

## Introduction

### Background

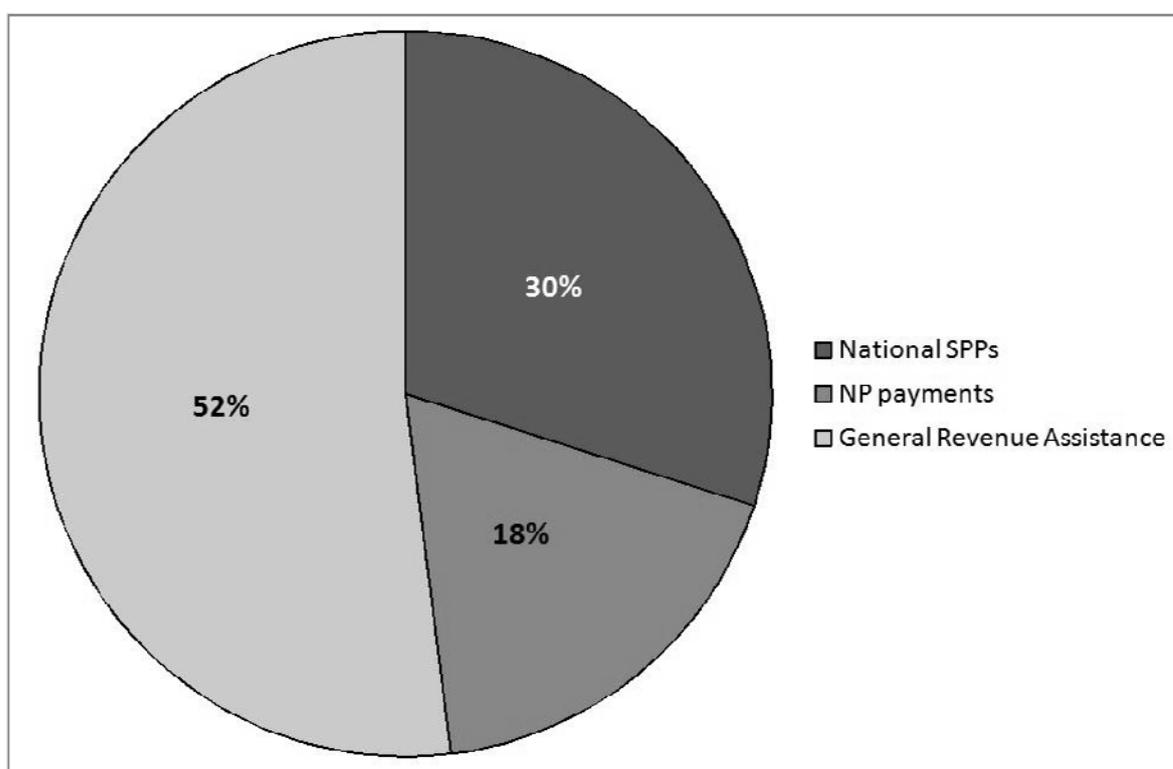
- 1.1 On 9 February 2011 the Joint Committee of Public Accounts and Audit (JCPAA) resolved to conduct an inquiry into national funding agreements between the Commonwealth and the states and territories. The terms of reference can be found at page *xi*.
- 1.2 The inquiry focused on the implementation of the Intergovernmental Agreement on Federal Financial Relations (IGA FFR) which was agreed to by the Council of Australian Governments (COAG) on 29 November 2008 and came into effect on 1 January 2009.
- 1.3 The IGA FFR replaced the Intergovernmental Agreement on the Reform of Commonwealth State Financial Relations and rationalised funding transfers between the Commonwealth and states and territories.
- 1.4 The *COAG Reform Fund Act 2008* provided the means to make financial grants to the states and territories and the *Federal Financial Relations Act 2009* formalised the payment arrangements for the IGA FFR.

### Purpose of the inquiry

- 1.5 The purpose of this inquiry is to review and report on the operation of funding agreements between the Commonwealth and State and Territory Governments, including the National Agreements (NA) entered into under the IGA FFR.

