

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry Into The Impact On Victorian Government Service Delivery Of Changes To National Partnership Agreements

Melbourne — 17 November 2015

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Mr David Martine, Secretary,

Ms Trudy Hart, Director, Revenue Group, and

Ms Teresa Stewart, Assistant Director, Intergovernmental Financial Relations, Department of Treasury and Finance.

The CHAIR — I declare open the public hearings for the Public Accounts and Estimates Committee inquiry into the impact on Victorian government service delivery of changes to national partnership agreements. All mobile phone should now be turned to silent. I would now like to welcome Mr David Martine, Secretary of the Department of Treasury and Finance; Ms Trudy Hart, director of the revenue group; and Ms Teresa Stewart, assistant director, intergovernmental financial relations. All evidence is taken by this committee under the provisions of the Parliamentary Committees Act, attracts parliamentary privilege and is protected from judicial review. Any comments made outside the hearing, including on social media, are not afforded such privilege. The committee does not require witnesses to be sworn, but questions must be answered fully, accurately and truthfully. Witnesses found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty.

All evidence given today is being recorded by Hansard. You will be provided with proof versions of the transcript for verification as soon as possible. Verified transcripts, any PowerPoint presentations and handouts will be placed on the committee's website as soon as possible. Witness advisers may approach the table during the hearing to provide information to the witnesses if requested by leave of myself; however, written communication to witnesses can only be provided by officers of the PAEC secretariat. Members of the public gallery cannot participate in the committee's proceedings in any way.

I now give the witness the opportunity to make a very brief opening statement of no more than 10 minutes, and this will be followed by questions from the committee.

Mr MARTINE — Thank you, Chair, and thank you for the opportunity to address the committee today. National partnership payments are an important element of the Victorian budget, in respect of both revenue available to the state and specific expenditure obligations. Commonwealth revenues account for around half of our revenues, and in 2014–15 national partnerships to Victoria were worth around \$2.6 billion. As such, the terms of these transfers can materially impact on the Victorian budget and the delivery of services and projects to the community.

DTF has been involved in the overall policy and administration framework governing the use of these payments since it was developed in 2008. This framework is outlined in the intergovernmental agreement on federal financial relations and was intended to improve how federal financial relations were conducted between the commonwealth and the states. Underlying reform principles of the IGAFRR included that transfers between the commonwealth and states existed to address vertical fiscal imbalance — that is, they were primarily to allow states to meet their expenditure responsibilities rather than to allow the commonwealth to pursue its own policy objectives in areas of state responsibility.

States would be regarded as partners, not contractors, of the commonwealth primarily accountable to their own communities rather than to another level of government. Agreements would focus on public outcomes, not compliance, and states would have flexibility to pursue outcomes in locally tailored flexible ways. Agreements were no longer supposed to have prescriptive controls on how services were produced. Clear roles and responsibilities under funding agreements would be established, ending the blame game. Fewer and more strategic agreements would reduce the administrative burden for both the commonwealth and the states and focus cooperation in areas of genuine national interest. The framework provided two types of national partnerships: project NPs for specific shared projects and outputs, and reform NPs for supporting ambitious nationally significant reforms to services and regulation. Ongoing services were to be funded through ongoing funding, with few conditions.

The 2008 IGA provided a sound basis for efficient and focused interaction between governments and has supported a number of important initiatives over this time. However, since 2008 we have also seen the emergence of a number of issues and problems. Key issues have included the proliferation of small transactional national partnerships which reflect narrow commonwealth objectives rather than shared nationally significant reform; the reintroduction of prescriptive conditions on how services are delivered and detailed reporting and compliance arrangements; and finally, the use of fixed-term national partnerships to fund ongoing service delivery, creating disruptive uncertainty to service systems and planning and unilateral reductions in commonwealth support for service delivery. One of our key interests for the commonwealth white paper processes and related reform will be to move back towards the aspirations of the 2008 IGA. Following our discussions today my department is certainly happy to assist the committee with any other information you may desire. Thank you, Chair.

The CHAIR — Thank you, David. I might start with a first question. In relation to the intergovernmental agreement on federal financial relations from 2008, has it been contemplated or is it proposed that that should be modernised or updated? What do you see in the future of the IGAFRR over the course of the next, say, 5 to 10 years?

Mr MARTINE — I think, Chair, that will be an important part of the discussions that are certainly underway at the moment between the commonwealth and states about the future of the federation. Those discussions have been ongoing and will certainly be continuing over the next 6 to 12 months. As part of those discussions — and I should preface my comment by saying that those discussions are being led by the Department of Premier and Cabinet, so Mr Eccles will no doubt be able to share some insights into that when he appears I think on Thursday — that will certainly be an important part of that development in terms of the future of NPs.

