Federalism and Benchmarking in Australia

Roger Wilkins, AO
Head of Government & Public Sector Group, Australia & NZ, Citi
Former Director-General of The Cabinet Office in New South Wales, Australia

15 February, 2008

Table of Contents

Introduction

Benchmarking and Federalism

Germany

- The Constitution gives the Länder responsibility for administration of programs, for delivery of government services
- Tax sharing arrangement - key taxes divided between the Länder and the Bund.

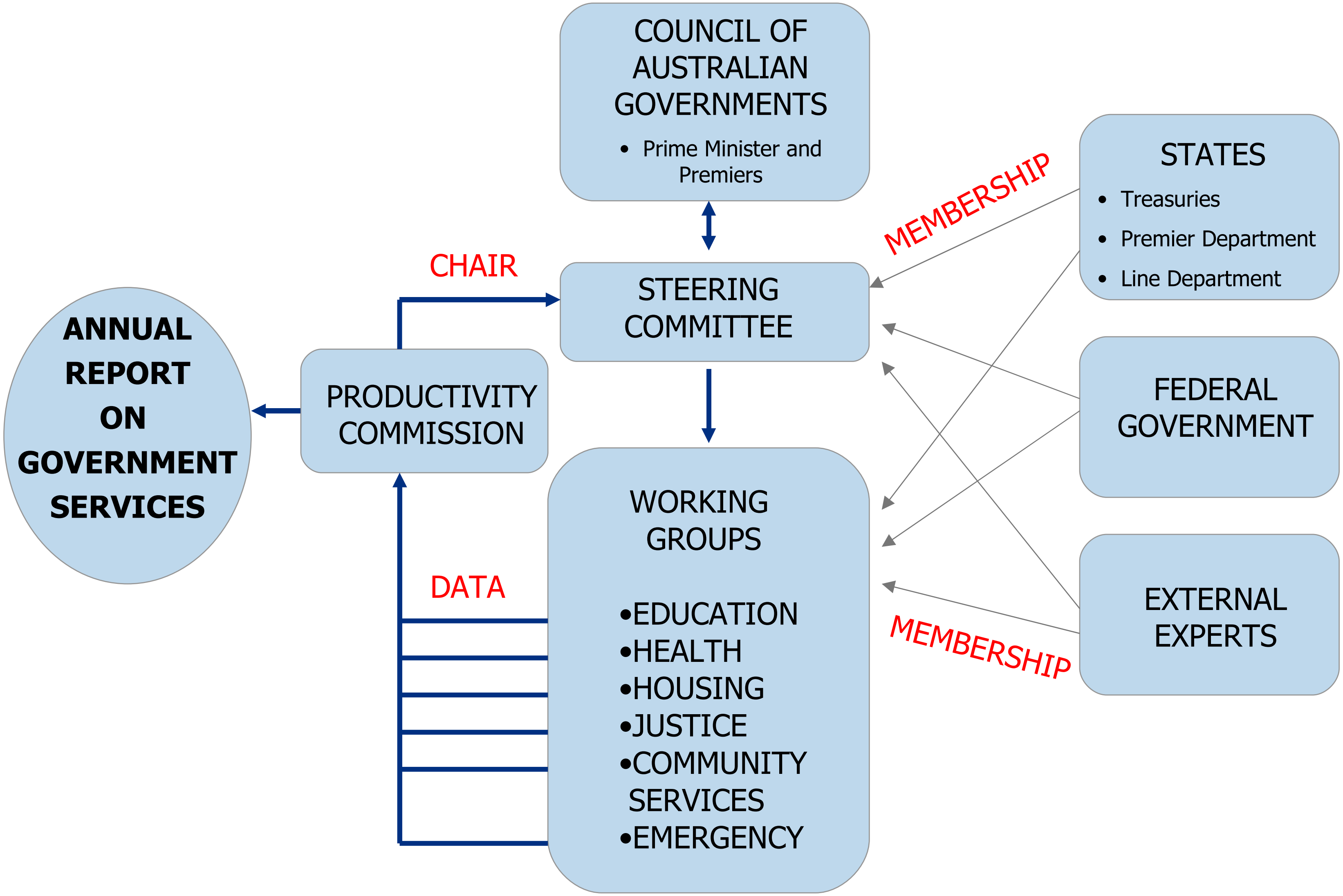
Australia

- States have been the level of government that has delivered most services to citizens
- Federal Government collects most of the revenue
- Federal Government raises 80% of revenue in Australia
- Large transfers from Federal to State

Benchmarking and Federal Reform

- Public reporting of results by the States as a pre condition for more fiscal autonomy
- Public reporting of results as the basis for less central control and more policy autonomy
- Public reporting of results by the States as the basis for harnessing competitive federalism and innovation

Review of Government Service Provision: Institutional Arrangements



Scope of Review

1. Report on innovation and reforms
2. Report on key indicators for Indigenous people

Education

- Children's services
- School education
- Vocational education and training

Health

- Public hospitals
- Primary and community health
- Breast cancer detection and management, and specialised mental health

Justice

- Police
- Courts administration
- Corrective services

Community Services

- Aged care services
- Services for people with a disability
- Children's services
- Protection and support services

Emergency management

- Fire and ambulance services

Housing

- Public and community housing,
  State owned and managed
  Indigenous housing and Commonwealth Rent Assistance

Reasons for measuring performance

Help clarify government objectives and responsibilities

Promote analysis of the relationships between agencies and between programs, allowing governments to coordinate policy within and across agencies

Make performance more transparent, allowing assessment of whether program objectives are being met

Provide governments with indicators of their performance over time

Inform the wider community about government service performance

Encourage ongoing performance improvement

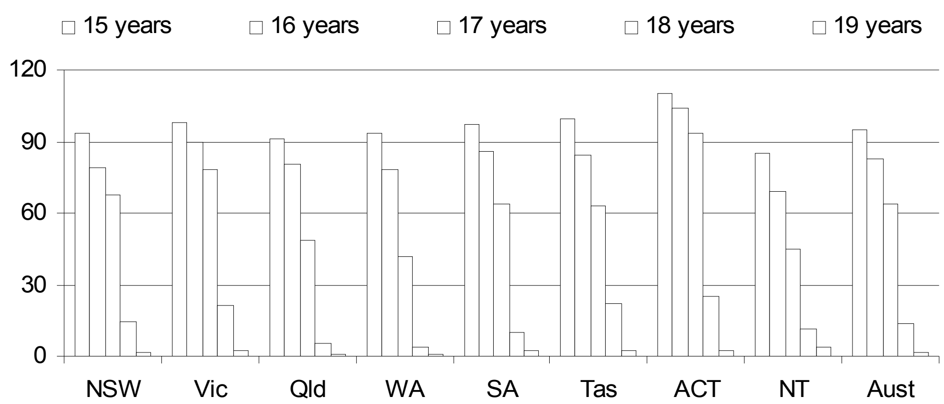
Reasons for measuring comparative performance

To verify good performance and identify those agencies which are ‘getting it right’

