

## Cover Note

This submission does not offer a view on HFE, the primary matter of the Inquiry. Instead, it addressed two issues raised in the Issues Paper that I see as consequential:

- In considering federal architecture, it is contended that weak and uneven state capability is the missing link in the picture. State capability is the bridge between political intent and outcomes. HFE redistributes fiscal capacity, but it does not and cannot equalise outcomes. We should be concerned about what delivers outcomes.
- Federalism architecture (and culture) shapes the appetite for, commitment to and feasibility of reform that delivers better services and outcomes. This is not merely about reform incentives; it is also about reform capabilities that are inherited, exercised and developed unevenly across jurisdictions.

This submission reflects a career of involvement with Australian federalism – as a key architect of the COAG Reform Agenda, as an independent reviewer of its success and failure five years later, as a Secretary to the Strategy Committee of Cabinet in a state government, and as senior federalism adviser to a Prime Minister.

I am a federalist. It is part of our national story, a democratic inheritance that has both contributed to progress and maintained checks and balances. The fact that nobody champions federalism or celebrates its achievements leaves it politically vulnerable – itself an argument for why it needs stronger institutional support.

Federalism contains an unavoidable complexity, in that it demands shared work across not only jurisdictions but political parties (and values). While seeming counter-intuitive, this feature is a strength. Having worked closely with political leaders in a cross-jurisdictional and cross-party context, I know that such tensions can not only be managed but repurposed to improve policy. With goodwill among leaders and supportive facilitation, federalism done well can create momentum for broader and more durable reform.

The submission represents my best effort at proposing an approach that is suited to political and administrative realities. It is not what I would propose if I was wearing the single hat of an academic, a public servant or a political adviser. My aim here is constrained to proposing something simple and contained that can deliver quickly, while laying a platform for the larger reset of systems and cultures that many would like to see over time.

I note that this submission was prepared in a short period of time. In preparing it, I have consulted colleagues with deep experience in intergovernmental relations that have contributed to my thinking. I have also ran drafts of the submission through AI engines (ChatGPT and CoPilot). While I acknowledge others' contributions, responsibility for any final positions and errors are my own.

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27 February 2026

## Executive Summary

Australia's federation is one of our great democratic inheritances. It has allowed diversity to coexist with national cohesion and enabled innovation to occur in multiple places at once. It is not an artefact to be managed reluctantly, but an institutional asset that requires active stewardship.

Horizontal Fiscal Equalisation (HFE) remains central to that inheritance. Through the Commonwealth Grants Commission, Australia has built one of the world's most comprehensive systems for equalising fiscal capacity across jurisdictions. It is principled and rigorous. But equalising fiscal capacity does not guarantee delivery.

Australia now operates in a more uncertain policy environment than that for which many intergovernmental arrangements were designed. Economic volatility, climate risk, demographic change, technological disruption and geopolitical instability have increased the scale and interdependence of policy challenges. At the same time, public trust has declined, heightening expectations that governments demonstrate not just intent, but results.

In this context, delivery is the central test of government performance. In a federation, delivery is inherently shared. Housing, health, early childhood development, energy transition and workforce reform depend on systems administered by States and Territories but shaped by Commonwealth funding, policy settings and incentives. Success depends not only on aligned objectives, but on the institutional capability of jurisdictions to translate shared ambition into sustained outcomes.

Persistent variation in performance across jurisdictions suggests that equalising resources cannot compensate for differences in state capability — the ability of public institutions to design, implement and adapt complex systems over time. Capability reflects accumulated experience, workforce depth, governance coherence and the capacity to learn from practice. It varies across jurisdictions and policy domains, yet national reform has often assumed a level of homogeneity that does not exist.

Intergovernmental reform has tended to proceed in waves: agreements are reached, frameworks established and indicators set. Over time, political attention shifts and momentum dissipates. These are not democratic defects, but their effect is that reform becomes episodic rather than cumulative. Monitoring continues, but system redesign and capability uplift stall.