As I mentioned in my opening statement, there are some issues that have surfaced since 2008, but probably the best way I would describe the whole national partnership arrangement is: in principle a good idea, but the practice has been probably a bit mixed since 2008. It is something that the states I think have a pretty shared view that it is something that we do need to try to address with the commonwealth.

The CHAIR — And the IGAFRR has not been modernised or altered or changed since 2008, it has just basically been — —

Ms STEWART — There have been updates to various schedules, but not fundamental changes.

The CHAIR — Okay; thank you.

Mr MORRIS — There are plenty of areas to explore in the opening statement, but if I can set those aside for one second. In terms of establishing the process, what is the role of DTF particularly in the state context but also in terms of negotiations on the various NPAs.

Mr MARTINE — Thanks, Deputy Chair. Essentially the national partnership negotiations are led by the relevant line departments. My department's role is to assist those departments in those discussions from a broad framework perspective. Obviously at a certain point of those discussions draft proposals are put to government, so we have certainly got a key role in advising the Treasurer about whether this is a good agreement or a bad agreement to sign up to. We also have a role in liaising with the commonwealth Treasury. Since 2008 or 2009 the commonwealth Treasury has taken a more central role at the commonwealth end in terms of the national partnership agreements. We are often liaising with the commonwealth Treasury, particularly about those national partnership agreements that are coming up to their end date.

It is often an issue that gets discussed at the Council on Federal and Financial Relations, which is essentially all of the treasurers. We have a role to play in that as well, and I am happy to talk a bit more about that at some point this morning. The payments technically come through the DTF accounts, so they come in as revenue. As I might have mentioned in my opening statement, it is worth about \$2.6 billion roughly. It jumps around a little bit. The money comes into the DTF accounts as revenue, and then it gets appropriated out to the relevant line departments. That is the broad role of DTF.

Mr MORRIS — That is good; thank you.

Dr CARLING-JENKINS — Thank you very much for your opening statement; we really appreciate it. In that opening address you mentioned the policy role of DTF in these agreements. I understand that you work from that really broad framework perspective, but one of the terms of reference we have been given is to identify the risks associated with the changes to service delivery. I wonder if you can talk about what immediate risks are associated for the state with the changing nature of NPAs. I understand you will be talking from that broad perspective, but I am interested in that broad policy point of view.

Mr MARTINE — Thanks for the question. I might start off by mentioning that in the whole-of-government submission to the committee pages 2, 3 and 4 outline a number of those issues. The headings, if I quickly summarise what we get involved in, are issues around reduced funding, short-term funding in place for long-term arrangements, workforce impact and shift of responsibility. That is probably a good way to summarise at a high level the sort of issues that we observe at the state level that can impact on service delivery.

What generally has happened is that the national partnership agreements, which were originally designed to facilitate the states to introduce reforms, in some situations have changed into something which is more like a regular funding agreement with the commonwealth.

Part of the difficulty we have is with a lot of those agreements the commonwealth is only prepared to sign up for one or two years. Then all of the states are left with that uncertainty of not knowing whether come 1 July next year in particular the national partnership agreement, which really looks like a normal funding agreement, is going to be continued. We have had some situations over the last few years where it has created a lot of uncertainty not just within government but a lot of uncertainty in the community sector, because they do not really know whether that money is going to be provided to the states.

There is always the difficult question at the state level as to whether, if the commonwealth is not prepared to provide that ongoing funding, the state is prepared to step in or not. That is a question that governments from time to time have to consider, but it certainly creates quite a bit of uncertainty in that respect. I might just mention, coming back to the Council on Federal Financial Relations, in that forum we have a commitment from the commonwealth Treasurer — both the current commonwealth Treasurer and the former commonwealth Treasurer — that the commonwealth would advise the states in the context of their midyear update, which is normally in December, about national partnership agreements that are due to expire on 30 June of the following year. That at least can give the states six months. That commitment has been made several times, and I think from memory there are a couple of little ones that are due to expire the middle of next year, so hopefully we will get that certainty. Certainly issues around short-term funding for something which is really an ongoing commitment, the uncertainty around short agreements and the notification process have been really big issues across all of the states. We every year collectively provide submissions to the commonwealth Treasurer about that very point.

The other issues raised in the submission around reduced funding is an issue as well. Obviously the commonwealth budget is rather constrained, so at times when there is a new agreement on the table there is less money available. That is obviously an issue for all of the states as well, particularly for those agreements which do tend to look a bit more like that ongoing funding commitment from the commonwealth. They are the broad sorts of issues, and obviously my department gets quite involved in all of those both liaising with the commonwealth Treasury but also in our advice to the Treasurer and through the Treasurer to government.