To allow agencies to identify peer agencies that are delivering better or more cost effective services

To generate additional incentives for agencies to address substandard performance

Example
Participation rate of people aged 15–19 in school education, all schools, 2005



Guiding Principles

Guiding Principles

1. **A focus on outcomes**
2. **Comprehensiveness**
3. **Comparability**
4. **Progressive data availability**
1. **Timeliness**

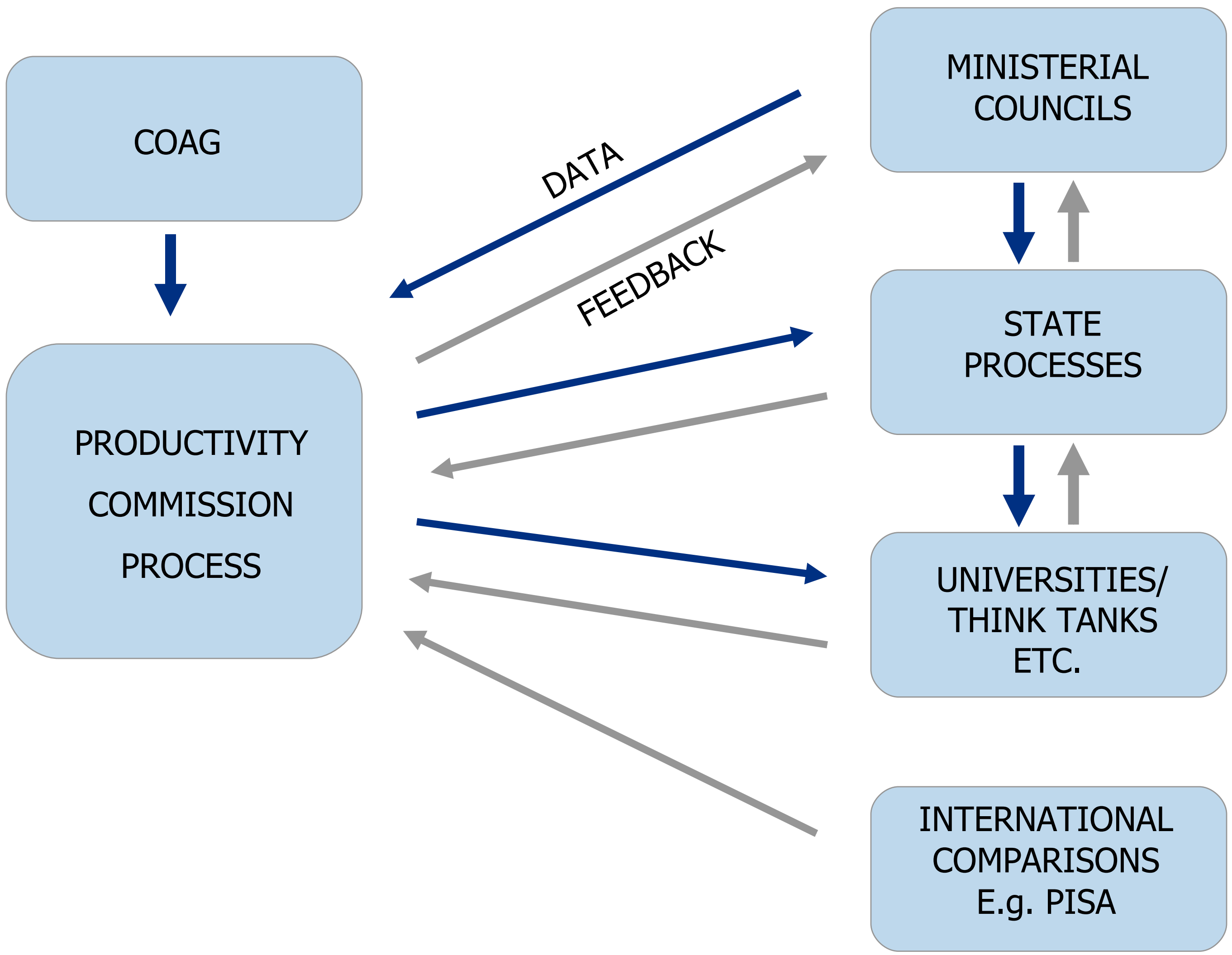
Sources of Data

- The States collect most of the data. Many have their own internal benchmarking against State goals and objectives
- There are Ministerial Councils for Health, Housing, Education and Training, Justice, Community Services and Emergency Management.

  These consist of Ministers from all the States and the Federal Minister.

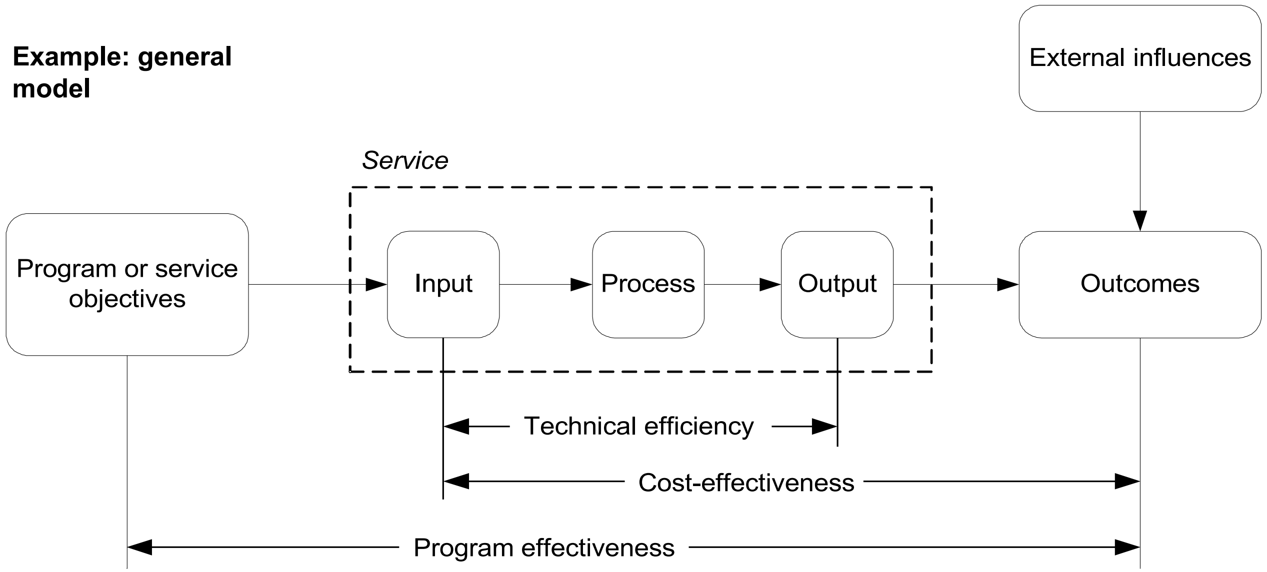
  Most of these councils collect and publish information about outcomes in their own areas
- There are a variety of Think Tanks, Research Institutions, Universities who do benchmarking studies
- There are also international fora and studies e.g PISA

