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The Parliament of the Commonwealth of Australia

# Report 427 - Inquiry into National Funding Agreements

Joint Committee of Public Accounts and Audit

November 2011  
Canberra

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# Contents

Foreword .....	vi
Membership of the Committee .....	ix
Terms of reference .....	xi
List of abbreviations .....	xii
List of recommendations .....	xiv
<b>1 Introduction .....</b>	<b>1</b>
Background .....	1
Purpose of the inquiry .....	1
Conduct of the inquiry .....	3
Structure of the report .....	4
<b>2 The Framework.....</b>	<b>5</b>
Introduction .....	5
<b>The Intergovernmental Agreement on Federal Financial Relations .....</b>	<b>5</b>
Goods and Services Tax and general revenue .....	7
National Agreements.....	8
National Partnership agreements and payments .....	8
<b>Governance and accountability .....</b>	<b>9</b>
Council of Australian Governments.....	9
Ministerial Council for Federal Financial Relations.....	10
COAG Reform Council.....	10
Productivity Commission.....	10
<b>Perspectives on the overall reforms .....</b>	<b>11</b>
The significance of the reforms .....	11
Changing dynamics.....	13

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Benefits of the new framework .....	15
Issues with national funding agreements .....	17
<b>Goods and Services Tax revenue .....</b>	<b>19</b>
<b>Changes to improve the framework .....</b>	<b>20</b>
<b>Committee comment.....</b>	<b>21</b>
<b>3 Implementation of national funding agreements .....</b>	<b>25</b>
Introduction .....	25
COAG Reform Council reports .....	25
Heads of Treasuries Review.....	26
Difficulties with implementation of national funding agreements .....	27
Inflexibility .....	27
Administrative burden .....	30
Risk Management .....	32
Micromanagement .....	33
<b>Development of implementation plans.....</b>	<b>34</b>
An inclusive approach .....	36
Clear and consistent definitions .....	38
Committee comment.....	40
<b>4 Performance reporting for national funding agreements .....</b>	<b>45</b>
Introduction .....	45
Accountability and performance reporting.....	45
Cultural change.....	47
<b>Setting reporting objectives.....</b>	<b>49</b>
Clearly defined outcomes.....	49
Key performance indicators.....	50
<b>Data quality and collection.....</b>	<b>52</b>
Timeliness.....	53
Comparability .....	54
Generic data collections.....	55
<b>Meaningful interpretation .....</b>	<b>56</b>
<b>Improvements underway .....</b>	<b>58</b>

---

<i>Conceptual Framework for Performance Reporting</i> .....	58
Whole-of-government data integration project .....	59
COAG Reform Council reports and recommendations .....	59
Steering Committee for the Review of Government Service Provision.....	62
Committee comment.....	64
<b>5 Scrutiny of National Funding Agreements .....</b>	<b>69</b>
<b>Introduction .....</b>	<b>69</b>
<b>Accountability and transparency.....</b>	<b>70</b>
High level accountability and transparency mechanisms .....	70
State perspectives on accountability and transparency mechanisms .....	72
Other perspectives on accountability and transparency mechanisms.....	75
<b>Parliamentary scrutiny .....</b>	<b>78</b>
Commonwealth perspectives on parliamentary scrutiny .....	78
State perspectives on parliamentary scrutiny.....	78
Other perspectives on parliamentary scrutiny .....	81
<b>COAG Reform Council.....</b>	<b>84</b>
<b>The Auditor-General's role .....</b>	<b>86</b>
Constitutional, legal and operational implications.....	89
Collaborative audits.....	90
Committee comment.....	92
<b>Appendix A — Submissions .....</b>	<b>99</b>
<b>Appendix B — Public hearing .....</b>	<b>101</b>



## Foreword

Transfer of Commonwealth funds to the states and territories has always been an area of contention within Australia's federal financial relations, with the states/territories and the Commonwealth often holding contrasting perspectives. However, developing and implementing a framework which provides for the effective operation of Australia's federal financial relations is essential to ensure that the Australian people are best served.

