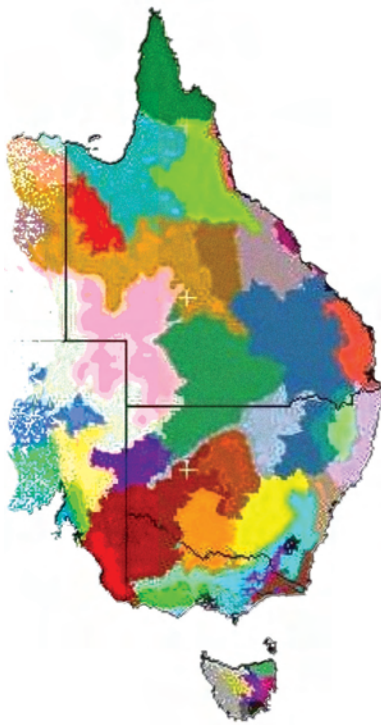


Appendix - Reform of Australia's Federal System: Identifying the Benefits



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

May 2006

(This abridged version: May 2007)

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Published by

NSW Farmers' Association

Level 10, 255 Elizabeth St

Sydney NSW 2000

Reform of Australia's Federal System: Identifying the Benefits

1. Federalism—Australia. 2. Regional planning—Australia.

I. Brown, Alexander Jonathan.

Acknowledgements

This paper was prepared by **Dr A.J. Brown**, Senior Lecturer and Senior Research Fellow in the Socio-Legal Research Centre, Griffith Law School, Griffith University, and visiting fellow at the Australian National University College of Law. Many thanks to the following for ideas, input and comments: **Ian Gray**, Centre for Rural Social Research, Charles Sturt University; **Frank Stilwell**, Professor of Political Economy, University of Sydney; **Mal Peters**, NSW Farmers' Association; **Christine Smith**, Professor of Economics, Griffith University; **Jenny Bellamy**, University of Queensland; **Ken Wiltshire**, University of Queensland; **Suzanne Lawson**, Urban Research Program, Griffith University; **Stephen Welstead**, New States for Australia <newstates.com.au>; **Ian Mott**, New Farm States Australia; and **Amy Keenan-Dunn**, Griffith University.

The Federalism Project is a national program of research into federalism, regionalism and forces of stability and change in the structure of Australia's political institutions

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Reform of Australia's Federal System Identifying the Benefits: A Discussion Paper Summary

Introduction

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

In 2004, the NSW Farmers' Association established a taskforce to investigate the feasibility of creating one or more new states from within the present boundary of New South Wales. In 2005, the Association commissioned Griffith University's Federalism Project to advise on a suitable contemporary methodology for assessing the costs and benefits of federal reform.

This 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.

NSW Farmers' Association and Griffith University welcome feedback on the framework to inform the evaluation program, and invite expressions of interest from organisations and researchers interested in supporting and conducting the research involved.

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 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.

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

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.

Where to from here

This evaluation framework provides 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.

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.

NSW Farmers' Association and Griffith University welcome feedback on the framework to help inform the evaluation program. We also invite expressions of interest from other organisations interested in supporting any area of this research, and from researchers interested in carrying it out.

A framework for evaluation

Table 1. Evaluation framework for federal reform in Australia

Governance element/outcome	Evaluation principle	
A. Political power	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. Policy responsibility and development	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
C. Public administration	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
D. Citizen and expert engagement	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
E. Long-term outcomes	E1.	Regulation, compliance and 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

Reform of Australia's Federal System Identifying the Benefits: A Discussion Paper

1. Introduction

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

In 2004, the NSW Farmers' Association established a taskforce to investigate the feasibility of creating one or more new states from within the present boundary of New South Wales. This proposal, which has a 150-year history, reflects the renewed importance of regionalism within the Australian federal system and the extent to which Australian federalism is again subject to change.

In 2005, the Association resolved to continue its assessment of the social, economic and political case for new states, and commissioned Griffith University's Federalism Project to advise on a suitable contemporary methodology for assessing the costs and benefits of federal reform.

A key feature of past reform debates has been the presence of a wide range of institutional options for development of the federal system. As well as different constitutional options, such as the establishment of new states, many policy practitioners argue for a range of sub-constitutional, administrative reforms based on increased intergovernmental collaboration in priority policy areas.

Another feature has been lack of clarity over the criteria for categorising and assessing the potential benefits of different reform options. Even when a particular scenario can be identified as offering clear benefits, uncertainty about the overall effect of reform, possible unidentified costs and the presence of alternative options has prevented general consensus from emerging – leaving a federal system that most Australians appear to regard as less than optimum.

This paper represents the first step in the development of an evaluation methodology which can provide an agreed basis for comparing and assessing different proposals for reform. It takes as its starting point that reform is not purely theoretical or hypothetical – Australia's federal system has been subject to change over the past 105 years, and continues to change as citizens and policymakers strike new balances between the global, national, state, regional and local imperatives confronting Australian society.

The paper 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 to meet current challenges. NSW Farmers' Association and Griffith University welcome feedback on the framework to

inform the evaluation program, and invite expressions of interest from organisations and researchers interested in supporting and conducting the research involved.

2. Australian federalism – a troubled history

Federalism: ‘... a system of government in which authority is constitutionally divided between central and regional governments.’

James Gillespie, ‘New federalisms’ in *Developments in Australian Politics*, J. Brett, J. Gillespie and M. Goot (eds) (1994), pp.60-87; Blackshield and Williams (2004), p.241.

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, greater simplicity and consistency in national regulation, and stronger frameworks for devolution of decision-making and services to local and regional levels in many public policy areas.

Pressures for centralisation

Questions about the right framework for governing the Australian continent have been part of Anglo-Australian political debate ever since colonisation in 1788, and establishment of the first civilian governments in 1823 (NSW) and Van Dieman’s Land (Tasmania, 1825).

At the same time as they created the six Australian colonies between 1823 and 1859, British policymakers vacillated between federal and unitary theories for establishing a national system of government (Brown 2004a, b; 2006). By the time nationhood was achieved in 1901, a federation of the largely independent colonies was almost inevitable (Galligan 1995).

Nevertheless, much of Australia’s federation debates, and much of its first 105 years of federal history have seen conflict over barriers to the federal government’s ability to act on issues of national importance. In particular, since the 1940s debate has surrounded the need for greater uniformity, consistency and simplicity in regulation affecting the economic welfare of the nation, and the ability of the federal government to efficiently manage the national economy.

Since the 1980s, pressure for the federal government to take on a stronger regulatory and policy role has extended further into the province of state governments:

- Transport and infrastructure planning, including roads and ports;
- Environmental regulation and natural resource management (including Landcare, biodiversity, vegetation and water);
- Secondary and tertiary education;
- Health services and aged care;
- Industrial relations.

Since the 1940s, federal governments have used their constitutional power over taxation to assume *de facto* control of many policy areas through financial inducement and pressure. This was extended in 1999 by the establishment of the federally-collected Goods and Services Tax (GST), described by some as a 'stealth missile' for state governments (Wood 1999).