Ms WARD — You mentioned in your presentation that there are some challenges, including the commonwealth sometimes being increasingly prescriptive. How is this occurring, is there any scope for negotiation around this involvement and do you feel that Victoria's relationship is given equal measure?

Mr MARTINE — Thanks for the question. As a general proposition — and the agreements vary a bit in terms of that point around how prescriptive they are — they were originally designed to be focused more on outcomes and outputs, but along the way there have been more and more requirements imposed in terms of acquittals of spending and also a lot of inputs as well. A lot of that is information that the relevant line departments are required under the agreements to provide to their counterparts in the commonwealth. The general feedback we get from those departments is they find that whole process very prescriptive.

There is a general kind of approach that does come out of the commonwealth at times in terms of more and more prescriptive requirements on the states. From the state perspective more flexibility at our end would achieve a much better outcome, so at the state level the government of the day then has a bit more discretion and control. That is not just a point about national partnership agreements, it is just a general point as well, but it is fair to say there are some agreements — from memory I think the homelessness agreement is one of them — that seem to have quite prescriptive reporting requirements imposed on the state. I am sure the relevant secretary can go through that in a lot more detail.

Ms HART — I was just going to say, picking up your question around the power balance, I think frequently the commonwealth will put an agreement on the table with a lot of prescription in it. The state, whether it be Victoria or another jurisdiction, is offered to take or leave that agreement. We might negotiate through the line department to try to end up with something that, as David said, provides more ability to make sure that we are able to innovate in service delivery and get the maximum from those funds. The commonwealth has the ability to just say, 'This is the deal'. We then have a choice of whether to sign with that prescription in place or walk away from the money.

Ms WARD — Do you think this prescriptive approach is enhancing or hindering program or process delivery?

Mr MARTINE — It is an issue of balance. You certainly need a level of reporting. I am not surprised that in some respects if you are at the commonwealth level you do need to hold the states accountable if you are going to provide money. But more of a focus on actual outcomes would be a much better way of reporting, with perhaps a bit less in terms of the overall quantum but certainly less focus on the actual inputs. What outcomes we are actually achieving would be a better way. I am certainly not suggesting that we expect the commonwealth to hand a lot of money over and we do not have to say anything back to them about what we are actually delivering, but with the whole idea, as I mentioned in my earlier comments, about national partnerships and trying to facilitate reform and change, the reporting of the outcomes of that would make a lot more sense.

Mr MORRIS — Can I pursue this issue a bit, and I am sure you will not be offended, Mr Martine, when I say this.

Mr MARTINE — It depends what your comment is.

Dr CARLING-JENKINS — We are very inoffensive, do not worry.

Mr MORRIS — Your predecessor and I had a different relationship, but I am nice this morning. Just on this issue I am interested to know if you are prepared to offer a view about what is driving it. It seems to me that the initial idea is a good one and was probably negotiated largely at a political level, but then as the wheels turn there is often a desire — this is where I say I hope you will not take this the wrong way — from departments to deal themselves into the process, particularly if they feel a bit sidelined to start with. I am just wondering whether it may be the case in this instance that the commonwealth departments are feeling a little bit left out in the cold in terms of policy direction or whether, for example, it is being driven by the ANAO or in terms of accountability where it has got. I cannot see too many commonwealth ministers getting too excited about accountability issues, to be blunt, so I am just wondering where it is coming from.

Mr MARTINE — It is an interesting question — a very interesting question — and I suspect the answer is a combination of the points you have made. There is always an obvious natural tendency, and if you are handing money across to someone else, whether it is to another level of government or whether it is to a community organisation to deliver something, it is not surprising that as part of that you do need to build in some level of reporting, and that is not an unusual thing.

Mr MORRIS — As we do with local government or community organisations.

Mr MARTINE — That is right. It really comes down to what it is that you are asking that is reported on and the level of detail and the frequency of that. As I mentioned, some agreements have been reasonably good on that and there are others which have been very prescriptive and probably focused far too much on the inputs. Without commenting on the natural tendency of bureaucrats, I would just observe that it is probably not surprising that particularly line departments who are heavily involved in negotiations from the commonwealth end would naturally want as much reporting as possible and naturally the state line departments are sort of saying, 'Look, that's enough'. As Ms Hart indicated, the relationship at times between the state and the commonwealth is a 'Take it or not' kind of thing — it is sometimes hard to negotiate.

I suspect there is probably a little bit of audit office requirements as well — that from time to time probably the commonwealth audit office has done various performance audits and just as a general theme there might be some recommendations or commentary that they have made since 2008 that have led departments down the path of, 'Well, we just need to ask for more and more reporting'. I suspect it is probably a combination of those things.