For 2011-12 the Commonwealth dedicated a significant proportion of its funding to the states/territories, with \$45.5 billion to payments supporting National Agreements and National Partnerships. This Committee has an ongoing interest in achieving value for money for the Australian taxpayer and believed the arrangements to distribute this amount deserved parliamentary scrutiny. With the introduction of the Intergovernmental Agreement on Federal Financial Relations (IGA FFR) in 2009, the Committee thought it timely to investigate the implementation of national funding agreements under this new approach.

The Committee found there was overall support for the new framework. Witnesses identified that the underlying principles and intent of the new framework address previous issues concerning federal financial relations. These reforms undoubtedly mark a significant milestone in federal financial relations. The JCPAA agrees the underlying principles provide a robust framework for the future and assist in alleviating some of the historical confusion and discontent within Commonwealth-state relations.

While the Committee is pleased that the fundamentals of the new framework have been well received by key stakeholders, evidence presented throughout the inquiry highlighted some separation between these principles and what is occurring in practice. In particular the Committee was concerned with the:

- shortcomings in the performance reporting framework;
- slow pace of necessary cultural change across the public service; and
- adequacy of parliamentary oversight.

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Performance reporting is critical to gain insight and understanding of the success or otherwise of national funding agreements against the objectives of the wider reform agenda. Due to the shortcomings and complexities described by key witnesses, the Committee believes that enhancements to performance reporting are required. To achieve this, valid key performance indicators (KPI) must be developed, better quality data collected, and meaningful interpretation of the data ensured. It is essential that KPIs are measurable, relevant and directly related to outcomes. In support of this, the widespread problems with data quality and collection must be fully addressed as quickly as possible. The Committee acknowledges that many initiatives are underway to improve performance reporting. However, more action needs to be taken to ensure they are speedily implemented. The Committee has therefore recommended that efforts are made to streamline reporting by developing a single report for the use of multiple agencies and establishing a core set of standard data requirements across key areas.

The need for cultural change is another crucial element to drive the reform agenda and ensure the full adoption and implementation of the framework's principles. The Committee acknowledges the marked conceptual shift required by the IGA FFR in moving from an inputs based to outcomes based framework. Measuring outcomes is more challenging than measuring inputs. Although the Committee is aware that it will take time for this cultural change to permeate all layers of the public service, it is urgent that the change is actively promoted and encouraged. Accordingly, the Committee has put-forward recommendations to encourage and enforce the application of the underlying principles of the IGA FFR, including a more structured approach to training relevant staff. The delivery of this training is an important step towards achieving the cultural change needed for the reforms to be fully reflected in practice.

Parliamentary scrutiny is essential to ensure value for money for the Australian taxpayer. National funding agreements are typically negotiated at an executive-to-executive level, only sometimes receiving parliamentary oversight after signing. This inquiry therefore focussed on establishing whether current parliamentary scrutiny is sufficient to foster adequate accountability and transparency of the \$45.5 billion transferred through national funding agreements. The Committee was made aware of high level mechanisms for the parliament and public to gain insight into the operation and progress of the reform agenda. These mechanisms do not however provide an adequate picture of national funding agreements to either the Parliament or the public and the Committee believes increased parliamentary scrutiny is warranted. The Committee has made a range of recommendations to enhance scrutiny of the overall process, including the tabling of key reviews and reports in Parliament along with Government statements in reply. These reports should include COAG Reform Council Reports, the Productivity Commission reports. Additionally the Committee has

recommended that the Prime Minister make an annual statement to the Parliament outlining the contribution of national funding agreements to the wellbeing of all Australians. The Committee also recommends that these reports should be referred to a proposed new Joint Standing Committee for review.

If the issues identified in this report are not addressed, the likelihood of the reform agenda reaching its full potential and firmly embedding long-term change in Australian public administration will be significantly compromised. The Committee has therefore made a total of 15 recommendations. These recommendations focus on delivering long-lasting improvements to ensure the benefits of the framework are fully realised in practice.