The missing element in Australia's federal architecture is not authority, funding or transparency. It is the practice of supportive federalism: institutional arrangements that help all jurisdictions strengthen capability together, embed implementation discipline, reduce duplication and sustain reform effort across political cycles — without centralisation or coercion.

This submission proposes a modest but consequential refinement. National Cabinet should adopt a more focused leadership model, committing to delivery on a small number of shared national priorities, supported by the creation of an administrative National Cabinet Secretary role within the Department of the Prime Minister and Cabinet.

The National Cabinet Secretary would steward cooperative reform and sustain delivery across cycles. The role would not alter HFE or introduce new compliance regimes. It would promote supportive federalism in practice — supporting system redesign, embedding implementation discipline, facilitating structured cross-jurisdiction learning and maintaining momentum as political priorities evolve. Working with small, high-powered teams drawn from Commonwealth and State agencies, the Secretary would help drive reform and delivery, building state capability and reporting on collective progress to National Cabinet.

Fiscal equalisation ensures the capacity to invest. State capability determines whether investment translates into outcomes. Strengthening it — through disciplined, cooperative reform and a stronger focus on evidence and implementation — is how Australia can make its federation deliver more consistently over time.

This is not constitutional change. It is institutional refinement. Not more structure, but better stewardship — achievable within the federation Australia already has.

## **New Policy Uncertainty and the State Capability Gap**

Australia's federation now operates in a far more uncertain environment than that for which many of its intergovernmental arrangements were designed. Economic volatility, geopolitical instability, demographic change, climate risk and technological disruption have increased both the scale and interdependence of policy challenges. Problems spill across portfolios and jurisdictions. Few major priorities can be solved by one level of government acting alone.

At the same time, public expectations have shifted. In an era of declining institutional trust, governments are judged less by what they say and more by what they deliver. Announcements matter less than outcomes. In a federation, delivery is shared work.

Historically, intergovernmental reform has proceeded in waves. Leaders agree on priorities, frameworks are established and indicators set. Over time, attention shifts, leadership changes and momentum dissipates. Monitoring may continue, but implementation discipline weakens and system redesign stalls. Reform becomes episodic rather than cumulative.

In the, this pattern was tolerated. In today's environment of fiscal constraints and pervasive uncertainty, it is a structural weakness. Converting investment into durable outcomes requires continuity, iteration and institutional learning. Bursts of reform interest will simply not be capable of delivering sustained system-level improvements.

These dynamics expose the fragility of state capability. Capability is not simply funding or authority. It is the accumulated ability to design coherent systems, align incentives, sequence implementation, sustain workforce capacity and learn from practice. It varies across jurisdictions and policy domains. It is built over time by doing the work, but can also be eroded quickly by leadership turnover and shifting political behaviour.

National reform has often assumed a degree of endogeneity and homogeneity about this capability that does not exist. Persistent variation in outcomes across jurisdictions tells us that equalising fiscal capacity is not sufficient to equalise delivery capability. Countless examples prove that reform really matters but equally that where institutional muscle is weak, additional funding and new agreements will rarely translate into durable improvement.

Effective federal architecture cannot remove political cycles — nor should it attempt to. But it can be designed to work with them. It can provide continuity when political alignment weakens, reduce duplication across jurisdictions, embed implementation discipline and sustain learning over time.

At present, such architecture is underdeveloped. Australia has strong fiscal equalisation and formal coordination through National Cabinet. What it lacks is a standing reform backbone capable of converting shared ambition into consistent delivery.

This is the big institutional gap that no amount of fiscal redistribution can plug.

Addressing it does not require centralisation or constitutional change. It requires institutional refinement: arrangements that strengthen state capability, embed implementation discipline and sustain cooperative reform across political cycles.

## Supportive Federalism in Practice

The preceding analysis identifies a structural gap in Australia's federal architecture. Horizontal Fiscal Equalisation addresses fiscal capacity. Performance reporting enhances transparency. What remains underdeveloped is the institutional support required to strengthen state capability — the ability of jurisdictions to translate shared ambition into delivery.