Review Process: Wider Context

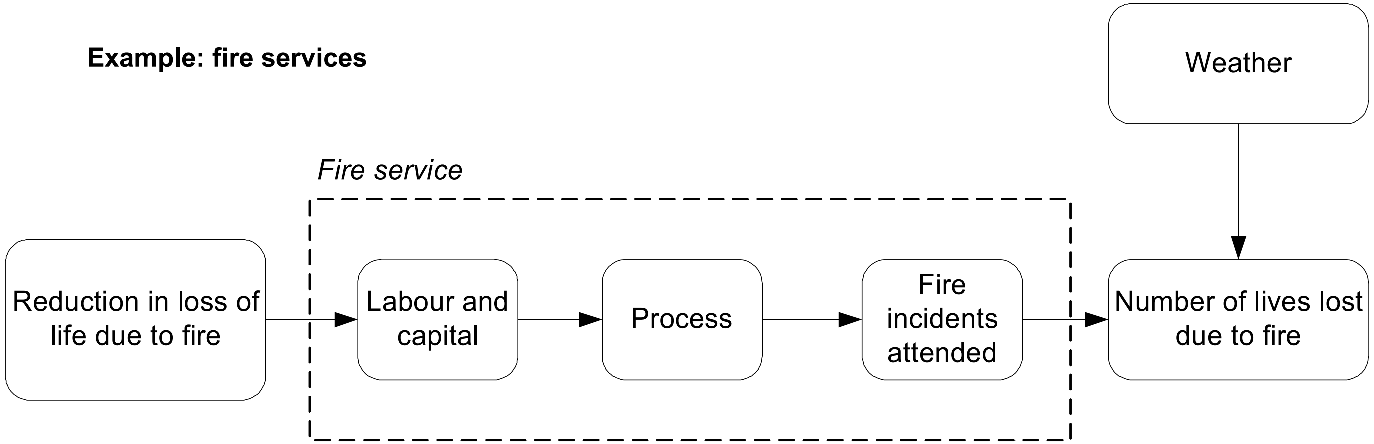


Review Process: Performance Indicator Framework

Example: general model



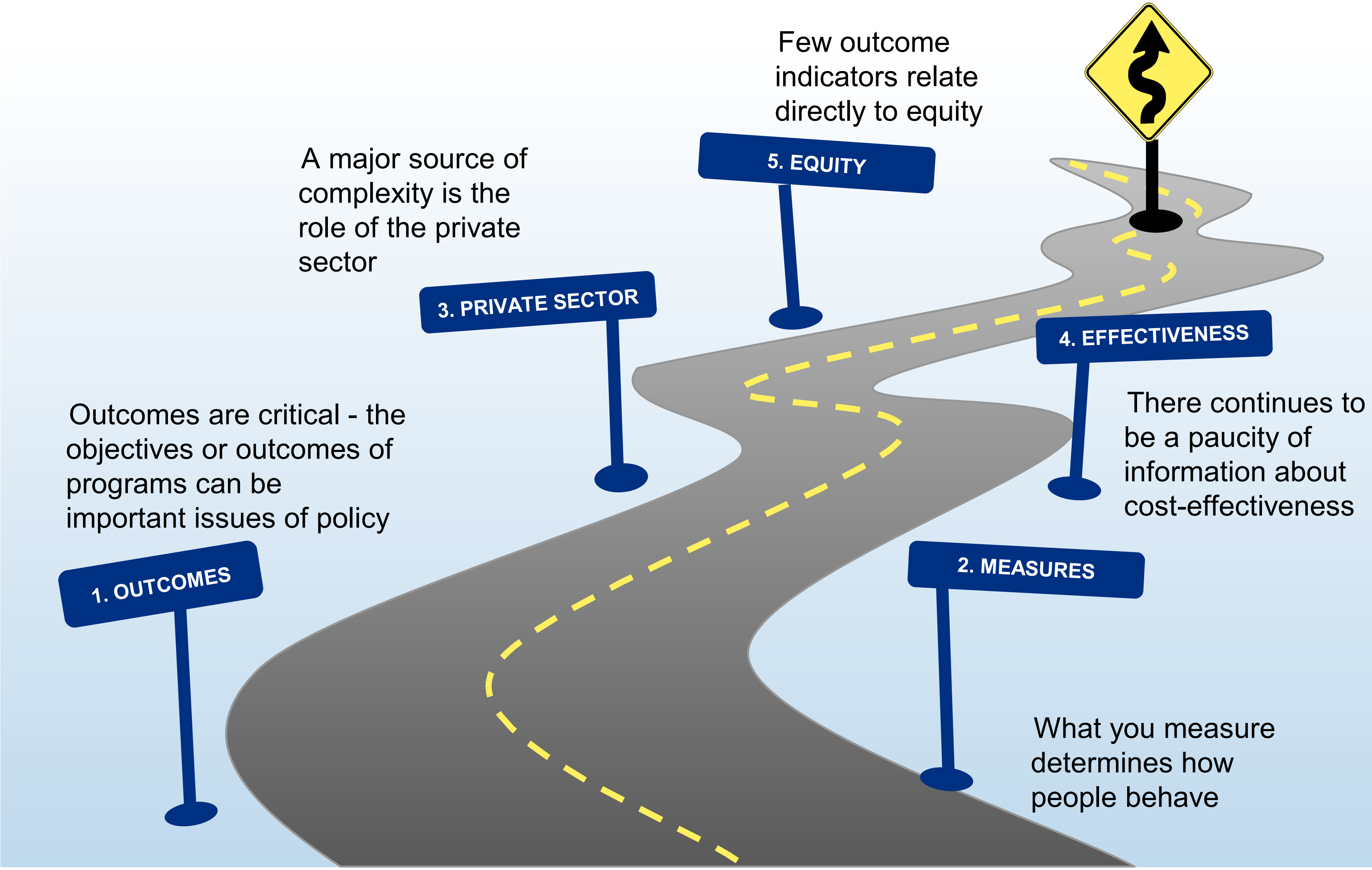
Example: fire services



Issues with the Review: Policy Issues

1 Competition	2 Destructive/ Constructive	3 Methodology Problematic	4 Insufficiency	5 Unrevealing	6 No standards
Benchmarking can be a potent form of competition in a federal system	This type of competition can be destructive or constructive	Aspects of the methodology and the indicators adopted have been problematic	Insufficient attention to benchmarking as a diagnostic and management tool	Approach of looking at State aggregates in Australia's case is not very revealing	Introduction of standards has not been part of this exercise

Issues with the Review: Technical Issues



Outcomes are critical - the objectives or outcomes of programs can be important issues of policy

What you measure determines how people behave

A major source of complexity is the role of the private sector

There continues to be a paucity of information about cost-effectiveness

Few outcome indicators relate directly to equity

Achievements

✓	greater transparency and accountability by governments to their citizens
✓	greater pressure on Ministers and departments to perform
✓	forced departments to review their business strategies and programs
✓	forced departments and agencies to cooperate more and better to get results that involve several government agencies
?	complex – need to compare “apples and apples”
?	tension or conflict between two very different objectives or set of objectives

