

## **White Paper**

**~ Federalism & Regionalism in Australia ~**

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## Executive Summary

The efficiency and effectiveness of Australia's federal system has long been the subject of critical inquiry and public debate. However at least since the 1960s, there has been no national non-government body positioned to foster informed and constructive debate on how its institutional structure should develop to better cope with the pressures of our time – the globalising economy, changing social expectations of government, urban challenges, and the reality that Australians live and work in many more regions than they have State Governments.

The 2004 Annual Conference of the NSW Farmers' Association established a 'New State Taskforce' to provide a renewed focus for an informed debate about the evolution of our institutions that is above party politics. The objective of the Taskforce was to fill the gap left by the conclusion of the Constitutional Centenary Foundation (1991-2000) as an initiator of informed debate about federalism in Australia, and help support the redevelopment of a national research agenda on federalism following the closure of the ANU-based Federalism Research Centre in the late 1990s. The Taskforce was mandated to continue the type of debate triggered briefly by the Business Council of Australia's *Aspire Australia 2025* report (2004) and work with other business and non-government groups with an interest in improving our fundamental structures of democracy and governance.

The comments made recently by the Federal Treasurer, the Hon Peter Costello MP, highlight that the issue of federalism and its impact upon the differing levels of government is still a very live issue.

As a first step in this debate, the Taskforce (with assistance from Griffith University) developed a discussion paper, 'New States, Regional Devolution and Reform of the Australian Federal System - "Identifying the Benefits of Reform"'.

In the second phase, the Taskforce in conjunction with Griffith University, CSIRO, The Australia and New Zealand School of Government and the Institute of Public Administration Australia organised a national symposium on 'Federalism & Regionalism in Australia – New Approaches, New Institutions?' to strengthen public debate on the reform options. The Association also launched a discussion paper, 'Reform of Australia's Federal System – Identifying the Benefits' at the symposium. This paper may be viewed on the Association's website. The objective of the paper is to seek public comments on the framework to help inform the evaluation of different reform options and to invite expressions of interest from other organisations interested in supporting any area of research in reforming the governance structures.

The Symposium resolved that any reform should be aimed at:

- Providing a more efficient, durable and cooperative apportionment of policy responsibilities between national and regional levels of governance;
- Enhancing the governance capacities of urban and rural communities at the local and regional levels;
- Increasing the responsiveness of state or regional government to the pressing needs of Australia's regions, including urban regions;
- Streamlining and reducing the net cost of government where possible; and
- Providing an enhanced environment for sustainable economic innovation.

The Taskforce is now moving into the third phase of establishing a Federalism & Regionalism Reference Group with the aim of facilitating the above reform agenda. The Reference Group will also set out more specific examples of reform scenarios, for the purposes of comparison, evaluation and further public debate

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## 1. Introduction

Many Australians feel their nation is over-governed, and its federal system conflict-ridden and inefficient. Prospects for reform have been limited, however, by Australia's weak intergovernmental machinery, and weak traditions of local and regional government. Since the 1990s, an explosion in regional governance initiatives is now reopening fundamental questions about how our governance institutions should evolve. To address this issue a motion was passed at the Association's 2004 Annual Conference to form a 'New State Taskforce' to investigate the pros and cons of establishing a Non-Metropolitan State in NSW.

In its relatively brief 200 year post-colonisation history, Australia has come to have an unusually centralised system of government. Although federal union of the six British colonies in 1901 was a great achievement, Australia's political system relies on a confused system of sub national governance. In political-geographic terms, the low correlation between Australia's 'real life' regions and the nation's primary sub national governments is a major continuing governance problem, with costs in terms of policy efficiency, democratic effectiveness and constrained economic opportunity.

Internationally, since the 1990s, the question of political reform based on effective devolution has returned to the forefront of public policy in developed and developing countries alike. Despite its problematic federal history, however, Australia is one of a few nations to fail to incorporate any program of significant political institutional reform in its economic restructuring and adjustment.

Any new model of governance should be approached systematically in phases to get the desired outcome that people will embrace.

Firstly, proper evaluation of options for structural reform should be developed to meaningfully assess the feasibility and/or desirability of any such reform.

Secondly, the various models such as:

- *A small number of new states;*
- *Regional states;*
- *A two-tiered system of regions;*
- *Shedding a tier – national and local government;*
- *A four-tiered system; or*
- *Sub constitutional reforms;*

have to be evaluated for cost effectiveness through an acceptable evaluation framework.