Much national standardisation of laws and regulation has also occurred collaboratively, through 'cooperative federalism', particularly in the 1920s-1930s and 1990s (Wilkins 1995; Painter 1998). Nevertheless this has been an ad hoc process, with Australia's mechanisms of intergovernmental relations remaining informal and weak.

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 important areas the gains are incomplete or constitutionally fragile. For all these reasons, a range of national interest groups have continued to advocate the need for review of Australia's federal system as the nation confronts the 21st century (see e.g. Business Council of Australia 1991, 2004).

Pressures for decentralisation

Federal, state and local governments are also agreed on the economic, social and environmental importance of strengthening governance capacity at local and regional levels within Australia's federal system. The pressure for such strengthening is also not new, having taken at least four different forms. The first pressure for regional strengthening can be seen in longstanding calls for the creation of new states – the philosophy that saw creation of Tasmania (1825), South Australia (1836), Victoria (1851) and Queensland (1859) (Ellis 1933). This process was re-endorsed by Australia's federal founders through inclusion of Chapter VI 'New States' of the Constitution, as well as by official constitutional review commissions in the 1920s and 1950s (e.g. Peden et al 1929).

While there have been no formal efforts to create new federal territories or new states since the 1920s, popular support for structural devolution of this kind

has at times remained strong. In an official NSW referendum in 1967, for example, 46% of electors in north-east NSW voted in favour of the proposed new state of New England, including 66% of all electors outside the Newcastle/Hunter region.

A second, parallel pressure for regional strengthening is found in repeat proposals for replacement of state governments with new provincial or regional governments, in a more general constitutional restructure. These have also occurred since the 1840s (Brown 2006), but are more commonly associated with ideas for 'unification' or total abolition of the States (e.g. Macphee 1994, Hall 1998), although they could also be consistent with retention of a federal system (Hurford 2004).

A third pressure for regional strengthening can be found in the campaign of local government since the 19th century for stronger formal powers, a fair share of public revenues, and at times, federal constitutional recognition (Chapman and Wood 1984). International comparisons routinely show Australia to have an unusually centralised subnational structure due to the weakness of local government (Watts 1996; OECD 1997: 77; Winer 2002). Local government's recent campaign against public 'cost-shifting' (Commonwealth 2003), requests for a direct share of GST revenue, and a new Intergovernmental Agreement on local government finance (2006) all reflect moves towards this form of strengthening.

The 'New' Regionalism?

Finally, since the 1940s all levels of government have proposed and invested in various regional programs as an administrative strategy. Since the 1990s, such programs have expanded considerably, particularly in non-metropolitan areas (Pritchard and McManus 2000; Beer et al 2003; Eversole and Martin 2005). Today a proliferation of new regional governance institutions and strategies cut across the key policy areas of all existing levels of government:

- regional economic development and infrastructure planning;
- natural resource management and environmental regulation; and
- community engagement and new strategies for integrated social service delivery based on management of 'places' and 'regions'.

The recent renewal of interest in stronger regional programs has been boosted by international theories about 'new regionalism' or 'glocalisation' as a response to increased global economic integration and competition (see Markusen 1987; Courchene 1995; Keating 1998; Rodriguez-Pose and Gill 2003). In Australia, 'new regionalism' has also been taken up as a platform for improved government-community reengagement or 'associational governance' based on communities' own social capital – i.e., the capacity of communities to organise themselves (e.g. Smith et al 2005).

Nevertheless complex questions surround the 'new regionalism' in Australian circumstances (Beer et al 2003: 248-264; Rainnie and Grobbelaar 2004).

Historically, regional development programs have often been revealed to be 'palliatives ... entertained for political consumption rather than for substantive outcomes' (Wanna and Withers 2000: 85). By comparison with overseas examples such as British devolution, Australian governments have still made little or no public investment in political or administrative institutions to support the new regional programs (Gleeson 2003; cf Jones et al 2005).

The Commonwealth's recent Regional Business Development Analysis called for a major rationalisation and strengthening of regional bodies on this basis, describing local governments as 'generally too small', state governments as 'too large', and complaining of 'poor regional planning, inadequate coordination between the three levels of government, duplication and wastage' (RBDA 2003: 5, 30). There remains no coherent, national response to this call.

Similar questions surround the long-term sustainability of new regional programs for natural resource management. Despite being promoted and legitimised through rhetoric of decentralisation and public involvement within an integrated policy framework, 'institutional capacity for these new collaborative approaches however is often lacking' (Bellamy et al 2005).

In the development of 'associational governance' at local and regional levels, important questions similarly surround 'matters of administration and governance' – the 'organisational changes and advances in skills and capacity' needed 'to turn good rhetoric into reality.' Without these, the new strategies remain 'fragile', pursued with little enduring institutional support and despite the 'realities of local politics and Australia's federal system of governance' with its 'ambiguous and contested' accountabilities, legitimacies and relationships (Reddell 2005: 9, 73, 198-201).

Together, the history of these unresolved pressures for local and regional strengthening confirms the benefit of holistically re-evaluating the different options for reform of the federal system. Despite its renewed importance since the 1990s, regional governance remains fragmented and weak, lacking the resources, funding and institutional support needed for realistic devolution. Despite the rural focus of many regional programs, these basic challenges also extend to governance of the urban regions in which the vast majority of Australians work and live.

As the Prime Minister, John Howard has noted, the troubled history of Australian federalism does not mean that, *in principle*, it is not the best system of government for Australia. Federalism continues to promote the dispersal of power, and continues to hold the potential to deliver services closer to peoples' needs, more clearly than alternative non-federal political systems. The problems with

Australian federalism lie in the way in which these principles are currently institutionalised:

The trouble is that, in practice, there is often less to these arguments than meets the eye. For instance, the view that State governments have benign decentralist tendencies has always been something of a myth ... (Howard 2005).

How is Australian federalism likely to evolve in response to these continuing pressures for further centralisation of federal government control over many key areas of public policy, *and* further decentralisation of institutional capacity for more adaptive, response governance at local and regional levels?

What options for reform are currently being explored by Australian governments? What options are possible, and how should we as a community assess the relative benefits and costs of these different options?

3. Options for Reform

In the past, solutions to the structural challenges of the Australian federal system have often conflicted. As discussed in the previous section, there have been a variety of options proposed for reforming the system, with experts and policymakers often disagreeing on where reform is needed, and the type and extent of any reform.

Nevertheless, even among experts and policymakers there is widespread consensus that mechanisms can and should be found for developing a better federal system. Generally speaking, commentators tend to divide their focus between short-term administrative options, medium-term legislative options, and long-term constitutional options.

Short-term options (administrative)

Australian governments are already experimenting with new forms of administrative collaboration designed to more effectively deliver nationally coherent programs to target communities at local and/or regional levels. Similarly, informal systems of intergovernmental collaboration – and coercion – continue to be used to shape more coherent national responses to public policy challenges across a range of areas.