- 1.6 The Committee has an ongoing interest in achieving value for money for the Australian taxpayer. The Committee understands that for 2011–12, the Commonwealth announced a total of \$95 billion in payments to the states and territories. This comprised of \$49.5 billion (52 per cent) in general revenue assistance and a total of \$45.5 billion (48 per cent) in payments for specific purposes. Of the \$45.5 billion, \$28 billion was to be provided for National Specific Purpose Payments<sup>1</sup> and \$17.5 billion for National Partnership Payments.<sup>2</sup> The distribution of Commonwealth payments to states/territories is illustrated in the figure below.

Figure 1.1 Commonwealth funding to the states and territories 2011–12



Source Based on information in *Australia's Federal Relations: Budget Paper No. 3 2011–12* pp. 12–13.

- 1.7 As highlighted above, payments for specific purposes represent a significant proportion of total Commonwealth funding to the states/territories. The Committee considered it important to investigate the transfer of \$45.5 billion to the states/territories to deliver on national priorities.

1 National Specific Purpose Payments are provided to the states and territories under NAs. See Chapter 2 for further details.

2 *Australia's Federal Relations: Budget Paper No. 3 2011–12* pp. 12–13, available at <<http://www.budget.gov.au/2011-12/content/bp3/html/index.htm>> viewed 23 November 2011.

- 1.8 This inquiry examines the implementation of funding agreements under the new framework and will help establish if the reform's promised potential to satisfy the needs of all levels of Australian government has been achieved. The Committee is particularly interested in areas where greater efficiency can be achieved throughout the implementation process.
- 1.9 The Committee acknowledges that, as the IGA FFR was implemented in early 2009, it is relatively early to be undertaking an inquiry of this nature. The Committee recognises the implementation process is still being refined, problems are being identified and continual improvements undertaken. However, the JCPAA's review is important to ensure that at this stage these funds are subject to adequate accountability mechanisms, that best practice is being followed and that transparency for both the Parliament and the Australian people is assured.
- 1.10 The Committee notes that a number of reports have been handed down that have included recommendations for improvements to the IGA FFR as well as the implementation process. There are also more reviews due to report in the coming months. In particular, the Committee acknowledges the latest report from the COAG Reform Council (CRC) released on 15 November 2011, and the as yet unreleased review by the Heads of Treasury. The Committee believes that the similarity of the findings and recommendations of these various reports with those of this JCPAA report demonstrates the need for the Commonwealth Government to take action. These actions should rectify the problems identified in the reports to provide a solid foundation for the next phase of improvements in Commonwealth-state financial relations, and hence better outcomes for all Australians.

## **Conduct of the inquiry**

- 1.11 The terms of reference for the inquiry were advertised in February 2011. Additionally, letters were sent to individuals, peak bodies and government agencies inviting them to make submissions to the inquiry. In particular, state and territory auditors-general were contacted. The terms of reference and other information about the inquiry were also advertised on the JCPAA's website.
- 1.12 Eighteen submissions and five supplementary submissions were received. A list of submissions and supplementary submissions can be found at Appendix A.

- 1.13 Six public hearings were held during 2011: four in Canberra, one in Brisbane and one in Sydney. The Committee heard from a variety of witnesses including Commonwealth central agencies, state auditors-general, academics and end users. A list of public hearings and witnesses can be found at Appendix B.
- 1.14 Transcripts from the hearings are available through the Committee's website.

## Structure of the report

- 1.15 The report contains five chapters, including this introductory chapter which sets out the background to the inquiry. The content of the other chapters are as follows:
- chapter 2 provides details of the IGA FFR and then examines the significance of the reforms and the changing dynamics of federal financial relations before identifying some of the specific problems encountered with national funding agreements;
  - chapter 3 goes on to look at the implementation of national funding agreements under the IGA FFR and elaborates on the problems which have arisen;
  - chapter 4 examines the performance reporting framework for the IGA FFR, concentrating on the difficulties with data quality and collection; and
  - chapter 5 looks at the scrutiny of national funding agreements and whether or not current arrangements are satisfying transparency and accountability requirements.
- 1.16 The Committee has made 15 recommendations on the basis of the evidence received. These recommendations are set out in full from pages *xiv-xvii*.