The Committee is conscious that work is underway to address many of these issues and that reform to the framework is ongoing. The Committee acknowledges and welcomes the ongoing work of the COAG Reform Council and the Productivity Commission in addition to current work being undertaken by central agencies to refine and improve the IGA FFR. Importantly the Heads of Treasury have undertaken a review with many of its recommendations responding to these areas of concern. The Committee has recommended this review's findings and recommendations are made public. This will raise greater awareness and provide greater transparency to the Parliament and the public as to what remedial actions have been suggested and to track what is occurring.

This report is one of a number of recent reports on the IGA FFR. The Committee is aware that there are a number of further reports due for release over the coming months. The Committee urges the Commonwealth Government to take the opportunity to consolidate its efforts and correct the identified problems with the framework ensuring that it reaches its full potential.

With these changes Australia will be well positioned to continue on the reform pathway in the coming decade.

**Rob Oakeshott**  
Chair



## Membership of the Committee

**Chair** Mr Robert Oakeshott MP

**Deputy Chair** Mrs Yvette D'Ath MP

**Members** Hon Dick Adams MP

Mr Jamie Briggs MP

Ms Gai Brodtmann MP

Mr Darren Cheeseman MP

Mr Josh Frydenberg MP

Ms Deb O'Neill MP

Ms Laura Smyth MP

Hon Alexander Somlyay MP

Senator Mark Bishop

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Senator Glenn Sterle

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## Committee Secretariat

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## Terms of reference

On 9 of February 2011 the Committee resolved to review and report on the operation of funding agreements between the Commonwealth and State and Territory Governments, including the National Agreements entered into under the Intergovernmental Agreement on Federal Financial Relations. The Committee will specifically consider:

1. the changing dynamics of grants to states and territories, the types of grants that are made and the principles, agreements and legislation governing these grants;
2. the extent to which the current systems for funding agreements satisfy the requirements of all levels of government, and any suggestions for changes to the process;
3. the need to balance the flexibility to allow states and territories to determine their own priorities with mechanisms for monitoring accountability and ensuring that the objectives of funding agreements are being achieved, noting the role of the COAG Reform Council; and
4. the adequacy of parliamentary scrutiny of funding agreements, noting that such agreements are typically negotiated at executive-to-executive level.

Adopted: 9 February 2011



## List of abbreviations

ABS	Australian Bureau of Statistics
ANAO	Australian National Audit Office
APS	Australian Public Service
BCA	Business Council of Australia
BER	Building the Education Revolution
CGC	Commonwealth Grants Commission
CGG	Commonwealth Grant Guidelines
COAG	Council of Australian Governments
CRC	Council of Australian Government Reform Council
Finance	The Department of Finance and Deregulation
GST	Goods and Services Tax
HFE	horizontal fiscal equalisation
HoTs	Heads of Treasuries
HoTs Review	Heads of Treasuries Review
IGA	Intergovernmental Agreement
IGA FFR	Intergovernmental Agreement on Federal Financial Relations

IP	Implementation Plan
ISCA	Independent Schools Council of Australia
JCPAA	Joint Committee of Public Accounts and Audit
KPI	key performance indicator
NA	National Agreement
NDS	National Disability Services
NEA	National Education Agreement
NP	National Partnership
OECD	Organisation for Economic Co-operation and Development
PBS	Portfolio Budget Statement
PC	Productivity Commission
PM&C	The Department of the Prime Minister and Cabinet
SDAC	Survey of Disability Ageing Carers
SPP	National Specific Purpose Payment
Treasury	The Treasury
VFI	vertical fiscal imbalance



# List of recommendations

## 2 The Framework

### Recommendation 1

The Committee recommends that the Department of Finance and Deregulation examine the interaction between the new grants framework and grant payments delivered under the Intergovernmental Agreement on Federal Financial Relations. The report should propose options to remove inconsistencies and improve governance arrangements for all grants provided to states and territories.

A copy of the report should be provided to the Joint Committee of Public Accounts and Audit, with the Government's Response to this recommendation - and both should be made publicly available.