Performance monitoring in other countries

- **OECD**
  - The OECD Factbook provides more than 100 indicators cover a wide range of areas: economy, agriculture, education, energy, environment, foreign aid, health and quality of life, industry, information and communications, population/labour force, trade and investment, taxation, public expenditure and R&D.
  - The information is outcome focused, and is not linked to specific service delivery agencies (OECD 2006).
- **United Kingdom**
  - In 2002, the United Kingdom introduced regular web-based reporting against public service agreements, and all key performance data on public service delivery is now available on a single website.
  - Public service agreements measure agency performance by setting out the aim of the department or program, the supporting objectives and the key outcome-based targets that are to be achieved during a specified period (HM Treasury 2004).
- **New Zealand**
  - The New Zealand Ministry of Social Development produces an annual *Social Report,* which provides information on the health and well-being of New Zealand society.
  - Indicators are used to measure levels of wellbeing, to monitor trends over time, and to make comparisons with other countries.
  - A limited number of high level indicators are presented for each domain, but there is no attempt to comprehensively address the full range of objectives of any specific government service (Ministry of Social Development 2006).

Where does Australia go from here?

Where does Australia go from here?

The National Reform Agenda

- The new Australian Government is embarking on a process of reforming the federal system

- <u>Scenarios</u>
  - we are likely to see a reform of the multiplicity of intergovernmental agreements to do two main things – broaden their scope and concentrate on outcomes rather than process
  - we are likely to see a far greater convergence between economic policy and social policy
  - Expect to see the adoption of national goals and standards that are outcome based
  - Benchmarking should be a crucial part of this process

THE AUSTRALIAN
THE HEART OF THE NATION

Reforms to extend boom

David Uren, Economics correspondent | *January 19, 2008*

National Reform Agenda

- Agreed to by COAG, 14 July 2006

Life stage	Indicative Outcomes
Conception to birth	Significantly improve the proportion of children born healthy. *Subsidiary outcome*: The gap between Indigenous and non-Indigenous children is closed.
0-5	Significantly improve the proportion of children acquiring the basic skills for life and learning. *Subsidiary outcome:* The gap between Indigenous and non-Indigenous children is closed.

National Reform Agenda

Life stage	Indicative Outcomes
School age	Increase the proportion of young people meeting basic literacy and numeracy standards, and improve overall levels of achievement.
	Reduce the prevalence of key risk factors that contribute to chronic disease.
	Increase the proportion of young people making a smooth transition from school to work or further study.

National Reform Agenda

Life stage	Indicative Outcomes
Working age	Reduce the proportion of the working age population not participating and/or under-participating in paid employment due to illness, injury or disability
	Increase the proportion of adults who have the skills and qualifications needed to enjoy active and productive working lives.
	Reduce the incidence of preventable chronic disease and serious injury amongst the working age population
	Reduce the prevalence of key risk factors that contribute to chronic disease.
	Improve overall workforce participation, with a particular focus on income support recipients, the mature aged and women, in a manner consistent with the long term interests of the individual and the economy, giving due regard to productivity. Increased provision of flexible working arrangements within the workforce, in a manner consistent with the long term interests of the individual and the economy.
	Increase the effectiveness of the health system in achieving health outcomes.

Case Study – Education

Media

R10 TUESDAY, 8 JANUARY, 2008 ABC News

Are we serious about an education revolution?

By Brian J. Caldwell

Kevin Rudd is to be congratulated on making education his top priority in government. There had been an air of expectancy for most of 2007, following his promise in January of an education revolution.