Ms PENNICUIK — I do have a question, but I might just follow on a little bit from what you were talking about there. You were talking about prescriptive conditions et cetera, and my question was going to be to ask you to follow up on what you said you would give us more information about, which was your discussions with the commonwealth Treasury. But I am just wondering in terms of the prescriptive conditions that you have been talking about whether those conditions are similar across the states, because I just wonder whether perhaps say in the area of homelessness the commonwealth, for argument's sake, might be looking for some comparison

across the states or some consistency of use of the funds and outcomes from that. Is that your understanding of why they may be doing that and your view about why it might differ between certain partnerships and others?

Mr MARTINE — Perhaps if I address the first part of your question about the role of the Council on Federal Financial Relations. That is the group of treasurers chaired by the commonwealth Treasurer, and all of the state treasurers and their secretaries attend. We meet, it sort of varies a bit, but I guess two or three times a year.

Victoria over the last couple of years has taken the lead amongst the states in terms of coordinating a submission each year to the commonwealth Treasurer on the status of national partnership agreements and the views from the states on whether national partnerships that are about to expire should be renewed and also the issue of getting notification early enough. That is an issue that has been made by all the states collectively, and at the Victorian level it was the consistent message from the former government and it is the consistent message from the current government, particularly around the uncertainty about expiring national partnerships. For the last couple of years Victoria has coordinated that bit of work on behalf of the states and we have provided that input. As I mentioned earlier, the commonwealth Treasurer has confirmed that they will, in the context of their midyear update, which is generally released in December, give more certainty to the states about those national partnerships which are due to expire in the middle of the following calendar year.

In terms of the reporting requirements in the agreements, and my colleagues can correct me if I am wrong, I am pretty sure that the reporting requirements are standard for all states. You cannot negotiate a better reporting deal with the commonwealth unless it is done collectively, but certainly when the state treasuries sit around the table and have these kinds of discussions there is this common theme amongst all of the states about the level of reporting in some of the agreements. But yes, they are consistent.

Ms PENNICUIK — With some of the more targeted agreements, would it be true to say they are more prescriptive than maybe the larger buckets of money?

Ms STEWART — It is certainly true that the prescriptiveness is not proportionate to value, so some of the smallest agreements have been the most difficult to negotiate in terms of both prescriptiveness about how inputs are applied — so where funding is going and how much state funding is applied — and the reporting arrangements attached to it, whereas some of the very large agreements that are relative, for example, to our SPPs have more outcomes focused, public accountability focused arrangements, which is one of the challenges for us with NPs — that we cannot see a proportionality between the administrative burden and the significance of an agreement always. But in terms of whether something is targeted to a particular jurisdiction, it would be difficult to generalise that those are more prescriptive.

Mr MARTINE — I guess the other important point about reporting to the commonwealth is that it is not just an issue that can affect the bureaucracies, because if there is a requirement for detailed reporting on the state, then in certain circumstances that forces the relevant departments to impose more of a burden on community organisations or whoever to provide that information to the state departments, who then pass it on to the commonwealth. So it is certainly much broader than just an imposition on bureaucrats both at the state and commonwealth levels; it can actually have a real impact on organisations out there that actually are delivering these services, because it generally flows through. For the relevant departments to collect that information, you have got to collect it from the organisations that are actually providing the services.

Mr DIMOPOULOS — Given that you have obviously got a bit of a central handle on all NPAs in Victoria's history — I am kidding; at least in the last few years — what do you feel that the commonwealth judges as a successful NPA? If you think of a successful one and why it has been successful, what was the basis of that judgement by both Victoria and the commonwealth but particularly the commonwealth?

Mr MARTINE — The one that we often cite as one of the better national partnership agreements, and it is not because it was a Treasury national partnership, but was the one on a seamless national economy. The reason why that was well suited to this framework is it was all about the commonwealth providing some facilitation funding to the states to undertake reform and some reward payments. In a way the sort of issues that were covered in that did lend themselves to this kind of framework. For some of the reforms, states would have incurred some costs, and there is always a reluctance, I guess, at the state level if there are some costs involved, so there was some facilitation money from the commonwealth and there were some reward payments as well. That generally seemed to work pretty well.

Those kinds of models certainly lend themselves to this particular sort of framework. If you look at the language in the original IGA, it does talk very much about facilitation, reward — those sorts of concepts. Where it sort of falls down a bit, as I mentioned earlier, is where it has morphed into a way that the commonwealth just generally funds service delivery that they have been doing for quite a while. Legal services is a good example. Then what tends to happen, because a lot of these national partnership agreements are short term and only for a couple of years, is that it just kind of perpetuates that uncertainty. Every couple of years you are not quite sure at the state level whether there will be more commonwealth money. So certainly one that we often cite is the seamless national economy, for those kinds of reasons.