The third phase is to establish a Reference Group of eminent people in society or a new alliance of interested groups to drive the reform agenda forward.

Rural communities such as represented by the NSW Farmers Association have traditionally been most associated with options 1 or 2. However in practice, rural like urban communities have become familiar with, and at different times have often actively supported, all these options. At times a major factor preventing any reform has been inadequate consensus over the preferred option, even when there was strong overall support for reform of some kind.

By reviewing a range of options, a number of new more detailed reform scenarios can be compared in order to achieve stronger consensus on the nature of the institutions likely to deliver the most beneficial reforms.

## 2. Background

### 2.1 The Nature of the Issue

- Unequal outcomes in the economic performance of Australia's regions:
  - Income and growth differentials within States and between States
- A Federal dimension to this problem:
  - Australian Government has a responsibility for the growth of the national economy as a whole
  - State Governments tend to see States as regions and pay great attention to their performance relative to each other
  - Basic political dynamics favour some regions – especially metropolitan regions – over others
  - Outcomes exacerbated by neoliberal philosophies
- No clear lines of responsibilities amongst the current three levels of government leading to government service delivery problems
- When there is a problem governments try to shift the blame from one to another
- One quarter of the 152 Local Councils in NSW are on the brink of financial collapse

### 2.2 Taskforce Update

The Taskforce in the last 12 months (through intellectual rigor and assistance from Griffith University) undertook as the first phase in the exercise the development of a discussion paper, 'New States, Regional Devolution and Reform of the Australian Federal System - "Identifying the Benefits of Reform"<sup>1</sup>.

During the second phase, the Taskforce formed strategic alliances with Griffith University, CSIRO, The Australia and New Zealand School of Government and the Institute of Public Administration Australia so as to organise a national symposium on the issue to strengthen public debate on the reform options.

The day long symposium on 'Federalism & Regionalism in Australia – New Approaches, New Institutions?' was held at NSW Parliament House on Monday 8 May 2006. Over 80 people attended this historic symposium. Participants had backgrounds in government policies, public policy research, economics, social science, constitutional law, public administration and politics.

The Symposium was aimed at fostering informed and constructive public debate about the long-term reform of Australia's federal political system to deliver a more efficient, effective and democratic system of governance. It was further aimed at shaping a new research agenda, identifying priorities for policy challenges and presenting a new national framework towards strengthening institutional reforms.

A total of 12 papers were presented covering areas such as 'Legitimacy of Federal & Regional Institutions, Effectiveness: The Regional Drivers for Governance Reform, Efficiency and Economy in Federal & Regional Governance and Outcomes & Actions: Priorities for Research & Reform'. The papers can be viewed on the Association website under Federalism & Regionalism in Australia. The symposium identified a number of principles for any reform model and this is highlighted at section 4 below.

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<sup>1</sup> Brown, A. J., Gray, I. and Stilwell, F. (2005). New States, Regional Devolution and Reform of the Australian Federal System, Discussion Paper # 1- Identifying the Benefits of Reform: produced for NSW Farmers' Association.

## 2.3 The Discussion Paper

Following the symposium, the Association's discussion paper titled 'Reform of Australia's Federal System – Identifying the Benefits'<sup>2</sup> was launched by Professor Ken Wiltshire AO of the University of Queensland. The summary of the Discussion Paper is at Annexure 1.

## 2.4 Reference Group

The third phase of the project is to establish a Reference Group comprising key people in society or forming a new alliance with other interested groups to take the issue of Regional Reform forward.

The aims of the Reference Group will be to:

- foster informed public debate about long-term reform of Australia's federal political system to deliver more efficient, effective and democratic government;
- design and fund a program of research into the social, economic and political feasibility of structural reform of Australia's federal system in partnership with leading Australian and international researchers;
- facilitate bipartisan/multipartisan political debate about short, medium and long-term options for achieving more effective regional devolution within the Australian constitutional system; and
- promote the development of more long-term streamlined, collaborative approaches to Australian intergovernmental relations between local, regional and national government.

The starting point for the Reference Group will be to consider the Association's discussion paper launched for public discussion and to consider relevant feed back on the paper.

## 3. Options for reform

Preliminary research demonstrates that Australian citizens have a high level of interest in long-term reform of the federal system. However opinion varies on the optimum type of structural reform, ranging from:

- creation of new states, as contemplated by Australia's federal founders under Chapter VI of the 1901 Constitution; to
- restructuring and amalgamation of existing state and local governments into a new 'second tier' of regional government; to
- abolition of state governments and redistribution of their functions between existing federal and local governments.

