

PART 6: ACCOUNTABILITIES UNDER THE FEDERAL FINANCIAL RELATIONS FRAMEWORK

Improved accountability is a key objective of the new framework for federal financial relations. There have been consequential changes to accountabilities within the Commonwealth with the introduction of the financial framework.

The Commonwealth and the States have committed to enhancing the public accountability of all governments by implementing a new performance reporting framework. These reforms will enable the community to assess better the quality and efficiency of service delivery by all governments.

OVERVIEW

The Intergovernmental Agreement describes the institutional arrangements for the new federal financial relations framework:

- COAG is the key decision-making body with respect to implementing the framework, and will monitor progress on all aspects of the new framework;
- the Ministerial Council for Federal Financial Relations has responsibility for the general oversight of the operation of the Intergovernmental Agreement and the on-going monitoring and maintenance of reforms, including ensuring that National Agreements and National Partnerships are aligned with the design principles of the Intergovernmental Agreement;
- sectoral Ministerial Councils have responsibility for: policy in respect of National Agreements and National Partnerships; proposing new National Partnerships; and, making recommendations to COAG on the development of objectives, outcomes, outputs and performance indicators for National Agreements; and
- all payments to the States are subject to the new framework and will be centrally administered through monthly payments from the Commonwealth Treasury to the state treasuries.

These arrangements under the Intergovernmental Agreement affect accountabilities across the Commonwealth.

COMMONWEALTH ACCOUNTABILITIES

Policy and payment accountability arrangements

Under the new framework, policy outcomes and objectives have been separated from funding arrangements to ensure that the policy focus is on achieving better services for all Australians and addressing social inclusion.

National Agreements establish the policy objectives in the key service sectors. They set out the objectives, outcomes, outputs and performance indicators which are mutually-agreed between all jurisdictions.

National Agreements are not funding agreements. Funding is provided separately in National SPPs, which are specified in the Intergovernmental Agreement. The provision of funding under National SPPs is not contingent on achieving the outcomes or achieving the performance benchmarks outlined in National Agreements. The only condition in National SPPs is that the funding be spent in the sector for which it is provided.

National Agreements may be associated with a National SPP, but this is not a requirement. For example, the *National Indigenous Reform Agreement* outlines the mutually-agreed objectives for Indigenous reform, with the Commonwealth and the States each having flexibility in funding the achievement of those reforms. There is no associated National SPP.

National Partnership agreements also outline the mutually-agreed policy objectives in areas of nationally-significant reform or to achieve service delivery improvements. National Partnerships may provide for payments on the achievement by the States of performance benchmarks or for delivering reform progress. However, National Partnerships do not need to provide a financial contribution to the States.

For both National Agreements and National Partnership agreements, the primary responsibility for policy is with the relevant portfolio Minister.

Under the new centrally administered payment arrangements of the framework, all payments are processed by the Commonwealth Treasury and paid directly to each state treasury. State treasuries are responsible for distributing the funding within their jurisdiction. In the Commonwealth, the Treasurer is accountable for the appropriations, estimates and efficient payments, under the framework. These arrangements are implemented through the *Federal Financial Relations Act 2009*.

Having state treasuries distribute Commonwealth-sourced funding to State portfolio agencies helps reinforce that State agencies are primarily accountable to their own Parliament and public for their service delivery performance, including in respect of their delivery of programs for which the Commonwealth provides a financial contribution.

This distinction between policy and funding flows through to accountability arrangements at the Commonwealth level under the new framework. These accountability arrangements are summarised in Table 6.1.

Table 6.1: Commonwealth policy and payments accountability arrangements

	Policy	Payment estimates	Making payments
National SPPs	Treasurer	Treasurer	Treasurer
National Agreements	Portfolio Minister(a)	No payments	No payments
NP payments - facilitation	Portfolio Minister(a)	Treasurer(b)	Treasurer
NP payments - reward	Portfolio Minister(a)	Treasurer(b)	Treasurer
NP payments - project	Portfolio Minister(a)	Treasurer(b)	Treasurer
General revenue assistance (incl. GST)	Portfolio Minister (usually the Treasurer)	Treasurer(b)	Treasurer
Local government SPPs	Portfolio Minister	Portfolio Minister	Portfolio Minister
Commonwealth own-purpose expense	Portfolio Minister	Portfolio Minister	Portfolio Minister

(a) The Ministerial Council for Federal Financial Relations is also accountable to COAG under the Intergovernmental Agreement for ensuring to the fullest extent possible the National Agreements and National Partnerships are aligned with the framework's design principles.