As discussed earlier, these new spatial approaches represent alternative responses to current pressures for centralisation and decentralisation within the Australian federal system. They demonstrate that the system is in a state of flux, and require evaluation for their longer term significance.

In relation to devolution options, many of the key questions surround whether, and how, increased public funding will flow to support the 'new regionalism', and what type of administrative bodies will continue to develop as vehicles for

stronger regional programs. Given the increasing importance of federal policy involvement, and reliance on federal funding, other questions surround whether and how Commonwealth Governments will pursue more nationally coherent strategies for the development of regional institutional capacity to support federal-regional initiatives. Similar questions surround more effective use of administrative strategies such as regional budgeting by state and federal governments.

Medium-term options (legislative)

The Commonwealth continues to rely heavily on legislative strategies for pursuing greater uniformity and consistency in economic and regulatory areas, such as in industrial relations. While sometimes cooperative, this is also done through use of section 109 of the Constitution to override inconsistent state laws, depending on the High Court's approach to constitutional interpretation.

The renewed interest of federal, state and local governments in regional governance has also seen increased focus on legislation to support the growing number of regional programs and organisations. While no federal legislation of this kind exists, many of the institutions on which strengthened regional governance relies – including in response to federal-regional initiatives – have their basis in state legislation, including local government and catchment management agencies. Continuing federal support for reform and strengthening of local government finance, and for more permanent collaborative funding strategies under programs such as the Natural Heritage Trust and Roads to Recovery, are also likely to demand more stable legislative frameworks.

As the number of programs relying on regional bodies grows, along with recognition of the need for durability, accountability and adaptive capacity on the part of regional organisations, the more likely it appears that Australia is gradually developing a 'fourth tier' of regional government. Many questions surround this trend, including whether and how it can – or should – be given a clearer, more coherent legislative basis. Key questions surrounding devolution of the 'political and administrative resources such as mandate, authority, legitimacy and funding' necessary to support these responses have been well-known since the 1970s (Power and Wettenhall 1976; Reddell 2005: 192).

Long-term options (constitutional)

Where is Australia's federal system ultimately headed? As highlighted by the previous section, the need for formal adaptation of the federal system has always been part of Australian political debate, and was incorporated in the present federal constitutional design. Constitutional reform via referendum has been used, albeit sparingly, to extend Commonwealth power in areas of national consensus, principally when proposals have received bipartisan political support.

Convictions also continue to run strongly among Australian citizens that the federal system should – and will – ultimately include formal structures for general-purpose regional government, as opposed simply to administrative or legislative strategies. The general principle of regional government has received renewed support on economic, environmental and social grounds (Stilwell 2000; Gray and Lawrence 2001). Depending on its precise form, constitutional devolution of this kind is also potentially more consistent with federalism than the present system, providing for constitutionally-entrenched regional governments that more closely align with the socio-economic structure of daily life and governance needs than existing institutions.

However opinion also continues to vary on the optimum type of reform:

Creation of new states

As outlined earlier, this option was contemplated by Australia's federal founders under Chapter VI of the 1901 Constitution.

Even within this option, views may vary on the number of states that would be desirable or feasible. Figures 1-3 contrast how NSW would look if divided into just two states (coastal and inland), four states (the traditional position of NSW new state movements), or a new state for 'every major region' (Blainey 2004). Nevertheless this option is likely to be utilised in the short to medium-term, when the citizens of the Northern Territory (population 198,544 people in 2003) next request the opportunity to be admitted to statehood.

A two-tiered system based on regional government

This option is perhaps most consistent with the 'unification' option referred to in the previous section, but could be established either through abolition and replacement of the existing States under a new constitution *or* through the creation of 'regional states' using the Constitution's new state provisions (figure 3).

While constitutionally more complex, this option is widely seen as most consistent with more general rationalisation and simplification of the federal system. This scenario formed part of the Business Council of Australia's recent predictions for how the federal system might evolve over the next 20 years (BCA 2004).

A two-tiered system based on local government

This option involves the simplest form of 'shedding a tier' and would see abolition of existing state governments, and constitutional entrenchment of Australia's 700 local governments and/or transfer of legislative control over them to the federal government. This option is least consistent with federalism due to the disproportionate degree of central power that would be wielded by the national

government, even though local government may well also be substantially stronger than at present. It would be constitutionally most difficult to achieve.

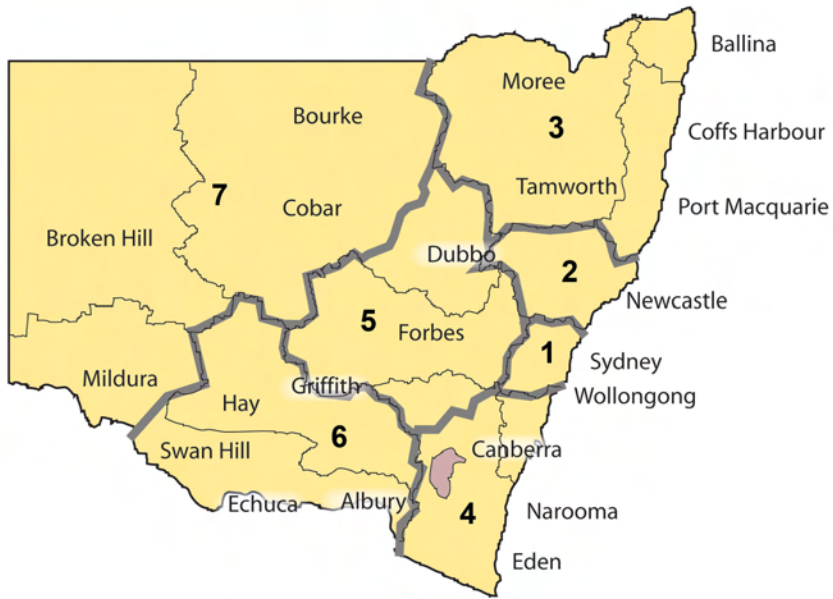
Figure 1



Figure 2



Figure 3



Notes accompanying figures 1-3

		Population (2003)	Av tax income (2002) (\$)	Total pers income (2001) (\$m)	Per capita pers income (\$000)
Figure 1. A Single Inland State					
1	Coastal NSW	5,752,218	42,548	122,541.6	21.30
2	Inland NSW	929,835	35,411	15,854.4	17.05
Figure 2. Traditional New States					
1	New South Wales	5,176,243	43,755	114,477.2	22.12
2	New England	718,484	32,533	10,539.1	14.67
3	Riverina	465,592	35,661	8,037.5	17.26
4	Macquarie	321,734	35,630	5,342.2	16.60
Figure 3. Regional States					
1	Greater Sydney	4,198,543	45,040	97,411.2	23.20
2	Hunter	599,575	38,137	10,465.7	17.46
3	New England	688,838	32,292	9,965.8	14.47
4	Kosciusko	583,758	37,689	10,166.9	17.42
5	Macquarie	289,813	35,597	4,860.5	16.77
6	Riverina	257,154	35,338	4,506.5	17.52
7	Outback	64,372	34,891	1,019.4	15.84
For comparison					
	Tasmania	477,305	34,221	7,931.0	16.62
	South Australia	1,526,301	36,405	27,695.6	18.15

Data source: Australian Bureau of statistics National Regional Profiles (www.abs.gov.au)

What do Australians think about these options?