Mr DIMOPOULOS — Just on that too, so in a sense it is about the content, the policy content area, rather than the structures of the NPA? You are saying it is better for a one-off kind of ‘get in, fix something and get out’ agreement?

Ms HART — That particular agreement had 46 reforms in it. Yes, it was constrained, but it was still going to run for a period of time. I think the difference that made that a better example is that, as the secretary identified, the facilitation payments to the states enabled them to actually meet the administrative and other costs of undertaking reforms, and then the states had flexibility about how they delivered the outcomes that had been specified in that agreement.

The CHAIR — Probably a couple of questions from me. Just given your experience now — so we are now year seven into these NPA agreements — does DTF have a view in terms of two things: what is the most efficient dollar figure for an NPA? Clearly an NPA that was half a million dollars, with all the onerous reporting requirements, would not be particularly efficient; therefore what would be the base number? Secondly, looking into the future, do you think that a more efficient way of operating might be, for example, if the commonwealth paid for the capital expenditure, and that was the agreement up-front, and that effectively the state paid for the operational expenditure?

For example, let us suppose the federal government said, ‘Well, look, we’ll give you \$1 billion to build a new hospital, but the onus is on you, the state, to operate it’. Then if you signed up to that agreement, you would have a clear line of sight that, ‘Yes, we’re going to get this money for capital expenditure, we’re going to get a brand-new hospital, but it is going to cost us \$200 million per annum to operate that for the life of the hospital’. Would that be a better model, do you think, in the future, in order to remove some of this uncertainty about, ‘Well, the feds are tipping in for operational expenditure, but there is a sunset clause around that, and we just do not know whether that is going to be forthcoming down the track because of budget crises or changes of governments or change of policy’?

Mr MARTINE — Okay. In terms of the first question about what is the most efficient dollar figure for an NPA, it is a hard one to put a number on. Obviously you do not want them too small. As Ms Stewart mentioned, reporting needs to be proportional to the value. You certainly do not want national partnership agreements that are so small that it just creates so much reporting bureaucracy that it is not worth it. But it is very hard to put a specific figure on it. It would very much depend on the sorts of areas that the national partnership is directed to and what is it that both the commonwealth and state are trying to get out of that particular area of service delivery. That is quite hard.

In terms of would it be better that the commonwealth just provided capital and the states then picked up the operating, once again, that varies as well. Your example about hospitals, I mean, the commonwealth does provide a lot of ongoing operating funding in the area of health, which comes through a different mechanism, and it far outweighs the \$2.6 billion we get on national partnerships. There may be some situations, and once again I think it is more of a case by case, where there are discussions between the commonwealth and the state and there is a mutual agreement that the best way to achieve a particular outcome may be for the commonwealth to facilitate the construction of something, and that then enables the state to carry something forward and deliver. But it is hard to come up with a general rule to say, ‘The commonwealth should do the capital and we should just pick up the operating’, because it would vary, and certainly in the area of health we would not want to fully fund all of the ongoing operating, because we do get quite significant amounts out of the commonwealth in the areas of health and likewise on education as well.

The CHAIR — So in your mind you do not have a preferred model or an optimised model? It is a case-by-case basis, but you would hope that there are proportionate reporting requirements relative to the sum received from the feds. Is that broadly your submission?

Mr MARTINE — It is really going back to the original principles that were outlined in 2008. It is really around facilitation payments to the states to achieve something. If it is general commonwealth assistance for an area of delivery in which the commonwealth has been providing assistance for some time, then that should not morph into national partnership agreements. They should be specific-purpose payments. There is a whole separate discussion around that. They really should be related to, ‘Here’s an area that the commonwealth and states think that there can be a bit of assistance, and there can be some sensible reforms undertaken’. Whether it is in the terms of facilitation or reward payments depends a bit on the subject matter — so focusing more on that.

As I mentioned, the seamless national economy was a good example of that. Legal services is probably not. Then the reporting should be more on an outcome basis and proportional to what is it that we are trying to achieve, remembering my point earlier about if it is too prescriptive, it does impact on the community organisations as well. As I think I might have mentioned in my first answer, our view is that in principle the arrangements are good, but the practice has been mixed since 2008. That is probably the best way I can summarise.

Mr MORRIS — I was just trying to find a more recent example, but then I recalled our conversation with the ANAO, that basically the only performance audit that has been done is on the homelessness issue. Just looking at the recommendations from that report, they include:

... aligning the performance framework and key measures with timely, accessible and comparable data to support the monitoring of progress, including implementation of the reform agenda and the ... initiatives funded through the —

national partnership —

... creating a payment structure that relates payments more closely to the achievement of agreed levels of performance, as is the case in some other national partnership agreements;

... the state and territory governments providing financial data to the —

commonwealth —

department to confirm their financial commitments under the funding arrangement ...