(b) On advice from the portfolio Minister.

National SPPs

For National SPPs, the Treasurer is accountable for all relevant aspects including:

- Negotiation of the funding levels and growth factors;
- the appropriations and the efficient processing of payments;
- estimates of payments;
- reporting in respect of payments; and
- each National SPP being expended by the States within the relevant sector.

National Agreements

For National Agreements, portfolio Ministers are accountable for the development of objectives, outcomes, outputs and performance indicators and all relevant policy matters. The Treasurer is responsible for ensuring that National Agreements align with the design principles described in *Schedule E – National Policy and Reform Objectives* of the Intergovernmental Agreement.

National Partnerships

Portfolio Ministers are responsible for policy relating to National Partnership payments and for proposing new specific projects and reforms which could be supported by National Partnerships.

Budget Paper No. 3

For Commonwealth-own purpose expenses, which can be provided to assist in the achievement of objectives for National Partnership agreements, payment and policy are the responsibility of the relevant portfolio Minister.

For National Partnership payments, the Treasurer is accountable for:

- ensuring to the fullest extent possible that National Partnerships are aligned with the design principles described in *Schedule E – National Policy and Reform Objectives* of the Intergovernmental Agreement;
- ensuring that National Partnerships in a sector which is covered by a National Agreement are aligned with the objectives of that National Agreement;
- ensuring that National Partnerships support the delivery of clearly specified outputs or projects, or facilitate the implementation of, or reward the delivery of, reforms of national significance;
- negotiating base funding levels for reform-based National Partnerships;
- developing principles for the funding levels of project-based National Partnerships;
- assessing whether expiring National Partnerships should be converted into existing or new National SPPs or general revenue assistance; and
- appropriations for, and the efficient provision of, payments.

General revenue assistance

The Treasurer has accountability for the estimates of, appropriations for, and the efficient payment of, general revenue assistance, which includes GST payments. The terms and conditions upon which payments are made are set out in *Schedule D – Payment Arrangements* of the Intergovernmental Agreement. The *Federal Financial Relations Act 2009* provides for the Treasurer to credit amounts to the COAG Reform Fund for payments of general purpose financial assistance other than GST payments.

Where there is policy or legislation associated with general revenue assistance – for example, royalties revenue sharing arrangements in the *Offshore Petroleum and Greenhouse Gas Act 2006* – that policy responsibility rests with the relevant portfolio Minister, with the Treasurer accountable for payments.

Box 6.1: The Federal Financial Relations Act 2009

The *Federal Financial Relations Act 2009* implements the payment arrangements of the new financial framework. For the first time in decades, the complexity of all the Commonwealth's financial relations with the States is contained in one piece of legislation. Previously, each of the payments for specific purposes had its own legislative instruments, payment arrangements and administrative processes.

National SPPs

The *Federal Financial Relations Act 2009* provides a standing appropriation for the Commonwealth to make on-going financial contributions to the States through five National SPPs. The Act sets the amount of base funding for each National SPP for 2009-10 and provides for the funding to be indexed annually by a growth factor determined by the Treasurer. A State's share of a National SPP in a financial year is also determined by the Treasurer. *Schedule D – Institutional Arrangements* of the Intergovernmental Agreement describes the detailed arrangements.

GST payments

The Act provides a standing appropriation for the Treasurer to make GST payments to the States and provides for the Treasurer to determine the distribution between the States, based on the recommendations of the Commonwealth Grants Commission. *Schedule D – Institutional Arrangements* of the Intergovernmental Agreement describes the detailed arrangements.

Other payments

The Act provides for the Treasurer, through a written determination, to credit amounts to the COAG Reform Fund for the purpose of making grants of National Partnership payments and general revenue assistance to the States.

Under these arrangements, payments are transparent to the public and subject to parliamentary scrutiny. The Treasurer's determinations are legislative instruments and will be registered on the Federal Register of Legislative Instruments.

Parliamentary scrutiny is also provided by requiring that the Treasurer gain approval for the maximum amount that he may credit to the COAG Reform Fund for the purpose of making these payments to the States.