THE AUSTRALIAN
THE HEART OF THE NATION

Rewarding quality

Merit pay would help stem the exodus of teachers

AT the outset of the Rudd Government's

THE GREENS Tasmania World's first Green party | Media Release

Thursday 31 January 2008

PRODUCTIVITY COMMISSION REPORT HIGHLIGHTS TASMANIA'S LITERACY AND NUMERACY PROBLEMS

THE AGE

Neil Hooley
January 30, 2008

Students deserve genuine educational reform

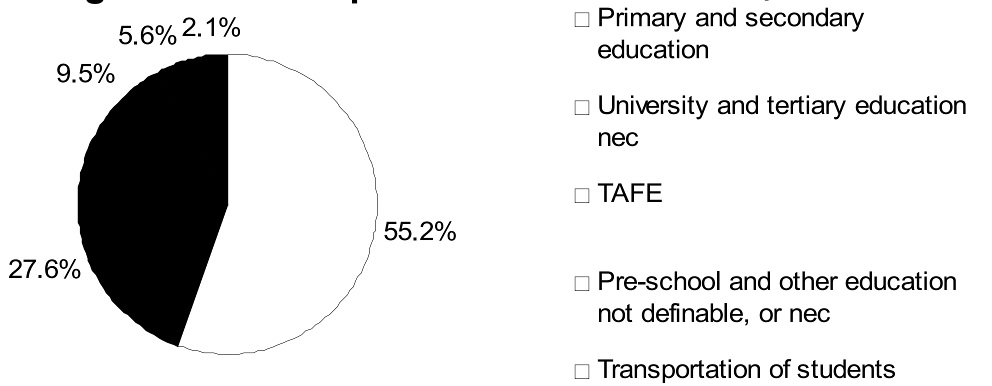
The Sydney Morning Herald

Public school teachers slam funding plan

Australia's formal system of education

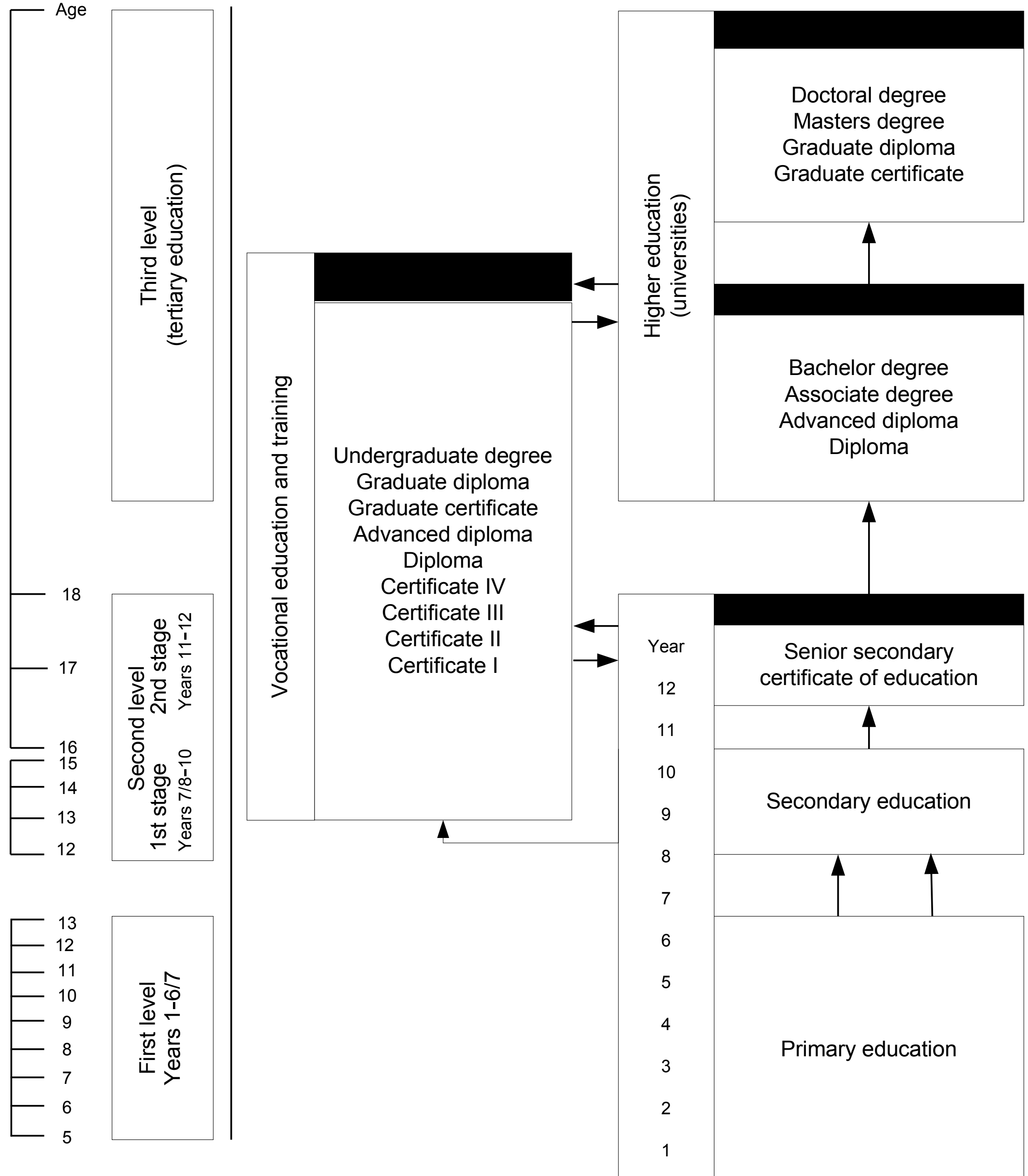
- Australian, State and Territory governments fund government and non-government providers to deliver formal education and training services
- Government providers include:
  - government schools (preschool, primary and secondary),
  - technical and further education (TAFE) institutes, and
  - universities.
- Non-government providers include:
  - privately operated schools and preschools, and
  - private registered training organisations (RTOs) in the Vocational Education and Training (VET) sector

Total government expenditure on education, 2005-06



Source: ABS (2007a); table BA.3.

Outline of the Australian education and training system

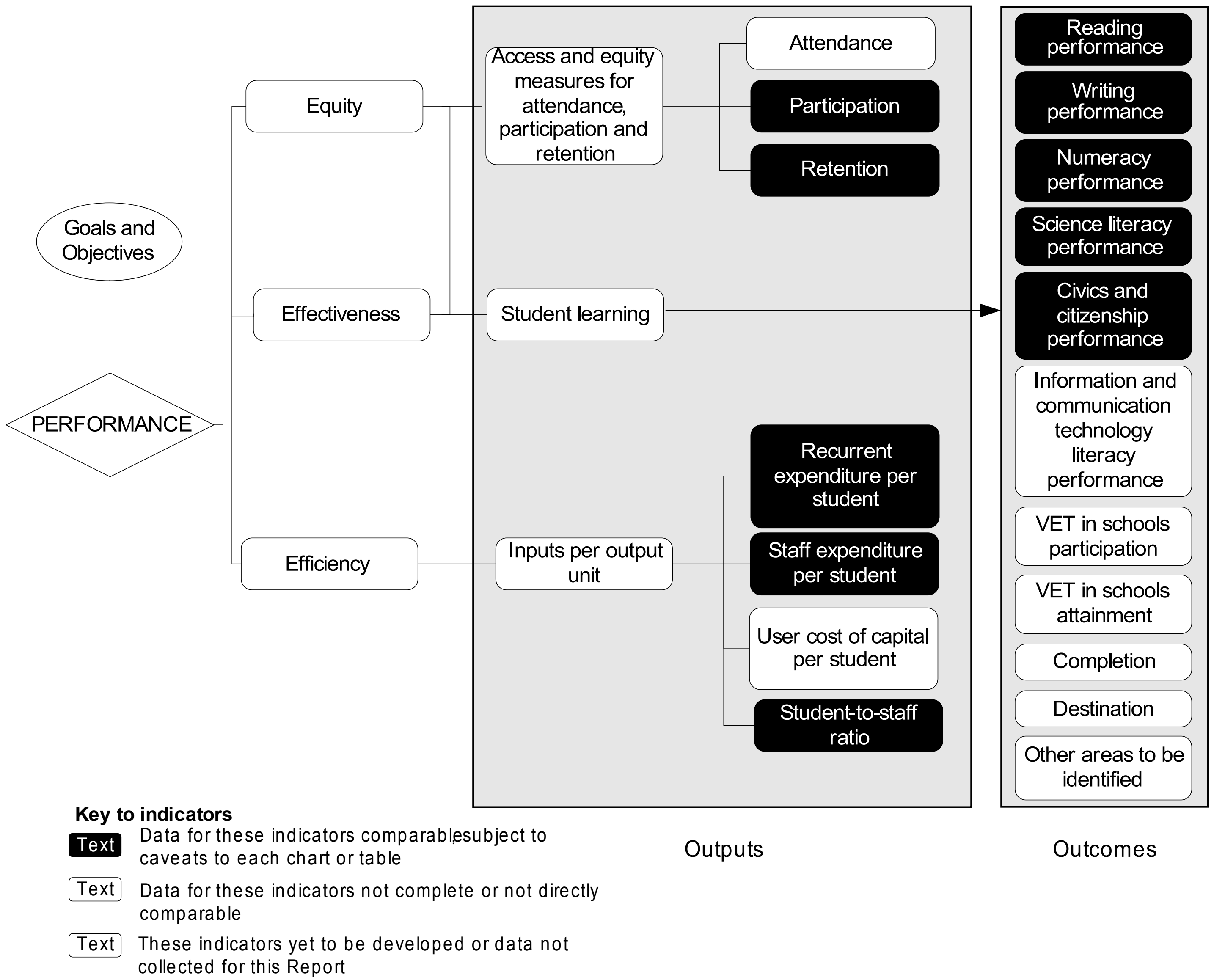


Source: Adapted from National Office of Overseas Skills Recognition (2000).