Addressing this gap requires a new 'supportive federalism'.<sup>1</sup> In a mature federation, reform is most effective when it respects the authority of elected governments and reinforces rather than overrides jurisdictional responsibility. Durable improvement requires voluntary commitment and access to the best expertise and techniques. Jurisdictions have greater collective capability than have individually (this includes the Commonwealth)

National Cabinet, with its collective authority and convening power, is the appropriate forum to offer leadership. But leadership alone is insufficient. In a complex policy environment, supportive federalism requires institutional infrastructure that sustains focus, embeds implementation discipline and enables structured learning across jurisdictions.

## Designing for State Capability

This submission proposes a **National Reform Secretariat within the Department of the Prime Minister and Cabinet**, operating under National Cabinet mandate and led by a **National Cabinet Secretary** of significant standing.

The function would not centralise authority, alter HFE or introduce new compliance regimes. Its purpose would be practical: to strengthen the conditions under which cooperative reform translates into delivery.

Located within PM&C, it builds on existing capacity rather than creating a new statutory body. It would second staff with relevant expertise from across jurisdictions. It would signal seriousness of intent while respecting jurisdictional autonomy and the delivery imperative.

## Purpose and Scope

The function would support a small number of National Cabinet-agreed priorities where outcomes are persistently underperforming or reform has stalled. Examples of such priorities may be productivity, housing and early childhood (prior to school). This function would operate at the intersection of strategy and delivery, focusing on:

- **System architecture** — governance coherence, funding integration, workforce design, data and feedback loops, sequencing and intergovernmental interfaces.
- **Implementation discipline** — drawing on implementation science to support implementation readiness, sequencing, adaptation and learning.

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<sup>1</sup> The term 'supportive federalism' is an adaptation of the 'supportive subsidiarity' concept proposed by Jacob Deem. Supportive subsidiarity is distinguished from merely meaning decentralisation. For further elaboration see his excellent article as Deem, J. (2021), Federal Reform: The Case for Supportive Subsidiarity in Australia, UNSW Law Journal.

- **Structured cross-jurisdiction learning** — enabling shared problem solving by doing reform and delivery, not abstract benchmarking.

The objective is not uniformity. It is delivery — helping all jurisdictions do difficult things better and more consistently – and through this steady uplifts in state capability.

## Operating Model

The Secretariat would deploy small, high-powered teams drawing on secondees and specialist expertise from Commonwealth and State agencies. Efforts would be focused on only the highest priorities nominated by National Cabinet. State capability would be built through shared practice and joint problem solving, not direction or oversight.

The National Cabinet Secretary would provide continuity across political cycles, sustain reform momentum as attention shifts and report collectively to National Cabinet three times per year on progress against agreed priorities. This is stewardship without encroachment.

## Operating Principles

The function would be guided by clear principles:

- **Voluntary participation** — authority remains with individual governments.
- **Focus and restraint** — a limited number of priorities at any time.
- **System-level orientation** — simplification and coherence, not initiative layering.
- **Non-punitive learning** — mutual learning, not naming and shaming.
- **Sustainability** — durable institutions that carry cooperation across electoral cycles.
- **Practicality** — embedded in implementation, not abstract review.

This is delivery architecture, not oversight architecture.

## Supportive Federalism and Culture

Practicing supportive federalism is how we build state capability. Rather than centralising authority or relying on episodic agreements, supportive federalism focuses on enabling jurisdictions to deliver— by reinforcing capability, sustaining cooperation and embedding learning over time. Its core benefit is that it works *with* democratic politics rather than against it.

Australia’s federal system has evolved through negotiation and adaptation, yet responsibility for sustaining cooperative reform effort remains diffuse. Progress too often depends on alignment among particular leaders in particular moments. When alignment is strong, reform advances quickly. When it weakens, momentum stalls. Supportive federalism reduces this volatility by providing continuity, institutional memory and practical support when political attention shifts.

Practicing supportive federalism requires a cultural shift that is not often mentioned. Commonwealth-state relations can become combative, such that a mutually supportive approach could represent a large reset for some. In particular, Commonwealth officials (and even Ministers) will have to earn their authority through quality interactions and relationships, rather than relying on their formal power to win the day. This is where the leadership of the National Cabinet Secretary becomes critical – not

only in signalling the significances of new processes, but in promoting the new behaviours that will be required to make those processes work.