One of the allegations made there is that it is not possible to substantiate the funding from the states going in. Then the last one is:

... the effectiveness of the existing approaches to addressing homelessness ...

The first three certainly seemed to be recommendations that would require greater oversight rather than less. Certainly it seems to be a view of the audit office at least that the agreements are effectively specific-purpose payments under another name.

Mr MARTINE — I think some of them do look a bit like that. They are not really the intent of the 2008 changes. They do replicate or represent what you would normally see in a specific-purpose payment arrangement from the commonwealth, the ongoing commonwealth support for an area of service delivery. It is part of the problem at the state level, and all the states have the same view on this, that it just then creates that uncertainty, at the government level but also at the community sector level as well, because they just do not know, come 1 July next year, if there is commonwealth money that is going to flow, and if it is not going to flow, is the state government going to step in? There is a whole range of consequences if state governments step in, because you step in once and you will step in many times, because at the commonwealth level, if they see a state step in, they will just step back, and you continue that shift of responsibility. It is always a big step for a state government to step in.

Mr MORRIS — If I could, we are, I guess, essentially talking about the past, but I am frankly more interested in the future. Given the current discussions that are going on, we may well find we are seven years on effectively reinventing the wheel. Aside from agreement from all the states and the state treasurers that this is not working, are we getting any indication of the view of the commonwealth on these issues?

Mr MARTINE — It is probably, and my apologies for doing — —

Mr MORRIS — In terms of reform? I know I am asking you to crystal ball gaze.

Mr MARTINE — I always hate to do this, Deputy Chair, but that is probably a better question for Chris Eccles on Thursday. The issues around the future of the federation have been generally handled through the COAG process, which have been led by all of the Premier's departments, so Mr Eccles is probably better placed to give a bit of a sense of where those discussions are up to. But clearly this is an important part of the whole framework between the commonwealth and the states. So even though it only represents about \$2.6 billion of everything we get, and the rest is made up of, obviously, the GST and specific purpose payments, it is an important element, but Mr Eccles is probably in a better position.

Our issue is that the Treasurers' meetings, as I have mentioned earlier, are very much focused on the reporting and the uncertainty issue, and we have been driving that hard. There is a very common strong view amongst all of the state governments on that very point, understandably. It does create a lot of concern amongst all of us.

Dr CARLING-JENKINS — Thank you again, Mr Martine. I am just wanting to talk a little bit about capital works, and I know that the chair just touched on this, but just picking up on one point there, a lot of the national partnership agreements that we talk about are focused on service delivery, but we are aware that capital works are also funded. I understand that through the whole-of-government response there was — on page 11 — a clear indication that capital works are suited to the NPA structure. I am just wondering what percentage of NPAs to date have been focused on capital works or infrastructure projects?

Mr MARTINE — Thanks for the question. I assume you are referencing page 11 of the response to the questions?

Dr CARLING-JENKINS — Sorry, I am looking at the submission — the initial submission. There was not a lot of detail, so I just thought I would ask a little bit more around what kinds of capital works and what percentage.

Mr MARTINE — Actually I have just found a reference. It is page 11 of the government's response to the questions that were provided — so the top of page 11. We might have to just take on notice the actual detail, and I am happy to provide that.

Dr CARLING-JENKINS — Not a problem.

Mr MARTINE — As you can see on page 11 — it is the first paragraph under the dot point on the top of that page — is the point I have made in some of my answers, and particularly that second dash point, which is that the whole purpose of the national partnerships is to facilitate reforms that reward those jurisdictions that deliver on national reforms or achieve service delivery improvement.

As I have mentioned a few times, that is the intent from 2008. That is a very good intent, and we still support that intent. It is just that in some situations they have morphed into something that is quite different. But we will take it on notice and try to break down the current amounts of perhaps the \$2.6 billion, and see if we can break it down between what represents a capital payment and what represents an ongoing and get back to the committee.

Dr CARLING-JENKINS — And service delivery. Thank you very much. That would be great.

Ms WARD — You have spoken about 12 months notice being given as a program or an agreement starts to wind down. What notice and what conversations is the state able to have with the commonwealth when the commonwealth wants to implement funding cuts?

Mr MARTINE — Thanks for the question. At the moment the commitment of the commonwealth Treasurer is more in the time frame of six months. It is to advise the states in the context of their midyear update, which is generally released in December, about national partnerships expiring from 1 July the following calendar year, so it is generally around that six-month time frame. We have had examples where even up to the point of their budget in May there is uncertainty about whether a month and half later there will be money flowing or not, which is not a very good outcome.

Unfortunately our influence and the influence of all the states in terms of whether an agreement is continued and how much it is funded for is reasonably limited. It certainly does not stop us and all of the states expressing strong views. We do so in our discussions with the commonwealth Treasury, the Treasurer of the day does that with his counterpart in Canberra and the line departments do exactly the same.