2006 Snapshot

- 3.4 million full time school students attending 9612 schools in Australia, including 6902 government schools (ABS 2007b).
- 1.7 million people undertook VET programs in 2006, 1.2 million students participated in government recurrent funded programs.
- There were approximately 984 000 students attending higher education institutions that received funding on behalf of students from the Australian Government in 2006, an increase of 2.8 per cent from 2005.
  - These students undertook a variety of courses, ranging from diplomas to doctorates across a range of public and private providers.
  - The most popular fields of education were management and commerce, and society and culture. Students in these fields undertook, for example, courses in accounting, tourism, marketing, political science, law, economics and criminology (DEST 2007).

Performance Indicators for all schools



Effectiveness

Indicator of governments' objective that young Australians should attain high standards of knowledge, skill and understanding in core curriculum areas.

	Measures
Reading performance	Proportion of assessed years 3, 5 and 7 students who achieved the national reading benchmark for a given year, reported by sex, Indigenous status and LBOTE status
Writing performance	Proportion of assessed years 3, 5 and 7 students who achieved the national writing benchmark for a given year, reported by sex, Indigenous status and LBOTE status
Numeracy performance	Proportion of assessed years 3, 5 and 7 students who achieved the national numeracy benchmark for a given year, reported by sex, Indigenous status and LBOTE status
Science Literacy Performance	Proportion of sampled year 6 primary students achieving at or above the proficient standard in scientific literacy, reported by sex, Indigenous status, LBOTE status and geolocation (national data only are available for subgroups).

Source: Broker Research.

Effectiveness

Indicator of governments' objective that young Australians should attain high standards of knowledge, skill and understanding in core curriculum areas.

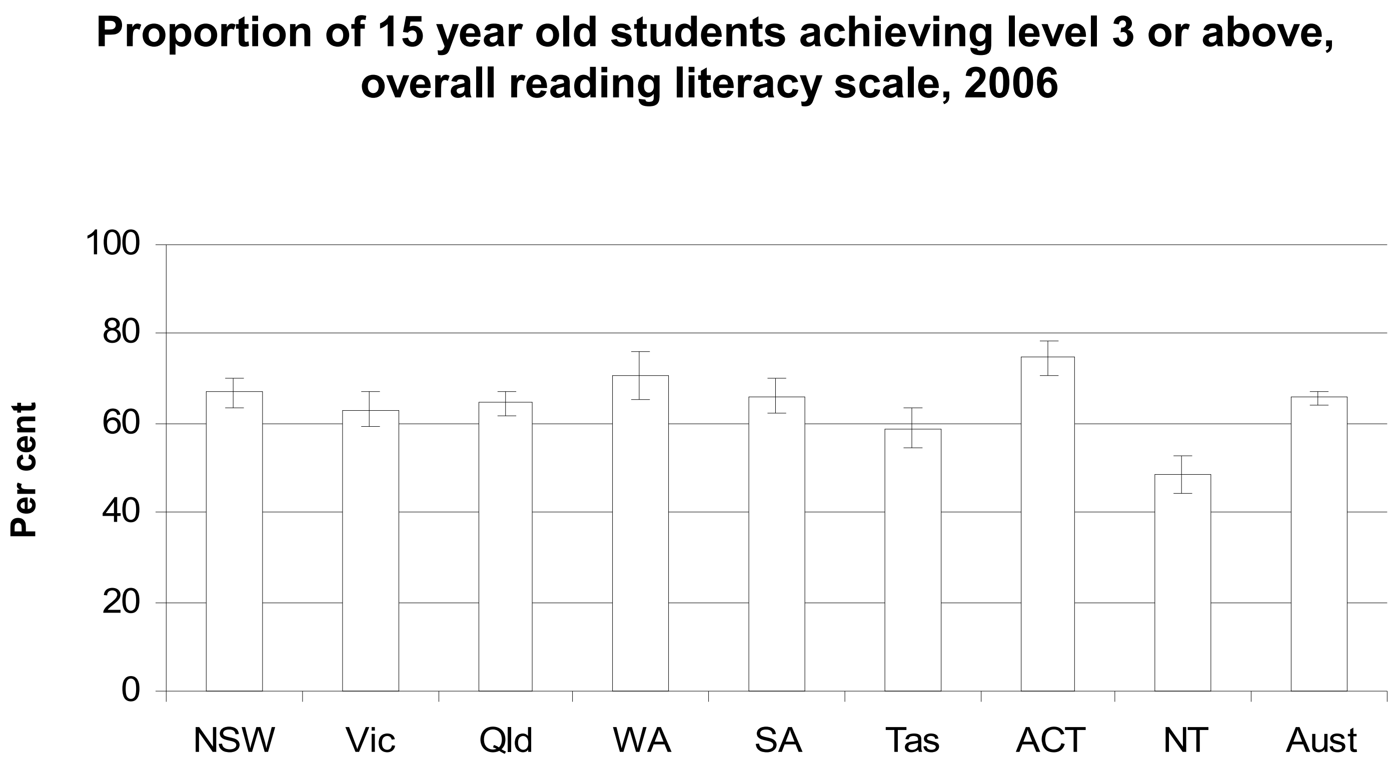
	Measures
Civics & Citizenship performance	Proportion of sampled year 6 and year 10 students achieving at or above the proficient standard in civic knowledge and understanding, reported by sex, Indigenous status, LBOTE status and geolocation (national data only are available for subgroups).
Info & Communication technology literacy performance	Proportion of sampled year 6 and year 10 students achieving at or above the proficient standard in ICT literacy
VET in schools participation & attainment	The number of school students undertaking VET (with new apprenticeships and traineeships disaggregated) as part of their senior secondary school certificate in a calendar year, as a proportion of all school students undertaking a senior secondary school certificate in that year. The VET in schools attainment rate is defined as the number of school students enrolled in a senior secondary school certificate in a calendar year who have completed at least one VET unit of competency/module as a proportion of all school students undertaking a senior secondary school certificate in that year

Source: Broker Research.

