

Response to questions from the Public Accounts and Estimates Committee
Inquiry into the Impact on Victorian Government service delivery of changes to National Partnership Agreements

Questions taken on notice at the hearing of 19 November 2015

- *Could the Department please provide more information to explain its involvement and interaction with other Victorian departments and the Commonwealth Government in the NPA negotiation process?*

The Department of Premier and Cabinet (DPC) deals with other Victorian departments and the Commonwealth during specific National Partnership Agreement (NPA) negotiations and in monitoring the overarching intergovernmental agreement landscape.

During the specific NPA negotiation process DPC provides overall whole-of-Victorian-Government support to other Victorian departments, which can include leading the development of a Victorian position on major reform proposals.

While NPAs are initially drafted by Commonwealth agencies with portfolio responsibility for the initiative in question, the Commonwealth may have consulted informally with states before this point, including through review and evaluation processes, or through forums such as Council of Australian Governments (COAG) Senior Officials' Meetings.

Following Commonwealth policy and budget approval of a proposal, the Department of Prime Minister and Cabinet (PMC) will circulate a draft NPA to State First Ministers' departments copying in the Commonwealth Treasury and portfolio agency contacts. States are then asked to provide comments on the draft agreement which reflect input from portfolio agencies, Treasuries and First Ministers' departments.

Once a draft agreement has been received, DPC meets with Department of Treasury and Finance (DTF) and the lead portfolio department to analyse the proposed agreement and to determine benefits and risks with reference to the policy merits and program design, financial costs, and governance arrangements. Advice is then prepared for Ministers, including details of a negotiation strategy if appropriate. This joint position informs Victoria's negotiating position and directs feedback provided to the Commonwealth on initial drafts of the agreement. In all negotiations Victoria seeks to comply with the principles of the Intergovernmental Agreement on Federal Financial Relations (IGA FFR).

Victorian portfolio departments will usually lead the negotiation of individual agreements with their Commonwealth counterparts. This is consistent with their policy expertise and lead responsibility for implementing agreements, delivering against all requirements in those agreements and managing associated risks. During this period DPC provides ongoing advice and support as necessary to portfolio departments on strategic policy issues or negotiating tactics. This includes providing portfolio departments with an understanding of the broader intergovernmental context and priorities.

Outside of the direct negotiating process DPC also maintains ongoing, core working relationships with areas of Victorian portfolio departments that regularly engage in NPA negotiation. During high priority negotiations this interaction is significant.

DPC also coordinates a bi-annual Whole-of-Victorian-Government IGA monitoring process. This process occurs twice a year, after the Commonwealth Budget and after the Mid-year Economic and Fiscal Outlook (MYEFO). This bi-annual process is aimed at ensuring robust oversight of agreements is maintained. DPC requests the bi-annual update from Victorian portfolio departments. Departments are responsible for identifying all IGAs within their portfolio and providing relevant information on their current status including identification of:

- (i) issues arising during negotiation: significant issues which may not be resolved or timelines that may not be met;
- (ii) issues arising during implementation: timelines or milestones which are unlikely to be met, or performance measures which may not be achieved; and
- (iii) successes: where NPAs are on track or exceeding performance targets.

DPC uses the IGA monitoring process as a mechanism to identify and monitor upcoming trends and issues regarding the negotiation and implementation of IGAs, and to assist with negotiations.

As the leading Department assisting respective Victorian Departments as the service delivery practitioner to execute and implement the NPAs, does the Victorian Government engage/consult formally or informally with the respective Commonwealth portfolio counterparts to contribute the practitioner knowledge and experience on policy and programme design issues during the NPA drafting stage?

In general, during the NPA negotiation phase DPC engages with its Commonwealth counterpart (i.e. PMC) and does not directly engage with other Commonwealth portfolio departments. The main point of contact for Commonwealth portfolio departments during NPA negotiation is their respective Victorian portfolio department(s).