The benefits of supportive federalism will be cumulative:

- **It strengthens delivery without eroding autonomy.** Authority remains with elected governments, while jurisdictions gain access to shared capability, expertise and learning that would be costly to build alone.
- **It improves the return on public investment.** By reducing duplication, aligning system design and strengthening implementation discipline, supportive federalism helps ensure that funding translates into durable outcomes.
- **It reclaims diversity as an asset.** Jurisdictions differ in scale, capability and context. Supportive federalism enables learning across these differences rather than assuming uniform capacity or imposing uniform solutions.
- **It sustains reform across political cycles.** By embedding stewardship and learning, supportive federalism carries reform effort beyond moments of political alignment.
- **It rebuilds trust through delivery.** Citizens experience the benefits not as better process, but as more consistent services and outcomes.

The National Cabinet Secretary function proposed in Chapter 5 provides the institutional infrastructure for practicing supportive federalism. What remains is the question of whether this proposal is politically feasible. To assess this, three institutional options are presented below.

#### **Option 1: Federalism Commission – stewardship as independent oversight**

Numerous reviews recommend an independent federalism commission to signal national commitment and hold governments to account. A mild version of this has been adopted previously with the COAG Reform Council (led by three respected officials). This option has obvious appeal but in the current environment risks being seen as bureaucratic largesse, evoking resistance from democratically elected political leaders, and potentially even undermining a more supportive rather than judgemental federalism.

#### **Option 2: National Cabinet Secretary – stewardship as supportive federalism**

Establishing a National Cabinet Secretary within PM&C (staffed by a secretariat with secondments across jurisdictions) offers a measured, pragmatic approach to advance supportive federalism. The National Cabinet Secretary has familiarity in the Australian administrative context and would steward cooperative reform priorities through implementation, sustain capability-building and provide continuity across political cycles—without directive powers or compliance functions.

This option promotes and tests the efficacy of supportive federalism: with accountability for delivery that also respects political and constitutional reality. It aligns with the existing authority of National Cabinet but addresses the delivery failures of current administrative arrangements.

#### **Option 3: The Status Quo - stewardship as process management**

Leaving stewardship within existing structures relegates the task to process management. Its only advantage is simplicity. Its fundamental limitation is that perpetuates an approach that is failing.

Without a visible focal point responsible for driving and delivering better services and outcomes, language of cooperative federalism risks being crowded out by ever-moving politics.

The choice between these three options comes down to whether delivering matters to leaders. If it is more important to minimise disruption, the status quo (and delivery failure) will be chosen. If the objective is to lift sights and expectations, a new independent Commission will do that (but does not have the model to deliver). Australia's policy tradition is pragmatic and evolutionary. To strengthen state capability, reduce duplication of effort and sustain reform across political cycles, a National Cabinet Secretary would provide both a signal of intent and a practical path forward.

'Supportive federalism' may sound soft or weak, but it strengthens state capability — and helps governments do hard things together, more consistently, over time. The federation gave Australia its nationhood. By taking its stewardship seriously, today's leaders can ensure it continues to deliver and — by doing so — perhaps even rebuilds public trust in our elected governments.

## Recommendations

1. **Identify a small number of national priorities.** These would be agreed by National Cabinet, given substantive human resources and embody a new way of working.
2. **Establish a National Cabinet Secretariat.** This would be hosted in DPMC, with secondees from across jurisdictions tasked with supporting priority Strategy and Delivery Teams.
3. **Appoint a National Cabinet Secretary.** This would be a senior, respected official appointed by and reporting to National Cabinet. The mandate would be to drive supportive federalism and ensure progress in the priority areas identified by National Cabinet.
4. **Establish cross-jurisdictional Policy Teams in priority areas.** These would be empowered to propose ambitious reforms and escalate options to National Cabinet.
5. **Embed the operating principle of supportive federalism.** This would emphasise cooperative reform, disciplined implementation and structured learning — ensuring both delivery and learning into the future.