While the annual Appropriation Acts will no longer provide the appropriation for these types of payments, the maximum amount that the Treasurer may credit to the COAG Reform Fund in a particular financial year will be legislated. A general drawing rights limit will restrict the total amount that may be covered by drawing rights under the *Financial Management and Accountability Act 1997* and, hence, the amount that can be paid out from the Fund in a financial year. Limiting the ability to issue drawing rights is an effective mechanism because the *Financial Management and Accountability Act 1997* does not permit expenditure without the person making the payment having been issued with a valid drawing right. This ensures that the Parliament's role in approving Commonwealth expenditure is preserved.

Box 6.1: The Federal Financial Relations Act 2009 (continued)

The Appropriation Bill (No. 2) 2009-10 provides that the general drawing rights limits in the 2009-10 financial year for the purpose of providing general revenue assistance (other than GST payments) to the States is \$1 billion and for National Partnership payments is \$23 billion.

Box 6.2: Financial Management and Accountability Act 1997

The *Financial Management and Accountability Act 1997* (the FMA Act) applies to all payments associated with the new federal financial framework. In general, the FMA Act applies to any contract, agreement or arrangement under which public money is, or may become, payable.

Regulation 13 of the FMA Regulations provides that, before entering into agreements under which public money is, or may become, payable, relevant delegates must ensure that the associated spending proposal has been approved under FMA Regulation 9 and, if necessary, authorised in writing under FMA Regulation 10.

National SPPs

The FMA Act will only apply to new commitments where *Schedule D – Payment Arrangements* of the Intergovernmental Agreement is varied.

National Agreements

The FMA Act does not apply because National Agreements are not contracts, agreements or arrangements under which public money is, or may become, payable. However, entering into negotiations over new or revised National Agreements does require compliance with the provisions of the Intergovernmental Agreement.

National Partnership agreements

Where each National Partnership agreement sets out the terms and conditions of any associated National Partnership payment, the FMA Act will apply.

Portfolio Ministers are likely to negotiate implementation plans that set out the milestones and actual payments, as provided for in some National Partnership agreements. Before agreeing implementation plans, appropriate approvals under the relevant FMA regulations are required.

Reporting accountability arrangements

Reporting accountabilities within the Commonwealth reflect the policy and payment accountabilities in the new federal financial relations framework. These are outlined in Table 6.2.

Table 6.2: Commonwealth reporting accountabilities

	Portfolio Budget Statements	
	Financial reporting	Non-financial reporting
National SPPs	Treasurer	Treasurer
National Agreements	No payments	Portfolio Minister
NP payments - facilitation	Treasurer	Portfolio Minister
NP payments - reward	Treasurer	Treasurer
NP payments - project	Treasurer	Portfolio Minister
General revenue assistance (incl. GST)	Treasurer	Portfolio Minister (usually the Treasurer)
Local government SPPs	Portfolio Minister	Portfolio Minister
Commonwealth own-purpose expense	Portfolio Minister	Portfolio Minister

There are some exceptions to the stylised accountabilities shown in Table 6.2. As the new framework commenced on 1 January 2009, all agencies have made payments in 2008-09 in respect of payments which are now Treasury's responsibility. Some payments from special accounts also have different accountabilities. For example, payments from the Nation Building Funds are processed by Treasury, but the appropriations and payment accountabilities are with the portfolio Ministers. Most payments for non-government schools and payments for interstate road transport are also treated this way.

Financial reporting

From 2009-10, Portfolio Budget Statements reflect the payment arrangements for the new framework, which commenced on 1 January 2009.

In the 2009-10 Budget documents, the accountabilities for the reporting of payments to the States is as follows:

- the Treasury Portfolio Budget Statements present financial information for the following appropriations:
 - assistance under each of the five National SPPs (Programs 1.4 to 1.8);
 - general revenue assistance payments (Program 1.9); and
 - assistance under National Partnerships (Program 1.10);
- other portfolios will generally no longer receive appropriations to make payments to the States.

Table 1.3 in the Treasury's Portfolio Budget Statements provides detailed information on all programs for which appropriations have been provided under the *Federal Financial Relations Act 2009*. The Portfolio Budget Statements of other agencies provide a similar table in respect of payments previously made by that agency. This provides a basis for comparison with payments that had previously been reported in relevant agencies' Portfolio Budget Statements in 2008-09 and prior financial years.