The renewed interest of federal, state and local governments in regional governance has also given currency to the option of developing stronger regional institutions as a 'fourth tier' of government, as the number of regional programs and organisations grows.

At the same time, governments are experimenting with new forms of administrative collaboration designed to more effectively deliver nationally coherent programs to target communities at local and/or regional levels. These new spatial approaches represent alternative responses to the

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<sup>2</sup> Brown, A. J. (2006). "Reform of Australia's Federal System – Identifying the Benefits: A Discussion Paper Produced for the NSW Farmers' Association by The Federalism Project, Griffith University, [www.griffith.edu.au/federalism](http://www.griffith.edu.au/federalism).

same pressures, also demonstrate that the system is in a state of flux, and similarly require evaluation for their longer term significance.

#### **4. Reform Model Principles**

One of the major outcomes of the symposium was that any reform model be it a Two Tier, Four Tier or even a new Regional Government must be guided by a number of principles such as:

- a more effective political system;
- more efficient and responsive public administration;
- greater social, economic and environmental sustainability in rural and regional Australia;
- 'Viability' in state/regional governance;
- Economic and political 'autonomy';
- Vertical fiscal imbalance (VFI); and
- Cooperation and interdependency in multi-level governance.

The Models should be aimed at:

- Providing a more efficient, durable and cooperative apportionment of policy responsibilities between national and regional levels of governance;
- Enhancing the governance capacities of urban and rural communities at the local and regional levels;
- Increasing the responsiveness of state or regional government to the pressing needs of Australia's regions, including urban regions;
- Streamlining and reducing the net cost of government where possible; and
- Providing an enhanced environment for sustainable economic innovation.

#### **5. Issues for further discussion**

The discussion paper provides an evaluation framework as a basis for further, more detailed interdisciplinary research into the costs and benefits implied by current or potential options for the future of the federal system.

The Taskforce is of the view that a future paper in this series will set out more specific examples of reform scenarios, for the purposes of comparison, evaluation and further public debate.

The Taskforce will welcome feedback on the framework to help inform the evaluation program. The Taskforce is also looking at inviting expressions of interest from other organisations interested in supporting any area of this research, and from researchers interested in carrying it out.

The feedback will assist the researchers to come up with a number of fully costed models which would be put to the members for their views before embarking on a campaign for a preferred model.

## 6. Conclusion

Federal, state and local governments agree on the economic, social and environmental importance of strengthening governance capacity at the local and regional levels. The pressure for such strengthening is not new. It is reflected in longstanding calls for reforms such as the creation of new states, abolition of the states in favour of new provincial or regional governments, and/or expansion and national constitutional recognition of local government. However, despite its renewed importance since the 1990s, regional governance remains fragmented and weak, lacking the resources, funding and institutional support needed for any realistic form of devolution.

The framework as proposed in the Association's Discussion Paper is intended to provide a structure for a program of research into the relative costs and benefits of different federal reform options, and to facilitate agreement among experts, policymakers and interested groups about the objectives of reform and how the feasibility of reform might be evaluated.

While conclusions about the feasibility and desirability of any given reform must obviously await more research of this kind, this White Paper highlights the many areas in which reform of Australia's federal system – as a general principle – can be expected to deliver social and economic benefits.

The Association's Taskforce is of the view that:

- There is no reason to doubt the financial viability of most new state or similar regional government options, within Australia's system of federal public finance;
- There is good reason to believe that options for stronger regional governance can be found that will deliver improved financial efficiencies in public administration;
- There is good reason to believe that reform based on regional devolution can also contribute to greater national policy coherence, if accompanied by a commitment to a stronger culture and institutions for intergovernmental collaboration; and
- There is good reason to believe that stronger regional governance within the federal system will deliver long-term social, economic and environmental benefits.

The Taskforce is further of the view that a Reference Group of eminent people in the society or a new alliance of interested groups be formed to drive the federalism and regionalism reform agenda forward.

## 7.

## Annexure 1

### Discussion Paper Summary

#### **'Reform of Australia's Federal System – Identifying the Benefits'**

##### **Introduction**

The discussion paper sets out a draft framework for the evaluation of different options for the future of Australia's federal system of government.

