

# The Federation Funding Agreements Framework

## INTERGOVERNMENTAL AGREEMENT ON FEDERAL FINANCIAL RELATIONS

- F1 In August 2020, the Council on Federal Financial Relations (CFFR) implemented new governance arrangements for Commonwealth-state funding agreements, known as the Federation Funding Agreements (FFA) Framework. The Framework can be conceived as comprising five elements: this Intergovernmental Agreement on Federal Financial Relations (IGA FFR), CFFR and its role as gatekeeper of the FFA Framework, the eight FFA Principles, the agreement architecture, and the administrative arrangements.
- F2 The IGA FFR outlines the objectives, principles and institutional arrangements governing financial relations between the Commonwealth and State and Territory governments. It recognises that the States and Territories have primary responsibility for many areas of service delivery, but that coordinated action is necessary to address Australia's economic and social challenges. It provides the foundation for the establishment of funding agreements between the Commonwealth and the States and Territories.
- F3 The First Ministers' Council has assigned CFFR the role of gatekeeper of the FFA Framework. This allows CFFR to provide central oversight of the system with a focus on the form, content, number, and process for agreement development. CFFR's level of involvement in the negotiation of agreements may be determined by the First Ministers' Council, or by its own selection of a negotiation pathway. CFFR will assume more direct involvement in agreement negotiation where an agreement is of national significance, provides substantial economic benefit, may pose major social or fiscal risks, or involves particular complexities.
- F4 Eight FFA Principles were developed by CFFR and endorsed by the First Ministers' Council to formalise CFFR's role in influencing the policy direction and content of new agreements under the FFA Framework. These principles outline how new agreements should be constructed and the process for their negotiation. The FFA Principles should be read alongside the existing complementary principles within the IGA FFR. The FFA Principles are as follows.
- (a) Principle 1: Achieve strong economic, social, and fiscal outcomes
- New agreements will promote strong economic and social outcomes and support strong fiscal outcomes (for example, improved employment outcomes, the facilitation of private sector investment where appropriate, and regard for social or health needs or efficiency of service delivery).
- (b) Principle 2: Limit the number of low value agreements to ensure value for money
- CFFR will monitor new agreements to limit the number of low value agreements to minimise the administrative costs associated with the agreement and avoid complexity that does not deliver significant benefit.

(c) Principle 3: Balance government priorities

New agreements will recognise and balance the priorities of all levels of government.

(d) Principle 4: Support budget autonomy and greater flexibility

New agreements will provide states with budget autonomy and flexibility, where practical, to deliver services and infrastructure in a way that they consider will most effectively and efficiently improve outcomes for Australians.

(e) Principle 5: Provide funding certainty

New agreements that fund ongoing services will provide states with funding certainty where possible.

(f) Principle 6: Retain oversight of agreements

Portfolio ministers are required to inform CFFR once they have policy authority for a new agreement.

(g) Principle 7: Involve portfolio ministers

CFFR will decide whether new agreements are pursued, and the allocation of responsibilities for new agreement negotiation, implementation, monitoring, evaluation and renewal. As required, CFFR should leverage the expertise of portfolio ministers.

(h) Principle 8: Ensure accountability and transparency

Agreements, and exchanges of letters that constitute agreements, will be published on the CFFR website to promote transparency and accountability. Reporting should include what measured outcomes were achieved and evidence on their cost effectiveness.

F5 A new agreement architecture consolidated federal funding arrangements into two forms of agreements, National Federation Funding Agreements (NFFA) and Sectoral Federation Funding Agreements (Sectoral FFAs). NFFA typically contain significant policy content and act as sources of ongoing funding, and have relatively complex and bespoke terms and conditions. The Sectoral FFAs, covering Health, Education and Skills, Infrastructure, Environment, and Affordable Housing, Community Services and Other, consolidated all existing National Partnership Agreements, Streamlined Agreements and Project Agreements as schedules. New agreements under the relevant Sectoral FFA are now termed FFA schedules.

F6 Administrative arrangements, including Circulars that provide instructional advice to agreement drafters, a website and reporting to CFFR, support operation of the Framework. Several improvements are being made to these arrangements.

F7 This Framework is intended to deliver improved outcomes by influencing the content, form and number of funding agreements. It benefits all jurisdictions through streamlining and standardising new agreements where possible, and reducing the administrative burden associated with negotiating agreements, reporting against agreement milestones and managing payments.