This Budget Paper provides detailed whole-of-government information on the Commonwealth's payments to the States.

- Part 2 provides information on Commonwealth payments to support specific state services through National SPPs and National Partnership payments.
- Part 3 provides information on GST payments and other general revenue assistance.

Non-financial reporting

Non-financial reporting accountabilities are as follows:

- the Treasurer is accountable for all aspects of policy in respect of National SPPs;
- the Treasurer is accountable for the new federal financial framework and payments made under the *Federal Financial Relations Act 2009*;
- the relevant portfolio Minister is accountable for all aspects of policy in respect of National Agreements;
- the relevant portfolio Minister is accountable for all aspects of policy in respect of National Partnership agreements, including in respect of the performance benchmarks which may trigger the requirement that a project payment be made;
- the Treasurer is accountable for all aspects of payments and estimates in respect of all general revenue assistance; and
- the relevant portfolio Minister is accountable for policy in respect of general revenue assistance that is legislated through, and falls within, their portfolio – otherwise the Treasurer is accountable.

PERFORMANCE REPORTING FRAMEWORK

In agreeing to the new federal financial relations framework, the Commonwealth and the States committed to on-going performance reporting and working collaboratively to improve performance reporting to enhance public accountability. The performance reporting framework focuses on the achievement of results, value for money and timely provision of publicly available performance information.

Determining achievement against benchmarks

The performance of the Commonwealth and the States in achieving mutually-agreed outcomes and performance benchmarks specified in National Agreements will be monitored and assessed by the COAG Reform Council, which will report publicly on an annual basis. Specifically, the Council will:

- publish performance information for all jurisdictions against National Agreement outcomes and performance benchmarks;
- produce an analytical overview of performance information for each National Agreement, and National Partnerships to the extent they support the objectives in a National Agreement;
- independently assess whether predetermined performance benchmarks have been achieved before an incentive payment is made to reward nationally-significant reforms under National Partnerships; and
- monitor the aggregate pace of activity in progressing COAG's agreed reform agenda.

In addition, to assist the COAG Reform Council in its role, the Productivity Commission has been tasked by COAG to report every two to three years on the economic impacts and benefits of COAG's agreed reform agenda.

Although there are no performance benchmarks associated with National SPPs, States are required to expend funding in the relevant sector – the Treasurer is accountable for ensuring this occurs. To demonstrate compliance, each State Treasurer will provide a report to the Ministerial Council for Federal Financial Relations within six months of the end of every financial year, detailing how much funding was spent in the relevant sector and, if required, provide a detailed explanation for any discrepancy with the amounts provided by the Commonwealth.

National Partnership project payments involve set funding arrangements that specify funding to be provided at a certain time, and may be subject to the satisfactory attainment by the States of performance benchmarks or milestones. Portfolio Ministers will determine, based upon expenditure or performance reporting arrangements set out in the National Partnership, whether the project payment will be made.

As National Partnership facilitation payments have no performance benchmarks, the Treasurer will generally determine whether to make such payments specified in a National Partnership agreement.

