation, reviews of regulation in the food industry and in agricultural and veterinary chemicals, and developing mechanisms for streamlining information exchange.

The need to address the respective roles and responsibilities of the different levels of government remains a live issue and is being addressed on a case by case basis through issue specific forums, for example, health ministers looking at the health system and the Intergovernmental Committee on Ecologically Sustainable Development undertaking a review of roles and responsibilities in relation to the environment.