Preliminary research in Queensland and NSW demonstrates a high level of popular interest in long-term reform of the federal system. In this research randomly selected samples of Queensland and NSW adults responded to key questions about the future of the federal system when surveyed respectively in 2001 (Brown 2002a, b) and 2005 (Brown et al 2006 in press).

Although a substantial majority of citizens profess satisfaction with the way democracy works in Australia, a much lower proportion express satisfaction with the three-tiered federal system. When presented with several of the options outlined so far in this paper, a significant majority – 74.2% in NSW – expressed a preference for a constitutional scenario in another 50-100 years other than the system they have today.

Importantly, there is relatively little difference between urban and rural citizens of NSW when it comes to their opinion of existing levels of government, or their preferred system in the long-term.

While these surveys indicate a two-tiered system based on regional governments to be the single most preferred option in Queensland and NSW, they also indicate this is clearly not just a simplistic choice. In the NSW survey, government employees (61.6%) were among the most likely to favour this form of restructure, with state government employees the most likely of all (66.7%).

This research also reinforces the importance of local institutions in the thinking of many Australian citizens, with 36.3% of respondents preferring retention of existing local government as the second tier in a restructured federation, even though 52.6% would favour restructuring local government into new regional governments.

The high degree of public interest in long-term reform provides a reminder that, even if constitutional change is a longer-term process, constitutional theory can and should help inform the choice of short and medium term options.

Recognising the range of options raised by debates over the future of Australian federalism, also helps emphasise the challenge of developing a more informed and productive public discussion about the costs and benefits of any given reform. In the past, assumptions about particular options have been used to dismiss others, even when they have been based on similar principles and could in fact have delivered complementary benefits.

History suggests that the potential benefit of reforming the Australian federal system is frequently less in dispute than *which types* of reform are necessary or sufficient. In the 1970s, for example, new initiatives in 'regional planning' and 'new regional entities' were seen as the final nails in the 'collective coffin' of new state movements (Kidd 1974: 57), even though this phase of regional

programs did not prove any more successful as a long-term response to the problems of the federal system.

In fact experts in constitutional theory and public policy have emphasised the need to approach the assessment of different options with an open mind. For example Professor Ken Wiltshire has noted that the most viable reforms may lie in a combination of principles previously associated with different competing options, through the marriage of federalism's principles of divided sovereignty with notions of 'pure regionalism' to produce a 'realistic alternative design' (Wiltshire 1991: 12).

Despite the importance of these reform debates, until now no single comprehensive model has existed 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 – despite the high level of agreement that Australian federalism needs to evolve to address this range of problems. This paper is intended to help establish a framework for a program of research to more effectively fill this gap.

4. Evaluating the options – the need for a framework

The evaluation of existing reform initiatives, and objective assessment of potential benefits and costs of other reform options, both require clear and agreed criteria against which the effects of reform can be measured or estimated.

In broad terms, it is clear that all the reforms discussed in the preceding sections are aimed at creating more legitimate, effective and efficient systems of governance. They also assume that governance will not improve through goodwill and intent alone. Tangible administrative and institutional change is required to support new efforts in more responsive and adaptive governance, and deliver the type of federal system needed by Australia in the 21st century.

The international experience confirms that any assessment framework must necessarily be holistic. By their nature, the political, economic, social and environmental effects of governance reform are unlikely to be easily separated, instead being interwoven.

Nevertheless, while no single comprehensive framework for evaluating these options has existed until now, starting points are provided by recent experience. Internationally, although devolutionary reforms are usually undertaken as 'acts of faith' without comprehensive prior planning, governments are usually then forced to evaluate these reforms against *ex post facto* descriptions of their intentions (Kay 2003; Jones et al 2005: 401).

Closer to home, Australian public policy contains a number of proposals for new frameworks for identifying the political, economic and policy issues to be considered when evaluating the effectiveness of new spatial approaches to governance. In NSW, for example, the need for effective evaluation of state government-funded 'place management' projects led to an illustrative framework for estimating the effects of projects against six dimensions: Change, Capacity, Governance, Learning, Cost-benefit, and Sustainability (Stewart-Weeks 2002).

This framework provides an example of key themes for evaluating particular projects or programs, but a wider process is needed to holistically evaluate the governance approaches lying behind the project. Examples can be found in both rural and urban contexts.

Recently increasing effort has gone into evaluating the complex and changing planning processes for regional natural resource management (NRM) around Australia, another key focus for federal-regional governance reform. Results include 20 criteria, or principles, to guide the evaluation of these diverse regional planning approaches, taking into account Context, Structure, Process, and Outcomes (Bellamy et al 2005).

These criteria provide a strong basis for evaluating a wide range of new spatial approaches to governance, particularly at the regional level where in fact, natural resource management, sustainable economic development and effective social programs are closely interlinked. Since these governance arrangements are not 'project-specific' but rather intended to support long-term programs and structural economic and social change, they provide a good guide to what is increasingly sought from regional governance more generally.

This framework also compares favourably to new suggestions for the content of evaluation frameworks for the new spatial approaches to governance increasingly deemed necessary in Australian urban contexts.

The resonance between rural NRM and urban planning evaluation is one good indicator that these frameworks share fundamental criteria, important to any area of governance reform. It also provides a salient reminder that the challenges of policy effectiveness, social sustainability, community engagement and 'democratic deficit' implicit in Australia's current federal system are not confined to rural regions but span the urban-rural divide (Gleeson and Low 2000; Gray 2004; Lawson and Gleeson 2005). Figure 4 sets out an overall approach to evaluating new spatial approaches in urban contexts, based on recognition of the different governance 'elements' involved in any such program, and articulation of key principles against which these might be judged (Lawson and Gleeson 2005: 90).

Table 4. Evaluation principles for spatial approaches (Lawson and Gleeson 2005)

Governance element	Evaluation principle
Political power	Ensure accountability of political leaders – representation
Policy development	Achieve greater policy coherence
Public administration	Improve service delivery – financial efficiencies. Address complex issues
Citizen engagement	Improve participation of citizens – partnerships. Social inclusion.
Institutional arrangements	Build collaboration across government – integration and coordination. Lead to long-term systemic and structural change.

Together these existing frameworks provide alternative structures, but common and complementary criteria and principles to guide the evaluation and assessment of complex new governance options.

Drawing on these efforts, the next section of this paper presents a new, comprehensive draft framework of 20 evaluation principles associated with the five key governance elements and/or outcomes implicit in our changing federal system (Table 5). It is framed principally in terms of the governance elements suggested by Lawson and Gleeson, recognising that the main foci of evaluation are the alternative structural and institutional options discussed earlier. However as the evaluation criteria/principles show, these elements overlap strongly with the structure and process themes identified by Bellamy et al (2005).