DPC engages both formally and informally with PMC during the NPA drafting stage. Formal consultation usually occurs through NPAs being distributed to Victoria for comment by a particular date. Face-to-face meetings may take place during this period. Informal consultation may take place as part of intergovernmental meetings such as COAG Senior Officials' Meetings, or COAG Deputy Senior Officials Meetings. Other informal discussions between Commonwealth and State officers may also take during this period.

During both informal and formal negotiation processes DPC seeks to ensure that the drafting of the NPA is evidence-based and therefore accorded a reasonable chance of achieving its goals. For service delivery NPAs this often involves drawing on practitioner knowledge. DPC uses its established relationships with portfolio agencies and other State and Territory First Ministers' departments to develop a sound understanding of the relevant practitioner knowledge base.

Questions arising from the whole-of-Victorian-government response dated 6 November 2015

- *In view of the Reform of Federation process currently underway, could the Department please provide any details on what is currently being done to improve the efficiency and effectiveness of:*
 - a. *approaches to developing strategic priorities, negotiation tactics and drafting issues?*
 - b. *coordinating a whole of government approach to major reform initiatives?*
 - c. *coordinating a whole of government reporting process?*

DPC leads the coordination of Victoria's input to the Commonwealth's Reform of the Federation process.

In 2015, DPC formally established the Reform of the Federation Steering Committee, involving the Secretaries of the Department of Treasury and Finance, Department of Health and Human Services, and Department of Education and Training, chaired by the Secretary of DPC, Chris Eccles.

Additionally, at a working level, DPC coordinates input through regular meetings with other departments and additional information requests as required, as well as collaborating on the analysis or development of reform proposals.

DPC continues to look at proactive approaches to maximise the efficiency and effectiveness of its coordination processes.

- *Could the Department please provide any details on what is currently being done at a whole of government level to minimise the impacts of negotiation and administration costs incurred for NPAs?*

DPC ensures that a consistent whole-of-Victorian-Government approach is adopted to the assessment of NPAs. Before Victoria signs up to a NPA it is subject to rigorous and evidence-based analysis to determine the risks involved, and whether or not the NPA represents a benefit to Victorians. As previously outlined, this analysis involves the balancing of a range of factors that determine delivery of a positive outcome for Victorians. This includes the policy merits and program design; the financial costs, benefits and risks; and governance considerations. DPC meets with DTF and the lead portfolio department to assess potential NPAs and weigh-up and evaluate these different factors.

When assessing the financial risks of the NPA one of the key considerations is the costs of administering and reporting against the agreement. When Victoria signs a NPA, it signs up to the implicit implementation costs of negotiating time, administration, internal reporting and compliance monitoring. These are in addition to the costs which are explicitly outlined in the agreement. DPC seeks to ensure that NPA reporting to the Commonwealth is meaningful, commensurate with the value and size of the NPA, and has clear, appropriate governance and accountability arrangements.

- *Could the Department please populate a table to show the ongoing negotiation and administrative costs associated with NPAs?*

DPC is unable to quantify the exact financial costs associated with the ongoing negotiation and administration of all NPAs. However, as outlined in the whole-of-Victorian-Government response to PAEC's further questions, DPC commissioned a report on Effective and Efficient Intergovernmental Accountability which was undertaken by Price Waterhouse Coopers (PwC) in 2013 (the Report).

The Report estimated that the Victorian Government incurs marginal costs of \$10-12 million to comply with formal reporting requirements under National Partnership and Project Agreements. This represented the costs incurred for over 920 individual reports delivered to the Commonwealth over the life of these agreements, of which 37 per cent were a form of progress reporting.

PwC also found that additional marginal costs incurred by Victoria under the IGA FFR were:

- between \$2.0-\$2.4 million to negotiate proposed agreements that are not compliant with the IGA FFR
- \$1.7-2.0 million to develop and agree implementation plans and project proposals
- \$1.8-2.2 million to respond to ad hoc and informal information requests.

The ongoing administrative costs associated with NPAs are always taken into consideration in weighing up whether a NPA represents the best possible outcome for Victorians.