Effectiveness

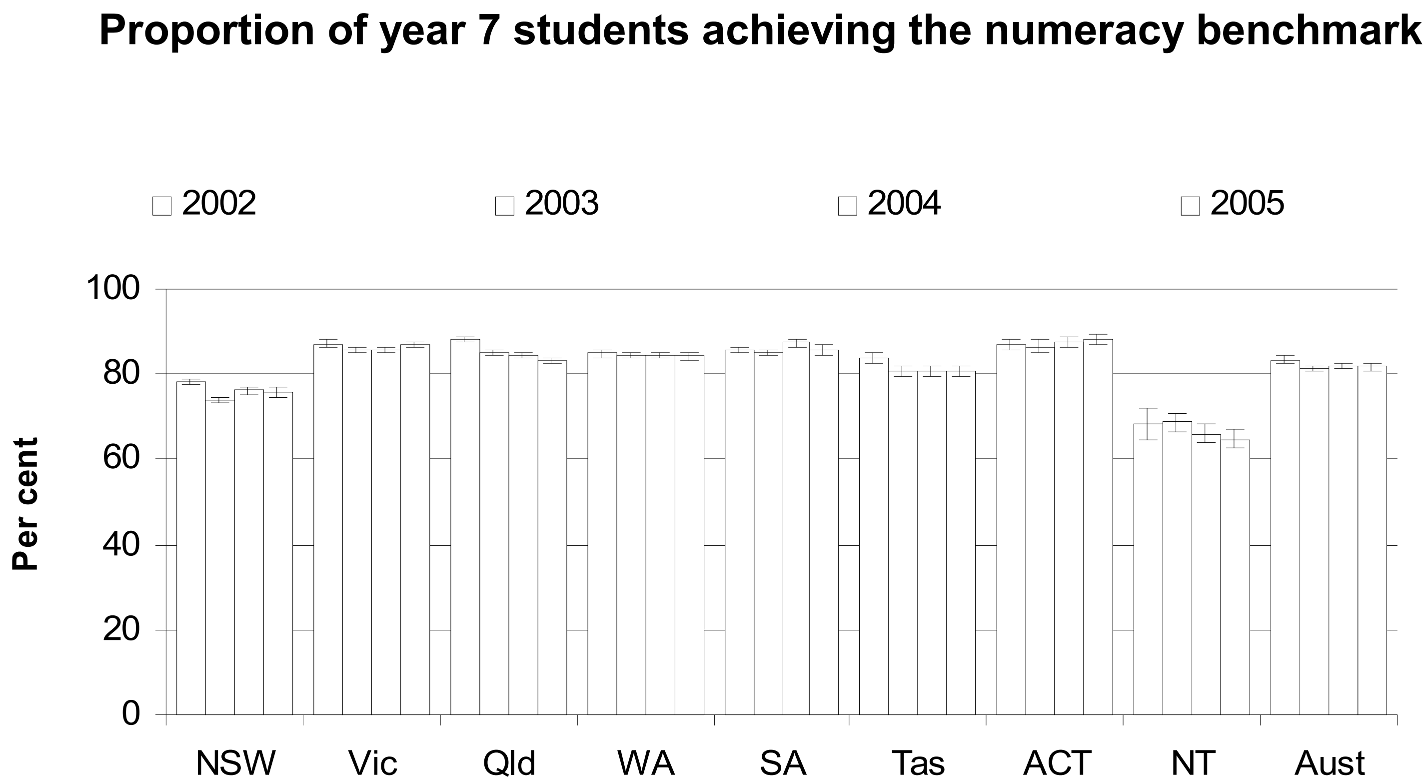
	Measures
Completion	the number of students who meet the requirements of a year 12 certificate or equivalent expressed as a percentage of the potential year 12 population.
Destination	the number of school leavers who left school in a given year and who in May the following year were attending post-school education and training, as a percentage of all school leavers in the given year. It is reported by highest level of schooling completed (year 12 or year 11 and below).

Example



Source: ACER (unpublished); table 4A.101.

Example



Source: MCEETYA (2005a, 2005b, 2006a, 2007a); tables 4A.38, 4A.55, 4A.73 and 4A.91.

Equity

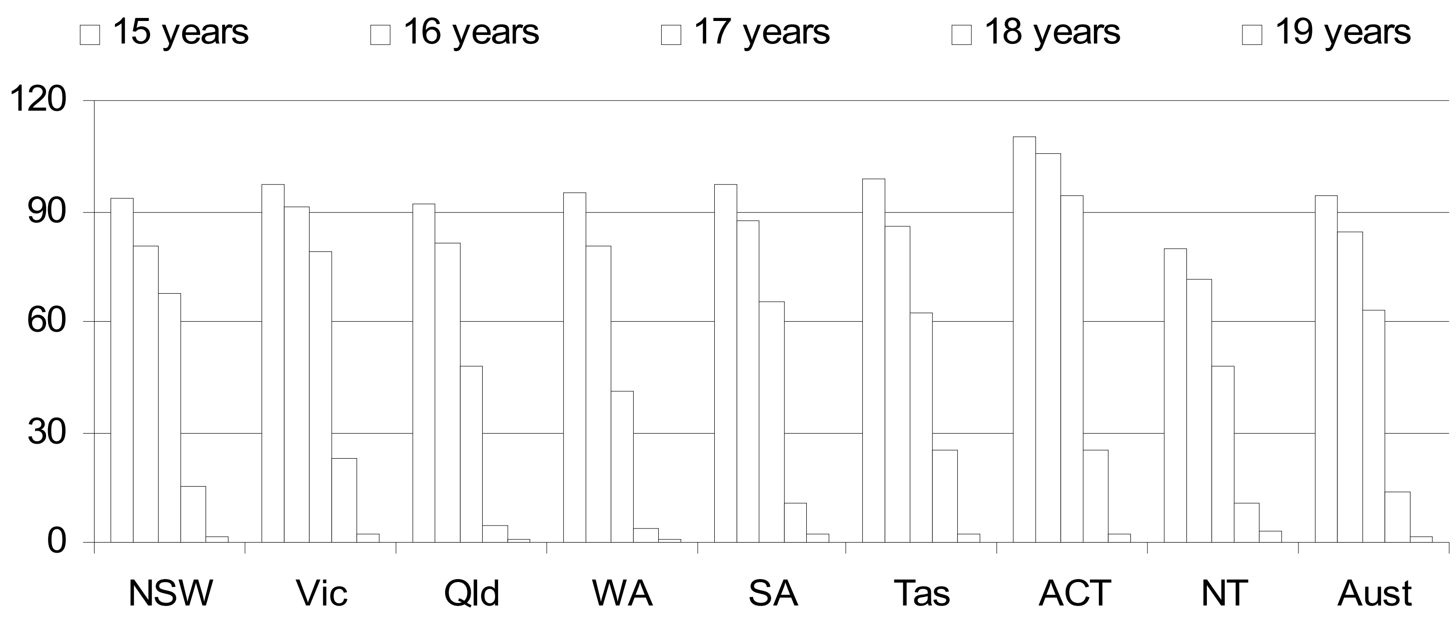
Indicator of governments’ objective to develop fully the talents and capacities of young people through education and learning.

	Measures
Attendance	The number of actual full time equivalent ‘student days attended’ over the period as a percentage of the total number of possible student days attended over the period
Participation	The number of 15–19 year old full time school students as a proportion of the estimated resident population of the same age
Retention	The number of full time school students in a designated level/year of education as a percentage of their respective cohort group (which is either at the commencement of their secondary schooling — at year 7 or 8 — or at year 10).

Source: Broker Research.

Example

Participation rate of people aged 15–19 in school education, all schools, 2006



Source: ABS (2007); table 4A.114.