Further, in considering the actual or likely effects of new governance arrangements, it is important to consider overall outcomes to which a high level of consensus attaches, and which no one specific governance element can achieve on its own but which remain the goal of the governance system as a whole. Within this framework, each principle identifies, in broad terms, a key intended benefit of reform, guiding the evaluation of existing approaches and enabling the relative merits of reform options to be compared with each other and with the status quo.

Table 5. Evaluation framework for federal reform in Australia

Governance element/outcome	Evaluation principle	Evaluation methods			
		Political / social science (qualitative)	Political / social science (quantitative)	Public finance / inst economics	Economics
A. Political power	A1. Accountability/representativeness of leaders is ensured	✓	✓		
	A2. Legitimacy deficits are addressed (inc. re: non-elected leaders)	✓	✓		
	A3. National political identity/citizenship is strengthened	✓	✓		
	A4. Regional political identity/citizenship is strengthened	✓	✓		
B. Policy responsibility and development	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		✓		✓

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C. Public administration	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			✓	✓	
D. Citizen and expert engagement	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	✓		✓		
E. Long-term outcomes	E1.	Regulation, compliance and 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	✓		✓	✓	✓

5. A framework for evaluation

This section of the paper explains briefly, in relation to each principle within the above framework, the type of evaluation involved in holistically assessing the advantages and disadvantages of different reform options. In this way the framework provides an overall guide to the types of research and research methods that can be usefully deployed in evaluating the types of options outlined earlier.

The section concludes with a brief preliminary assessment of the lessons from existing research, and priority areas for further work.

A. Political power

Evaluation principles:

A1. Accountability/representativeness of leaders is ensured

This principle identifies a particularly important potential advantage of reform. In a democratic system, clear systems of political representation remain the cornerstone of ensuring the ultimate accountability of federal and regional governance actors.

Federalism is particularly predicated on the principle that each of the nation's major regions should receive direct representation in the national parliament, as well as delivering systems of subnational representation at scales conducive to effective accountability. This principle provokes analysis of the extent to which existing or reformed institutions can deliver enhanced political representation.

For example, section 7 of the present Constitution guarantees each existing state a minimum of six Senators (currently 12), and federal legislation provides for two Senators from each federal territory. Section 24 of the Constitution requires that 'as nearly as practicable' the number of Senators must be maintained at half the number of Representatives. If the principle of equal Senate representation is maintained, then the admission of one NSW new state (figure 5a above) would require a total increase of 38 Commonwealth politicians, or 17% of the Parliament. If variable Senate representation were introduced for new states, as provided for by section 122 of the Constitution, then Australia could be subdivided into 25 states and 5 territories with an increase of only 11 Commonwealth politicians (4.8% of the Parliament).

Can a given reform option also enhance regional and local-level democracy? Currently the relative weakness of local government mitigates against this, particularly as local representation is poorly remunerated, regional representation is typically indirect, and while state representation occurs at too high a scale. This principle calls for analysis

of the democratic qualities of alternative regional bodies, including, in the case of regional governments, the potential for unicameral legislatures such as proposed for the new states of New England (1967) and the Northern Territory (1998), as well as the potential for greater use of regional-level proportional representation as used in some local governments, Tasmania, the ACT and New Zealand.

A2. Legitimacy deficits are addressed (inc. re: non-elected decision-makers)

This principle identifies that as well as providing reapportioned representation within existing institutions, an important potential benefit of reform is to provide accountability where this is currently lacking. It helps distinguish decentralisation options based on administrative or appointed regional bodies, and devolution options in which regional bodies are directly constitutionally accountable (e.g. via election) to the community.

Today many regional programs rely on short-term administrative arrangements (boards, committees, forums) in which participation is based on unrealistic levels of 'volunteerism', and/or whose legitimacy remains dependent on appointment from 'top down'. In regional natural resource management, for example, the call for stronger devolution of resources and authority to non-democratic institutions (Wentworth Group 2002) has been criticised for displaying a dangerous 'utopian localism' (Lane et al 2004). In many policy areas where outcomes are dependent on effective design and implementation at local and regional levels (e.g. education, health, community policing, natural resource management), the main implementation strategies remains classic departmental bureaucracies, even when open to 'engagement' at community levels.

This principle also helps identify that whereas many Australians are concerned that the nation may be 'over-governed' (in terms of numbers of politicians per capita), the real problem may be imbalance between the representation afforded at different levels. Indeed compared to many countries, Australia is over-governed in terms of parliament-based legislators (Commonwealth and state) but under-governed in terms of overall numbers of representatives in local and/or regional government.

A3. National political identity/citizenship is strengthened

This principle recognises the indirect advantages of a political system which citizens understand, support and with which they have a minimum level of political and cultural identification. Australians place a high value on nationhood and expect the Federal Government to be able to act in the national interest, particularly on economic matters.

Devolutionary reform also provides an opportunity for constitutional renewal, allowing communities to rebuild their relationship with the political institutions on which they depend, so contributing to national cohesion as envisaged by the Business Council of Australia's *Aspire Australia 2025* scenarios (BCA 2004).

A4. Regional political identity/citizenship is strengthened

In Australian public culture, one of the most prevalent criticisms of the nation's political geography is that it remains dependent on colonial-era decisions and defaults. Whatever the inputs to the decisions at the time, they predated European settlement in most regions and bear little relation to many of the fundamentals of Australian economic, environmental and social geography. The development of subnational governance frameworks based more clearly and strongly on the regions with which citizens have most direct affinity, stands to better support the social and political sustainability of communities as well as the responsiveness of regional level programs. Today geographers, social scientists and public policy practitioners are equipped with a more detailed understanding of the country in which we live, as demonstrated by new techniques in 'social surface modelling' (Brunckhorst et al 2004). While these approaches are still open to criticism (e.g. Dollery and Crase 2004b), there are advantages to be expected from a national political system in which a higher proportion of citizens identify with the nation's 'first order civil divisions' (state or regional government) more strongly than they do with current state governments.

B. Policy responsibility and development

Evaluation principles:

B1. Roles and responsibilities are defined based on 'subsidiarity'

'Subsidiarity' is the policy principle that government functions and services should be administered at the lowest level of government that can feasibly exercise that function, 'to the maximum extent possible consistent with the national interest' (Australian Premiers and Chief Ministers 1991, quoted in Galligan 1995: 205; Wilkins 1995). In the 1990s it was adopted by Australian governments as one of the four key 'pillars' of modern intergovernmental relations.

Subsidiarity is an internationally recognised principle, particularly associated with the benefits of federal systems (Grewal et al 1981; Bermann 1994). Its economic benefits are derived from the theory that each public good should be provided at the smallest scale of government consistent with no spatial spillovers into adjacent regions (Dollery 2002).

'Pure' public goods with nationwide benefits, such as defence and monetary policy, are best administered nationally, while services which are more direct or 'private' goods, with geographically limited benefits, are best administered locally.