The paper represents the first step in the development of this larger evaluation methodology. It provides a framework for a larger program of research to assess the potential costs and benefits of a range of options for structural and administrative reform of Australia's federal system.

##### **Australian federalism – a troubled history**

Australia's federal system of government is in a crucial state of change. As the nation adjusts to globalisation and new approaches to governance, questions surround how the three-tiered federal system can best adapt to serve the needs of an integrated economy, while also serving the needs of diverse communities spread over a vast continent.

Despite the great achievement of federal union of the Australian colonies in 1901, the last century has seen ongoing debate about the need for greater federal power over matters of national importance, as well as for stronger frameworks for devolution of decision-making and services to local and regional levels in many public policy areas.

These ongoing debates reflect the problem that Australia's federal system has become unusually centralised, in an ad hoc, largely unplanned way. Greater federal power and national uniformity have been achieved in some areas, but in many economically important areas the gains are incomplete or constitutionally fragile.

Federal, state and local governments are also agreed on the economic, social and environmental importance of strengthening governance capacity at the local and regional levels. The pressure for such strengthening is not new. It is reflected in longstanding calls for reforms such as the creation of new states, abolition of the states in favour of new provincial or regional governments, and/or expansion and national constitutional recognition of local government. However, despite its renewed importance since the 1990s, regional governance remains fragmented and weak, lacking the resources, funding and institutional support needed for any realistic form of devolution.

##### **Evaluating the options – the need for a framework**

Despite the importance of these reform debates, no single comprehensive model exists for evaluating current trends and alternative options for the federal system. The lack of an accepted framework for analysing different reform options, combined with the political partisanship surrounding some options in previous decades, has made it difficult for the feasibility of these options to be objectively compared and assessed.

More recently new frameworks have been proposed for identifying the political, economic and policy issues that need to be considered when evaluating the effectiveness of new spatial approaches to governance, in both rural and urban contexts.

This paper brings together some key lessons of these proposals to present a new, comprehensive framework of 20 evaluation principles associated with the five key governance elements and/or outcomes implicit in our changing federal system (Table 1). Each principle identifies, in broad terms, a key intended benefit of reform, enabling the relative merits of reform options to be compared with each other and with the status quo.

Preliminary discussion of many of these principles indicates the feasibility, and importance, of productive research in these areas. In particular, it suggests:

- There is no reason to doubt the financial viability of most new state or similar regional government options, within Australia's system of federal public finance;
- There is good reason to believe that options for stronger regional governance can be found that will deliver improved financial efficiencies in public administration;
- There is good reason to believe that reform based on regional devolution can also contribute to greater national policy coherence, if accompanied by a commitment to a stronger culture and institutions for intergovernmental collaboration; and
- There is good reason to believe that stronger regional governance within the federal system will deliver long-term social, economic and environmental benefits.

### A framework for evaluation

*Table 1. Evaluation framework for federal reform in Australia*

<b>Governance element/outcome</b>	<b>Evaluation principle</b>	
<b>A. Political power</b>	A1.	Accountability/representativeness of leaders is ensured
	A2.	Legitimacy deficits are addressed (inc. re: non-elected decision-makers)
	A3.	National political identity/citizenship is strengthened
	A4.	Regional political identity/citizenship is strengthened
<b>B. Policy responsibility and development</b>	B1.	Roles and responsibilities are defined based on 'subsidiarity'
	B2.	Resources and funding are allocated and available at appropriate spatial level(s) ('subsidiarity' in practice)
	B3.	Greater policy coherence is achieved; collaboration and integration across and between governments is strengthened
	B4.	Capacity for regionally diverse policy responses is negotiated and institutionalised
<b>C. Public administration</b>	C1.	Complex policy issues are addressed (see also D)
	C2.	Public service delivery is improved
	C3.	Financial efficiencies of administration are improved
	C4.	Transparency in revenues, outlays, transfers and financial responsibility is improved
<b>D. Citizen and expert engagement</b>	D1.	Knowledge integration is supported and maximised
	D2.	Participation (or capacity for participation) of citizens is improved; partnerships facilitated and strengthened
	D3.	Socially inclusive participation is ensured
	D4.	Equity and procedural fairness are ensured
<b>E. Long-term outcomes</b>	E1.	Regulation, compliance & participation costs are reduced
	E2.	'Triple bottom line' sustainability is realised
	E3.	Sustainable economic innovation is fostered
	E4.	Long-term systemic and structural change is supported; communities' adaptive capacity for governance is improved