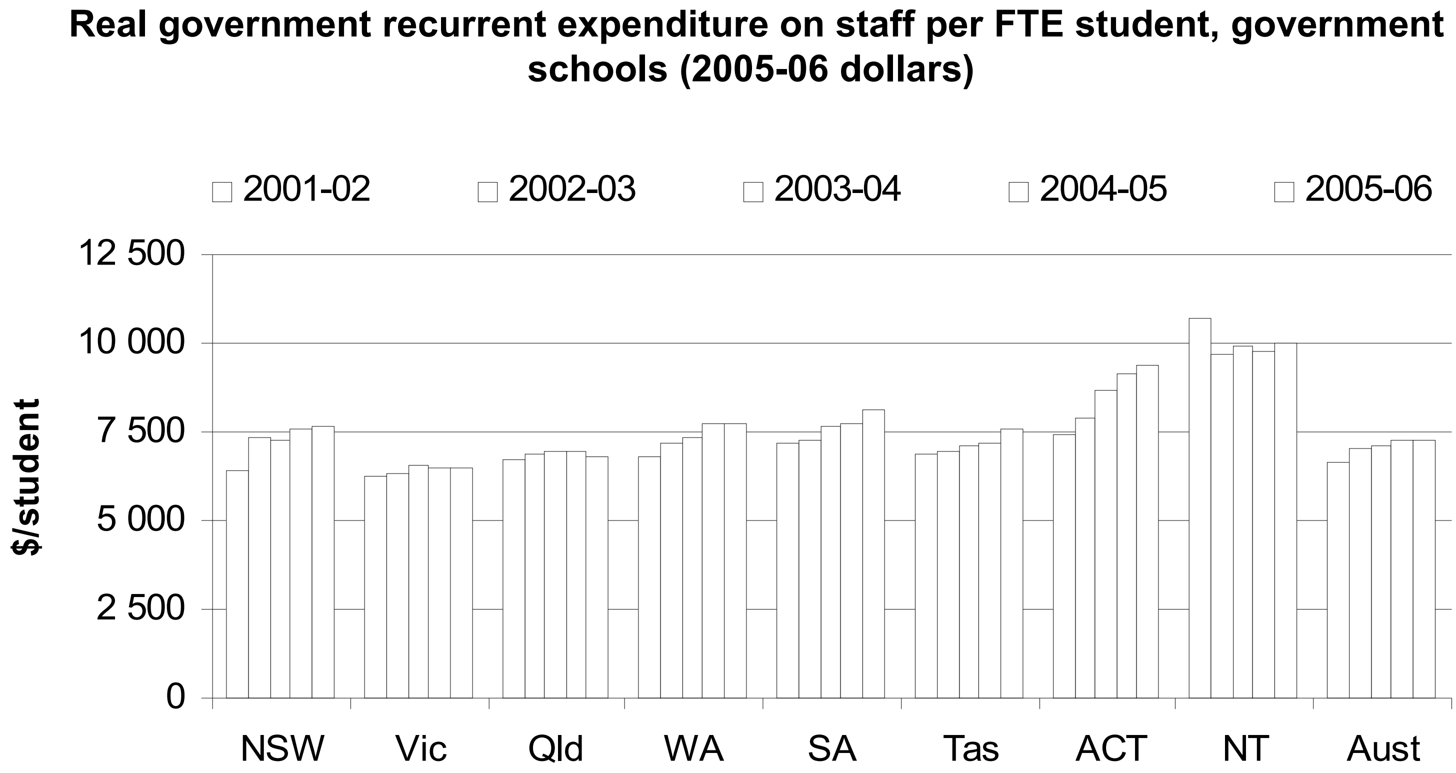
Efficiency

Indicator of governments’ objective to fund and/or provide education in an efficient manner.

	Measures
Recurrent expenditure per student	Government recurrent expenditure per FTE student. It is reported for in-school primary, in-school secondary and out-of-school services, and for government and non-government schools.
Staff expenditure per student	Government recurrent expenditure on staff per student is defined as government expenditure on staff per FTE student in government schools. Expenditure on staff is the major component of spending on schools.
User cost of capital per student	Dollars of UCC per FTE student
Student-to-staff ratio	The number of FTE students per FTE staff. A low ratio means there are a small number of students per teacher.

Source: Broker Research.

Example



Source: ABS (2003, 2004, 2005, 2006, 2007); MCEETYA NSSC (unpublished); table 4A.8.

Questions & Answers

IRS Circular 230 Disclosure: Citigroup Inc. and its affiliates do not provide tax or legal advice. Any discussion of tax matters in these materials (i) is not intended or written to be used, and cannot be used or relied upon, by you for the purpose of avoiding any tax penalties and (ii) may have been written in connection with the "promotion or marketing" of any transaction contemplated hereby ("Transaction"). Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

Any terms set forth herein are intended for discussion purposes only and are subject to the final terms as set forth in separate definitive written agreements. This presentation is not a commitment to lend, syndicate a financing, underwrite or purchase securities, or commit capital nor does it obligate us to enter into such a commitment, nor are we acting as a fiduciary to you. By accepting this presentation, subject to applicable law or regulation, you agree to keep confidential the existence of and proposed terms for any Transaction.

Prior to entering into any Transaction, you should determine, without reliance upon us or our affiliates, the economic risks and merits (and independently determine that you are able to assume these risks) as well as the legal, tax and accounting characterizations and consequences of any such Transaction. In this regard, by accepting this presentation, you acknowledge that (a) we are not in the business of providing (and you are not relying on us for) legal, tax or accounting advice, (b) there may be legal, tax or accounting risks associated with any Transaction, (c) you should receive (and rely on) separate and qualified legal, tax and accounting advice and (d) you should apprise senior management in your organization as to such legal, tax and accounting advice (and any risks associated with any Transaction) and our disclaimer as to these matters. By acceptance of these materials, you and we hereby agree that from the commencement of discussions with respect to any Transaction, and notwithstanding any other provision in this presentation, we hereby confirm that no participant in any Transaction shall be limited from disclosing the U.S. tax treatment or U.S. tax structure of such Transaction.

We are required to obtain, verify and record certain information that identifies each entity that enters into a formal business relationship with us. We will ask for your complete name, street address, and taxpayer ID number. We may also request corporate formation documents, or other forms of identification, to verify information provided.

Any prices or levels contained herein are preliminary and indicative only and do not represent bids or offers. These indications are provided solely for your information and consideration, are subject to change at any time without notice and are not intended as a solicitation with respect to the purchase or sale of any instrument. The information contained in this presentation may include results of analyses from a quantitative model which represent potential future events that may or may not be realized, and is not a complete analysis of every material fact representing any product. Any estimates included herein constitute our judgment as of the date hereof and are subject to change without any notice. We and/or our affiliates may make a market in these instruments for our customers and for our own account. Accordingly, we may have a position in any such instrument at any time.

Although this material may contain publicly available information about Citi corporate bond research, fixed income strategy or economic and market analysis, Citi policy (i) prohibits employees from offering, directly or indirectly, a favorable or negative research opinion or offering to change an opinion as consideration or inducement for the receipt of business or for compensation; and (ii) prohibits analysts from being compensated for specific recommendations or views contained in research reports. So as to reduce the potential for conflicts of interest, as well as to reduce any appearance of conflicts of interest, Citi has enacted policies and procedures designed to limit communications between its investment banking and research personnel to specifically prescribed circumstances.

[TRADEMARK SIGNOFF: add the appropriate signoff for the relevant legal vehicle]