'Fiscal federalism' based on this principle has long been promoted as a mechanism for maximising financial responsibility and allowing local governments the flexibility to respond to the preferences of their 'customers' or electorates (Tiebout 1956; Musgrave 1969; Oates 1972, 1999; Rodriguez-Pese and Gill 2003). Subsidiarity provided a strong economic argument in support of Australian new state movements (Clark 1952; 1955). Recent arguments for 'enterprise zones', in which taxation regimes are used to provide incentives for businesses or citizens to move between regions or states, are borne out by the way in which existing States such as Queensland Government have used their control over at least some financial instruments to attract population.

More recently, subsidiarity has been given only limited use as a rationale for not transferring further policy responsibilities from state governments to the Federal Government. In other words, it has been used as a principle to stop some responsibilities from being further centralised, but not as a guide to which responsibilities would be better devolved by federal and state governments to more local or regional levels.

Evaluation against this principle allows current and proposed reforms to be tested for economic efficiency and maximum responsiveness in the formulation of policy and deliver of services. Areas in which benefits might accrue from further centralisation to the Commonwealth include economy-wide management and regulation. Areas in which benefits can be expected from stronger local and/or regional governance include many of the current core areas of state responsibility, from the 'classic' regional policy areas identified earlier, to community justice, policing, health and human service delivery, and primary and secondary education.

B2. Resources and funding are allocated and available at appropriate spatial level(s) ('subsidiarity' in practice)

This principle requires assessment of the (a) intended and (b) actual distribution of public resources in support of the apportionment of responsibilities described above. Many problems associated with Australia's current version of federalism flow from the fact that even when local and regional governance capacity exists formally, or in theory, control over the necessary resources remains highly centralised. The

problem of vertical fiscal imbalance (VFI) also relates to this issue (see C4 below).

Since the 1930s, Australia's federal system has developed a strong theoretical capacity for ensuring that the public resources collected by the Commonwealth (now the vast bulk of revenues) are redistributed to lower levels, through the Commonwealth Grants Commission. Under principles of horizontal fiscal equalisation, the different economic and demographic challenges faced by different states (and different regions within the different states) play a role in calculating the 'relativities' for distribution of revenues, now including the estimated \$45 billion per annum in GST and Health Care Grants (HCGs) (2005-06). These relativities detail the proportion of revenue returned to each state, relative to the amount collected from within that state – as made controversial in recent years by the NSW government (see Table 6).

Table 6. Per Capita GST Relativities (Commonwealth Grants Commission 2005)

New South Wales	0.86846
Victoria	0.87552
Western Australia	1.02500
Queensland	1.04389
Australian Capital Territory	1.14300
South Australia	1.20325
Tasmania	1.55299
Northern Territory	4.26682

Clear potential exists for extending these principles to ensure more effective devolution of resources to sub-state levels. Although the less wealthy regions of all states are taken into account in calculating these relativities, there is currently no direct method of ensuring that resources are actually distributed regionally, within states, according to that need. Most regions of NSW would have a relativity between Tasmania and South Australia if considered in their own right, e.g. if they were constituted as states.

Short and medium-term options also exist for addressing this principle. Currently the main mechanism of sub-state equalisation is the system for federal grants under the federal *Local Government (Financial Assistance) Act 1995*, which amount to only \$1.617 billion (2005-06). Enlarged shares of revenue could be directed to local government or to other regional bodies by increasing this share, direct-funding from what would otherwise be the statewide share of GST, other compensatory strategies under the new Intergovernmental Agreement on cost-shifting, and other direct-funding programs such as Roads to Recovery I and II

(R2R, R2R2) to increase the likelihood of resources being spent in the regions and localities where they are most needed.

B3. Greater policy coherence is achieved; collaboration and integration across and between governments is strengthened

This principle recognises the need for political and institutional frameworks that deliver greater coherence ('seamlessness') in policy outcomes at a variety of levels – local, regional and national. Proposals for strengthened federal power in key areas clearly address this principle. At local and regional levels, this principle currently drives initiatives in 'joined up' or 'whole-of-government' approaches, aimed at overcoming the extent to which policy responses are constrained by different institutional 'silos'.

This principle also recognises that improved policy coherence is not likely to be efficiently and sustainably achieved in the long-term, unless supported by institutional reforms to promote intra- and inter-governmental collaboration. A range of short, medium and long-term options can promote more effective 'whole-of-government' outcomes at the regional level, from regional managers' forums, to regional budgeting, to general-purpose regional government.

Most importantly, this principle emphasises the importance of more formal, durable system of intergovernmental relations. While the recent renewed focus on regional solutions is often the product of collaboration between governments, stronger regional governance also ensures the need for ongoing horizontal collaboration to maintain coherence between an increasing number of formal governance actors. Governance is increasingly a shared activity in which multiple levels of government, as well as non-government actors, all play a role. As a result, governance is now understood as much in terms of 'networks' (Rhodes 1997) as 'structures'.

In the 1950s, the risk that new state proposals would only further fragment and complicate national processes of government made it 'very questionable whether the creation of new States ... within the existing federal system would not exacerbate more of the problems of federalism than it solved' (Parker 1955: 16). More recently, devolution in Britain has raised new questions about how the policy decisions of 'the centre' and the devolved institutions are best coordinated (Jones et al 2005: 400).

Although Australia has experimented strongly with intergovernmental collaboration, this often appears to remain the exception rather than the rule, with mechanisms such as the Council of Australian governments (COAG) notoriously informal and weak. Any reform option must be

evaluated for its likely contribution to mechanisms and capacity for collaboration and policy integration at both national and regional levels.

B4. Capacity for regionally diverse policy responses is negotiated and institutionalised

When greater policy coherence and national collaboration have been sought in Australian federal experience, this has usually been with a focus on forging more uniform national responses and making up for deficiencies in federal power. While this process can be expected to further benefit from reform options in a range of policy areas, in others it is important to build capacity for maximising the opportunity for greater diversity in regional policy responses.

Strengthened regional governance, even in the form of new states, is unlikely to ever provide a mechanism for regaining the 'autonomy' of regions in the form once enjoyed by the original states. For example, even with strong general-purpose regional governments, regions would only become more subject to externally-influenced (federal) environmental regulation, and national systems of commercial law and industrial relations. Nevertheless, any reform must be evaluated for the extent to which it provides regions with increased 'agency' to experiment and innovate with policy and services within the broad national framework, particularly in respect of innovations that would have been more difficult to pursue at the central or federal level (Rodriguez-Pese and Gill 2003). This principle reinforces these objectives.

C. Public administration

Evaluation principles:

C1. Complex policy issues are addressed (see also D)

This principle recognises that governance at all spatial levels involves the identification and solution of complex problems. Improved problem-solving capacity is also an intended benefit of reform in relation to other governance elements – including policy coherence and collaboration (above). However overcoming institutional divides does not in itself guarantee better problem-solving capacity, if for example all policy actors still see the problem in the same way.