## 3 Implementation of national funding agreements

### Recommendation 2

The Committee recommends that the Commonwealth Government makes the recommendations and a summary of the findings of the Heads of Treasuries Review public, along with the associated Government response and implementation strategies.

### Recommendation 3

The Committee recommends that the Department of the Prime Minister and Cabinet and central agencies investigate whether additional measures are needed to encourage and enforce the application of the Intergovernmental Agreement on Federal Financial Relations' principles and associated guidelines, and that the findings of the investigation be publicly released and provided to the Committee.

**Recommendation 4**

The Committee recommends that the Department of the Prime Minister and Cabinet and central agencies, in consultation with appropriate experts, develop a set of agreed definitions for assurance requirements to be used in National Agreements, National Partnerships and Implementation Plans.

**4 Performance reporting for national funding agreements****Recommendation 5**

The Committee recommends that a structured approach be developed and implemented by the Department of the Prime Minister and Cabinet and other central agencies to ensure relevant staff receive specific training to enhance understanding of the Intergovernmental Agreement on Federal Financial Relations and develop the skills required to meet outcomes focused performance reporting requirements.

**Recommendation 6**

The Committee recommends that the Department of the Prime Minister and Cabinet, in consultation with other central agencies, establish processes to ensure that there is clarity of the outcomes to be achieved and these are clearly reflected in national funding agreements. The committee asserts that to underpin the achievement of outcomes, mutual understanding of the end goal must drive the cultural change, the training and skill development, and the quality and timeliness of data collection and publication. At all times, outcomes should be the focus in the development of all national agreements.

**Recommendation 7**

The Committee recommends that the Department of the Prime Minister and Cabinet, in collaboration with agencies such as the Australian Public Service Commission, should lead a process to provide training across the broader Australian Public Service which incorporates information on the Intergovernmental Agreement on Federal Financial Relations to explain the importance of the Agreement and its principles.

**Recommendation 8**

The Committee recommends that the Commonwealth works through the Council of Australian Governments to ensure that states and territories develop and implement a similarly structured approach to foster cultural change throughout departments and agencies and ensure all staff receive relevant training to enhance understanding of the framework and

develop the skills required to meet outcomes focused performance reporting requirements.

#### Recommendation 9

The Committee recommends that the Department of the Prime Minister and Cabinet and central agencies report back to the Committee within six months on work undertaken to move towards the 'single report to multiple agencies' ideal and the potential to develop a core set of standard data requirements for key areas of national interest.

#### Recommendation 10

The Committee recommends that the Prime Minister through the Council of Australian Governments, take steps to respond to the reports and recommendations of the Council of Australian Governments Reform Council within three months.

## 5 Scrutiny of National Funding Agreements

#### Recommendation 11

The Committee recommends that the Prime Minister table COAG Reform Council reports in the Commonwealth Parliament one month after submission to COAG, and that relevant Productivity Commission reports are tabled as soon as practical.

Once tabled, these reports should be automatically referred to an appropriate Joint Standing Committee for review.

#### Recommendation 12

The Committee recommends that signed National Partnerships are tabled in Parliament, along with a complementary Ministerial Statement.

#### Recommendation 13

The Committee recommends that the Prime Minister deliver an annual Statement to the House:

- outlining the Commonwealth Government's perspective on the contribution of national funding agreements to the improvement of the well-being of all Australians; and
- summarising the number of current, new, upcoming and expired National Agreements and National Partnerships

#### Recommendation 14

The Committee recommends that the Department of the Prime Minister and Cabinet and central agencies investigate steps so that Portfolio Budget Statements and annual reporting requirements provide a more comprehensive picture of the performance and outcomes of programs under national partnerships across government.

#### Recommendation 15

The Committee recommends that, in light of the range of review activity currently underway, the Commonwealth Government take this opportunity to institute and deliver on the Intergovernmental Agreement on Federal Financial Relations' full potential.

With these changes Australia will be well positioned to continue on the reform pathway in the coming decade.