But certainly at the commonwealth end these are matters that go through their expenditure review committee process, which unfortunately we do not get exposed to. I would love to sit there and express the view in their cabinet room, but they go through that process and we are just given the outcome of that. As Ms Hart indicated earlier, the level of influence of the states can be restricted at times. It is kind of 'here it is', from the commonwealth. You either accept it or you do not. We always prosecute a strong view et cetera, but at times we are not successful.

It is certainly helpful if all of the states have a uniform view about a particular matter. That is certainly much more powerful than if three states think something and four think something different. But generally on this there is often a very strong, consistent, bipartisan view across all the states about funding levels and timing and uncertainty.

Ms WARD — Are there any examples of agreements or programs within agreements being partially defunded or defunded before they are complete?

Mr MARTINE — Before they are complete?

Ms STEWART — The 2014–15 commonwealth budget discontinued funding for the national partnership on certain concessions which provided funding to the states to extend state-based concessions to people, I believe, on pensioner concession cards and seniors cards. That would have been the first formal indication coming from the commonwealth government that that was to occur. I think there was one other small NP discontinued in that budget, which we could take on notice, but they would be some of the most significant recent examples.

Ms WARD — And how much of a challenge is it for the state to work through that and try to resolve that issue, that funding cut?

Mr MARTINE — That is a good example of where it was certainly a major challenge because of, I guess, the surprise of the change. So sometimes you get very little notification about a change and also the quantum. There are some references in the whole-of-government response to the committee's questions that actually talk about that particular example. It resulted in a loss of around \$74 million in funding to Victoria in 2014–15, so it was quite a significant cut by the commonwealth. That is probably the biggest example.

Ms WARD — So it is a sizeable challenge then to try to work through and see how you can alleviate that cut?

Mr MARTINE — That is right.

Ms PENNICUIK — That is a bit of a segue to my question. I noticed on page 5 of that same paper that you are talking about right down near you the bottom it says that no consistent methodology is applied to the indexation [inaudible] state funding. Could you hear me, Mr Martine?

Mr MARTINE — I could, yes.

Ms PENNICUIK — I am just wondering in terms of your discussions with the commonwealth Treasury and the other states if you could elucidate on how you might be pursuing that issue of some more consistent methodology with the indexation, because it seems to me that that could be quite a problem. There are already two examples there of problems. I think your answer to Ms Ward on the previous question is another indication of how I think that could be a fairly big underlying problem.

Ms HART — I was just going to start by saying — and this is as Mr Martine said through the spending department rather than Treasury — when we are negotiating with the commonwealth, the starting point is to try to actually ensure that the adjustment in funding is aligned with the growth of that particular expenditure area. We are always in those discussions pursuing indexation and growth changes consistent with what is happening in terms of the underlying parameters for a particular area, so looking at the population that that service will be provided to, or looking at whether CPI or another measure is appropriate.

Mr MARTINE — Often the start propositions would be, as Ms Hart indicated, at the state level we would be looking for funding that increases in line with both population changes and cost increases relevant to that particular area of service delivery. It is not unusual for the commonwealth to start with a proposition which is

just a fixed dollar amount that has come out of their internal budget processes. So it is a bit hard to say that the best model is CPI in all cases because in some areas of service delivery costs are increasing more than CPI and demand is increasing. It really comes down to the area concerned and also the purpose of the national partnership. If it is some money to facilitate something and then there is a reward payment, indexation might be a bit less relevant than if it is funding for delivery over the next three years. Then it can be very relevant, and CPI may or may not be the most relevant indexation factor and then you have questions about population and growth and how does that impact on it.

So it is hard to come up with a general model and to say, 'All national partnerships should just be indexed by X'. It is very much more of a case-by-case situation. But there are a number of them that are basically a fixed dollar 'Here is a national partnership and the states can carve up X million a year' kind of thing.

Ms PENNICUIK — I can see what you are saying, but it seems that if you are going to get a fixed dollar and the costs can keep going, then you are going to get to the problem we were talking about before of passing that back down.

Mr MARTINE — Yes. Not surprisingly that is our position for the states. A fixed dollar amount, particularly for those that are delivering ongoing services, is just completely inadequate because I cannot think of any area of government service delivery where costs do not increase. Then you are into the debate of 'Is CPI enough?', and then you have the discussion around population growth and how does that impact on that particular area. So generally you will find in most areas that CPI on its own is not sufficient to cover the overall cost impact for the very reasons that CPI is very low at the moment. Costs in a lot of these areas are increasing more than CPI and then you have the population factor as well. So when you add all of that up it is not unusual to find costs in some of these areas growing by 3 per cent or 4 per cent. It is not an unusual thing.