Clearer federal government authority and resources, and more effective scales of state/regional government can both potentially lead to improved technical capacity in complex problem-solving. Local decision-makers are often considered to be more in touch with communities and are better placed to identify and react to issues. The different technical and policy knowledges relevant to understanding and solving major problems are

more likely to be forced to be integrated, at a scale where direct evidence of the problem and of the feasibility of proposed solutions is better able to be assessed by experts, decision-makers and those affected (see also D below). Finally, the resources needed to efficiently harness the best expertise are more likely to be available if aggregated at a more appropriate level.

C2. Public service delivery is improved

This principle recognises that as well as better-adapted policy, proposed reforms need to be assessed for their capacity to better deliver government services – whether uniform or similar services to those delivered elsewhere, or regionally-specific ones.

In any given service area, will reform provide: an enhanced ability to vary and tailor services in line with regional needs; greater freedom to innovate in the development of services; and more direct accountability for services? Will it provide heightened and more rapid feedback systems, through the proximity of elected representatives to their electors and reduction in the numbers of layers of administration between citizens and decision-makers? In evaluating reform options, answers may be found in either the form or content of services, i.e. in regional tailoring or simplification of simple administration of programs as well as in substantive criteria, goals and outputs.

C3. Financial efficiencies of administration are improved

This principle emphasises the importance of ensuring public resources are not unnecessarily wasted in administration, overlaps or duplication, that could otherwise be devoted to substantive services or used to relieve the burden on Australian taxpayers.

Regional institutional reform is sometimes presumed to be financially efficient, even when in fact this may not necessarily be so. For example, in some states assumptions about optimum economies of scale for administration have been used to support local government amalgamation programs which have since been criticised for the 'crass simplicities' of their financial rationale (Vince 1997: 151; Dollery and Crase 2004a).

Questions about the financial effects of reform tend to revolve around two questions: whether or how stronger regional governance can be made financially viable; and whether reform will remove wastage or overlap, and offer savings in the cost of government that might then be redirected to existing services or new programs.

Current initiatives raise questions regarding the financial efficiency of multiple, fragmented regional programs and bodies, including regional

economic agencies noted for their 'third world' birth-and-death rate (Beer et al 2003). The financial viability of such programs is problematic, given their frequent reliance on non-government or quasi-non-government organisations, and questions over the ability of many types of regional bodies to reliably manage large resources even if available. By contrast, medium-to-long term options for formal regional government raise fewer questions of viability, given that regions have long ceased to operate with the economic and financial independence once experienced by Australia's original states. Today new state or regional governments would form new financial units within Australia's integrated system of national public finance, supported by horizontal fiscal equalisation.

Could options for reform of the federal system lead to greater efficiency in the cost of government overall? A theoretical model for calculating the possible different overall costs of government, relative to the current cost, based on a variety of different constitutional reform scenarios, was developed by Drummond (2002).

On this analysis up to \$30 billion per annum (or about 10% of total public expenditure) could be saved if state governments were simply abolished, leaving national and local governments. Other scenarios are extrapolated from this baseline, the known cost of the existing system, and the known costs of Tasmanian-sized state governments and the ACT government (which combines both state and local government functions). On this graph, 'new states' assume retention of a three-tiered system of government, while 'regional states' assume the new regional governments would exercise both state and local functions. In both cases, the 'simplified' scenarios are variations in which some existing State government functions are also reallocated to the Federal Government.

While superficially this model suggests it would be expensive to create more states on a three-tiered model, in fact this is only true if all new states or regional states were to have the same fixed and marginal costs as today's Tasmanian or ACT governments.

The value of this model is in setting up outer boundaries within which more in-depth analysis of the net costs and benefits of reform can occur, using more specific, 'ground-truthed' options for alternative frameworks of regional governance. Even with its existing limitations, the model identifies up to 6-7% of current public expenditure (approx. \$20 billion per annum) as realistically capable of being saved through federal reform of the federal system, through a combination of centralisation and devolution.

C4. Transparency in revenues, outlays, transfers and financial responsibility is improved

Australian public administration has long been characterised by a complex and opaque system of interregional and intergovernmental transfers, with negative implications for both efficiency and accountability. This principle recognises the value of greater transparency in the financial basis of public administration.

The aggregated nature of state finances mean there is currently low transparency in the spatial collection and redistribution of public resources, and in decision-making regarding what could genuinely be considered 'equitable' for given regions (rural or urban). Reform options can be assessed for their contribution to clearer general-purpose regional budgeting, providing administrative and accountability benefits.

Similarly substantial criticism has surrounded the striking degree of vertical fiscal imbalance (VFI) embedded in the current federal system. Currently the Federal Government collects over 90% of all public revenue, even though it is directly responsible for only about 50% of all public expenditure. According to some economists, the divorce between financial 'or 'fiscal' responsibility (who levies the taxes) and electoral accountability (who spends the money) raises economic and political problems. On this analysis, governments feel less responsible for how funds are spent, and unlikely to spend these funds as wisely and efficiently as if they bore the political pain of collection themselves. Local government is somewhat better off, because while it receives federal funds laundered through the States, it is also directly responsible to the community for property rates decisions.

On other analyses, VFI is not really a problem in its own right, but rather can be accepted as a longstanding element of Australian administration. One Canadian political economist found little evidence that governments are more wasteful with transferred funds, primarily because 'the provincial voter, who is also the federal voter, sees through the circular route taken by his or her taxes' (Winer 2002: xi). Others argue that decisions about taxing *should* be separated from spending, because the efficiencies of each are different at different levels (Dollery 2002).

The key question is not whether federal reform can or should relieve VFI as such, but whether it can contribute to greater transparency in the flow of resources. In particular, reform options can be assessed for the extent to which they make it easier for administrative and resource needs to be identified, and for resources to be efficiently transferred to where they are most needed (see 'subsidiarity' above).

D. Citizen and expert engagement

Evaluation principles:

D1. Knowledge integration is supported and maximised

This principle is the first of four principles dealing with the governance processes offered by different reform options, particularly in relation to the involvement of non-government actors in federal and regional governance.

As discussed above, a key evaluation principle in relation to public administration is capacity to address complex issues, including by overcoming institutional 'silos'. The corollary of this principle is the need for reform that better overcomes knowledge-based 'silos' by integrating different types of expert or technical knowledge, and community knowledge and experience in the design and implementation of new policy solutions.

D2. Participation (or capacity for participation) of citizens is improved; partnerships facilitated and strengthened

This principle recognises that improved participation of communities and businesses in public decision-making is a universal objective, especially where focused on improved outcomes at local and regional levels (Smyth et al 2005; Eversole and Martin 2005). In this respect, participation and engagement is pursued at all levels of the design and delivery of programs, rather than simply through political and electoral processes. While commonly framed around notions of social capital, improved participation is also noted for its economic benefits (Wanna and Withers 2000: 86; Cavaye et al 2002).