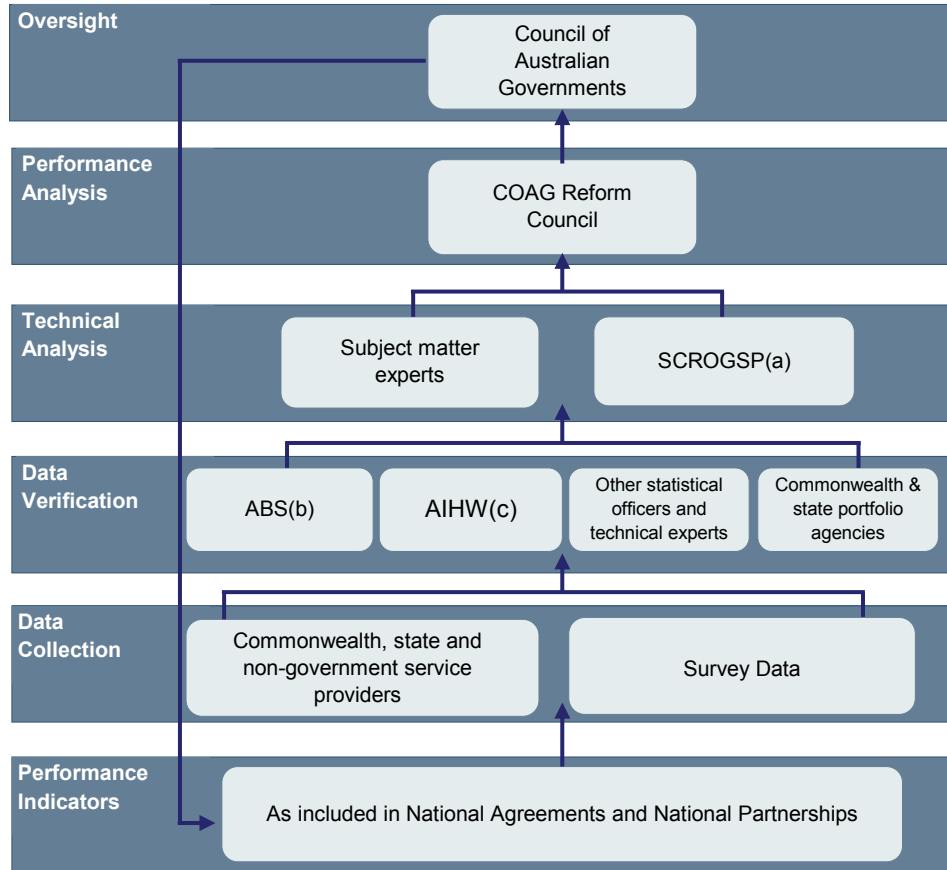
Table 6.3: Accountabilities for determining benchmark achievements

	Determining achievement against benchmarks
National SPPs	Treasurer
National Agreements	COAG Reform Council
NP payments - facilitation	No performance benchmarks
NP payments - reward	COAG Reform Council
NP payments - project	Portfolio Minister
General revenue assistance (incl. GST)	No performance benchmarks
Local government SPPs	Portfolio Minister
Commonwealth own-purpose expense	Portfolio Minister

Performance reporting processes

The new performance reporting framework, which commenced on 1 January 2009, reinforces the accountability of state governments to their own communities for their service delivery. The performance reporting framework acts as a mechanism to improve public performance reporting against clearly specified performance indicators and benchmarks described in the National Agreements and National Partnerships. The key components of the performance reporting framework are outlined in Chart 6.1.

Chart 6.1: Performance reporting information flows



- (a) Steering Committee for the Review of Government Service Provision
- (b) Australian Bureau of Statistics
- (c) Australian Institute of Health and Welfare

The COAG Reform Council will provide annual reports to COAG containing the performance data and provide a comparative analysis of the performance of governments in meeting the objectives of the National Agreements. The reports will also highlight examples of good practice and performance so that, over time, innovative reforms or methods of service delivery may be adopted by other jurisdictions.

The Steering Committee for the Review of Government Service Provision will provide performance information to the COAG Reform Council, which will provide reports to COAG no later than three months after receiving the performance information. The Commonwealth and the States will provide the COAG Reform Council with information necessary for it to fulfil its role. In preparing its performance reports, the

Budget Paper No. 3

COAG Reform Council may draw upon other data collection agencies and subject experts it considers relevant to its work.

Jurisdictions will be consulted for a period of one month before the COAG Reform Council releases its reports, with the COAG Reform Council independently assessing whether any feedback from a jurisdiction needs to be reflected in its final findings.

The COAG Reform Council's reports on the performance information for all governments against National Agreement outcomes and performance benchmarks will be made public.

In relation to the performance reporting framework, COAG has assigned responsibility to the Ministerial Council for Federal Financial Relations for:

- progressing the implementation of the performance reporting framework, including the continuous improvement program, and development and oversight of a new National Performance Reporting System; and
- maintaining a register of the national minimum data sets required to allow comparative reporting of governments' achievements against agreed objectives and outcomes.

The development of the new national performance reporting framework provides the opportunity to move, as far as possible, to a single, integrated, national reporting system that will reduce collection costs and confusion in interpreting performance. To progress the implementation of the performance reporting framework, the Ministerial Council for Federal Financial Relations has endorsed the establishment of a Heads of Treasuries Committee to oversee these roles.

The Heads of Treasuries Committee will convene a Consultative Forum to ensure that the full range of expertise is brought to bear in implementing and improving the performance reporting framework.