Ms PENNICUIK — Chair, can I just follow that up?

The CHAIR — Yes.

Ms PENNICUIK — So are the states again coming with a consistent view to the commonwealth about that particular issue?

Mr MARTINE — Certainly a consistent view in the sense that fixed dollar amounts are inadequate. But, as I mentioned, it is hard to come up with a consistent answer to the problem because I think all of the agreements and all of the areas are quite different. But there is certainly a consistent view from the states to the commonwealth that our costs are growing a lot more than a fixed dollar amount and in most areas have grown a lot more than CPI.

Mr DIMOPOULOS — Just in terms of the purpose you were talking about before — or what you have been saying throughout the whole hearing — as opposed to service delivery capital, longer term, short term, given your comments earlier about the seamless economy successful NPA, do you think that the better use of NPAs is for capital short-term projects as opposed to service delivery?

Mr MARTINE — Not necessarily. I would not say that they should just be focusing on capital. It is really coming back to, as you mentioned, the points I have made a few times about the original intent of facilitating reforms. That facilitation does not necessarily have to relate to a capital payment. It might be some ongoing money for three years to facilitate some reforms in a certain area or it might take the form of reward payments to the states.

Mr DIMOPOULOS — So it is short term in nature? It is not funding kindergarten for the next 5 or 10 years?

Mr MARTINE — The original intent of the national partnership arrangements was not to have them in place forever. That is why we have other forms of commonwealth assistance like specific purpose payments. It is just that in some areas some of the national partnerships have morphed into something that looks very much like a normal funding agreement with the commonwealth. That is where a lot of the problems arise because of that short-term nature of the agreement and the uncertainty it creates about whether it is going to continue beyond 1 July et cetera. So if we go back and focus on the original intent, and it is focusing a lot on facilitation, then it may be capital, it may not be. It is hard to — —

Mr DIMOPOULOS — But as long as it has those attributes you talked about?

Mr MARTINE — Yes. As I have mentioned a few times, we are comfortable with the original purpose of the national partnership agreements. I think I have mentioned a few times that the principle is sound; it is just that the practice has been a bit mixed. There have been some good examples and some bad examples.

The CHAIR — Do you have a view in terms of the success or otherwise of the universal access to early childhood education? From a DTF perspective, have you had any visibility about that and have you any insights you might want to offer? It might be more appropriate for DET, but I just thought from a DTF perspective —

Mr MARTINE — In fact I think they are next, Chair.

The CHAIR — They are indeed.

Mr MARTINE — It is probably more of a question for that secretary.

The CHAIR — Okay. I am just conscious of time. Are there any other questions?

Mr MORRIS — Just one quick one, in part arising from that. The committee initially sought, as I am sure you are aware, Mr Martine, submissions from every department. We got a whole-of-government response form. That is fine; that is the government's prerogative. But perhaps what it is not allowing us to do is identify areas. Just quickly reviewing again the response, it is going to be very difficult to get out of that an indication of areas where the agreements have worked well and where they have not worked so well. Certainly my experience in other areas suggests that there are some things that across Victorian government work particularly well in one area and not so well in other areas. From a Treasury perspective, do you have any capacity to assess the effectiveness of these agreements? I am just wondering, given that we have a whole-of-government response, where we go to try to tease out those issues of what has worked well.

Ms HART — It is difficult for Treasury to do that because of the fact that the service delivery is happening in the portfolio departments. Further to what Mr Martine said earlier, we have identified that NPs similar to the national economy ones have been effective. I think some of us have touched on the homelessness and the legal assistance services agreements, which would in our view be examples that have been less well designed as NPs.

Mr MARTINE — Perhaps, Deputy Chair, probably the best start point would be the whole-of-government original submission, which is dated — I am not sure of the actual date of it — where there is an attachment that actually lists all of the significant national partnerships. The way they are constructed — and it is in tabular form — is that each of them have a section entitled 'Impact on service delivery'. They go through and identify some of the — —

Mr MORRIS — I have looked at that. The language is generally consistent, as you would expect from a whole-of-government response, but it does not allow us to really identify the stand-out winners — perhaps the dogs.

Mr MARTINE — But, as Ms Hart indicated, that can be done with the relevant departments as they appear, because they are the ones that are directly dealing with the community organisations, for example, that are on the ground delivering these services. Hopefully she will be well placed to be able to give a sense of indication.

Mr MORRIS — I have got an indication of Treasury's view. We simply ask everyone as they appear. That is the best way to do it.

The CHAIR — I would like to thank Mr Martine, Ms Hart and Ms Stewart for their attendance today. The committee will follow up any questions in writing and a written response should be provided within 21 days of that request.

Witnesses withdrew.