Under this principle, reforms can be assessed for their contribution to the revitalisation of relationships between communities and government, through enduring engagement mechanisms in which formal structures better align with major communities of interest. Localised governments are better placed to develop networks and involve community and local business in seeking solutions to issues confronting that community.

D3. Socially inclusive participation is ensured

This principle recognises that the effective engagement of citizens in government and community processes is a vital part of their effective inclusion in society more generally, which today is increasingly accepted as an indicator of personal and societal well-being as opposed to poverty (Saunders 2005). Some specific indicators of levels of social inclusion are already routinely collected in official e.g. ABS monitoring of the progress of Australia's society and economy. While many recent regional policy

initiatives can be linked with political desires to address perceived social exclusion (Pritchard and McManus 2000), whether or not this is achieved depends on the broader economic effects of reform, and the extent to which reform better engages a broader cross-section of the community or entrenches particular elites.

D4. Equity and procedural fairness are ensured

This principle recognises that citizens and businesses have different capacities to participate in governance, but will share in the effects of decision-making and be subject to new forms of federal and regional regulation as reform occurs. It requires evaluation of the differential impacts of governance reform on different communities, individuals and industries, and of the extent to which reform options carry with them the capacity for amelioration of inequitable impacts either through alternative processes or substantive compensation.

E. Long-term outcomes

Evaluation principles:

E1. Regulation, compliance and participation costs are reduced

These final four principles identify the extent to which different governance options contribute to the major economic, social and environmental outcomes currently sought from reform as a whole.

This principle recognises as politically and economically important that reform should not increase, and ideally that it reduce, the costs borne by business and the community in dealing with government. These include the direct costs of regulation, and indirect costs such as compliance burdens and time.

Under this principle, the economic effects of different reform options would be estimated through applied general equilibrium (CGE) modelling, in effect as an example of assessing the economic consequences of whole 'alternative constitutions' (Winer 2002: 306). Evaluation would extend from estimates of national economic benefits derived from simplified, more consistent regulation in key areas, to include the regional economic effects of strengthened local and regional governance through use of regional models such as developed by Monash University's Centre of Policy Studies, Access Economics, National Economics (which produces the annual State of the Regions Report for the Australian Local Government Association), and NATSEM at the University of Canberra.

E2. 'Triple bottom line' sustainability is realised

This principle recognises environmental, social and economic sustainability as the central governance challenge confronted by Australian society as a whole, and as a unifying objective for all options for reform of the federal system of governance.

Any given reform option needs to be assessed for its capacity to directly help in the delivery of more effective governance solutions in response to the sustainability challenge. Clearer, rationalised federal policy responsibilities for the coordination of Australia's sustainability transition, and strengthened capacity for economic, environmental and social policy innovation and action at the regional level are both crucial to achieving this outcome.

New state movements of the 1920s and 1950s were at times inspired by an 'Australia unlimited' view of economic development, with stronger regional governance intended to help 'take the brake off' development by facilitating major new infrastructure projects, such as dams, hydroelectric schemes and railways. However more recent decades have seen emergence of a relative consensus that the final measure of our institutions will be whether they help place society on a more sustainable footing, measured in 'triple bottom line' terms (e.g. Gray and Lawrence 2001; Cavaye et al 2002).

Under this principle, a variety of existing economic, environmental and social indicators bear on the evaluation such as those used by the Australian Bureau of Statistics in its ongoing project *Measuring Australia's Progress*, based on 15 'headline dimensions' under four broad areas (ABS 2005).

By considering the effects of reform against an array of established indicators such as these, a holistic judgement can be formed as to whether, or how, specific reforms will contribute to the national transition. Use of expert and/or lay panels to assess options against these indicators is one useful way of describing their likely advantages and disadvantages.

Table 7. Headline Dimensions – Measures of Australia's Progress (ABS 2005)

	Individuals	The economy and economic resources	The environment	Living together in our society
1	Health			
2	Education and training			
3	Work			
4		National income		
5		National wealth		
6		Housing		
7		Productivity		
8		Financial hardship		
9			The natural landscape	
10			The human environment	
11			Oceans and estuaries	
12			International environmental concerns	
13				Family, community and social cohesion
14				Crime
15				Democracy, governance and citizenship

E3. Sustainable economic innovation is fostered

This principle recognises that within the above framework of a sustainability transition, a major objective of governance reform is to increase the capacity for economic innovation at national and regional scales, along with overall competitiveness.

Recent theories of 'new regionalism' as applied in Australia highlight the importance of governance reform for creating a more conducive environment for business to innovate and prosper in a 'do it yourself' fashion (Beer et al 2003: 248-264). Reform of the federal system to provide a simpler regulatory environment for business is one avenue. Another is improved regional-level economic coordination mechanisms such as consolidated, legislatively-backed and better funded Regional Development Agencies, involving direct community and business participation, and directly accountable to regional democratic processes, of the kind recommended by the Commonwealth Regional Business Development Analysis (RBDA 2003). Options would be analysed for their contribution towards increased 'agency' on the part of regional industries to create institutional circumstances more conducive to their own economic opportunities, and more effectively interpret, lead, influence and maximise economic events.

Under this principle, the economic modeling described under principle E1 would extend to estimation of the broader economic effects of devolution, by adapting existing modeling techniques to isolate the impact of devolved from other (scalar) influences on economic governance

(McGregor and Swales 2005). At the same time, in addition to estimating regional benefits, economic modelling under this principle would estimate the stimulatory effects of associated reforms (e.g. simplified national systems of business regulation) on the national economy.

E4. Long-term systemic and structural change is supported; communities' adaptive capacity for governance is improved

This principle recognises that many key areas of government policy are not static but aimed at achieving medium-long term change in social and economic conditions (e.g. sustainability transitions, creating sustainable employment opportunities, economic restructuring to cope with globalisation, business innovation, safer and more harmonious communities, increased community capacity to deal with an aging population). An important feature of institutional frameworks is that they themselves are not rigid, but remain adaptive, flexible and supportive of change.

Under this principle, different institutional options can be evaluated for their ability to meet these challenges. Reform options should deliver stability, continuity and durability while also allowing a high degree of adaptiveness and flexibility in their delivery of change-based programs, including further opportunity to innovate in the nature of local and regional institutions.

Preliminary conclusions

The above framework 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 discussion 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. 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.

6. Where to from here?

This evaluation framework provides 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.

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. These scenarios will draw on the analysis earlier in this paper. They will provide a range of tangible options to which the above evaluation framework can be applied, as a means of stimulating further debate about the most desirable directions for reform.

Reform of Australia's federal system will also necessarily involve its own direct costs. These need to be weighed against the benefits thrown up in evaluation, and include: the cost of public education associated with reform; federal compensation or financial inducement to other governments to accept territorial change; transitional costs; the start-up costs of new institutions; and adjustment assistance for localities and businesses temporarily adversely affected by change.

NSW Farmers' Association and Griffith University welcome feedback on the framework to help inform the evaluation of different reform options. We also invite expressions of interest from other organisations interested in supporting any area of this research, and from researchers interested in carrying it out.

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