

COMMONWEALTH - STATE FUNDING AGREEMENTS FRAMEWORK

Summary

This circular provides guidance on the Federation Funding Agreements Rules (FFA rules) and funding agreements report process under the Federation Funding Agreements (FFA) framework. This circular follows the decision of National Cabinet to delegate to the Council on Federation Financial Relations (CFFR) responsibility for all funding agreements, including reviewing the agreements process.

This circular provides information on the following:

- I. Overview of the framework mechanism
- II. Federation Funding Agreement Rules (FFA Rules)
- III. The funding agreements report process

**I. Overview of the FFA framework mechanisms**

Two mechanisms support the role of CFFR in funding agreements – the FFA rules and CFFR’s funding agreements report. New funding arrangements must adhere to the FFA rules, which outline CFFR’s expectations of new arrangements. Secondly, CFFR must be notified of new arrangements and changes to existing arrangements to give CFFR the opportunity to guide those arrangements.

**II. Federation Funding Agreement Rules (FFA rules)**

The FFA rules are guidelines agreed by CFFR for portfolio ministers (and other interested parties) for the development of funding arrangements. These rules address the overarching aims of CFFR, which include limiting the proliferation of agreements, use of standard templates, ensuring the negotiation and administration of agreements is as efficient as possible, and seeking to avoid short-term extensions to existing agreements. The FFA rules are designed to deliver strong economic and fiscal outcomes, while ensuring that the benefits of consolidation and streamlining endure. They complement the Intergovernmental Agreement on Federal Financial Relations (IGA FFR) developed in 2008.

All new agreements must be consistent with the FFA rules, to ensure that the benefits of the FFA framework endure into the future. It is a joint responsibility of all Commonwealth and state agencies (including Treasuries, First Minister’s Departments and Portfolio Agencies) to ensure that new agreements align with the FFA rules.

i. Principles under the FFA rules

The FFA rules comprise the following the eight principles:

<b>Agreement content</b>	
<b><i>Principle 1: Strong economic, social and fiscal outcomes</i></b>	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><i>Principle 2: Limit the number of low value agreements to ensure value for money</i></b>	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.
<b><i>Principle 3: Balance government priorities</i></b>	New agreements will recognise and balance the priorities of all levels of government.
<b><i>Principle 4: Budget autonomy and greater flexibility</i></b>	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.
<b><i>Principle 5: Funding certainty</i></b>	New agreements that fund ongoing services will provide states with funding certainty where possible.
<b>Agreements process</b>	
<b><i>Principle 6: CFFR will retain oversight over agreements</i></b>	Portfolio ministers are required to inform CFFR once they have policy authority for a new agreement.
<b><i>Principle 7: CFFR will involve portfolio ministers</i></b>	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.
<b><i>Principle 8: Accountability and transparency</i></b>	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.

The principles and operational rules under the FFA rules can be adapted, subject to CFFR's agreement, to remain relevant over time.

### III. The funding agreements report process

Under the new FFA framework, CFFR is the gatekeeper for all funding agreements and has oversight over all agreements in the development pipeline. To manage this, CFFR regularly considers a funding agreements report that facilitates CFFR decision making. The report's purpose is to give CFFR oversight for all agreements but allow them to focus on the most economically and fiscally important agreements.

#### i. Notify CFFR of new agreements

Once the Commonwealth portfolio minister is ready to engage with the states on a funding arrangement, they are required to inform CFFR of the funding arrangement under development. This notification may be done at an officials level, where Commonwealth departmental officials notify the Commonwealth Treasury by emailing [state.payments@treasury.gov.au](mailto:state.payments@treasury.gov.au). Portfolio ministers may also choose to write to the Treasurer to inform CFFR about the new arrangement.

Once portfolio ministers or their departmental officials have notified the Treasurer or the Commonwealth Treasury (respectively) about funding arrangements under development, it is included in CFFR's funding agreements report.

#### ii. Information in funding agreements report

Commonwealth portfolio departmental officials notifying the Commonwealth Treasury, or portfolio ministers notifying the Treasurer, of an agreement must provide the name of the funding arrangement, a brief summary, likely economic and fiscal impact, affected states, duration of the arrangement and any sensitivities. This information will be included in the CFFR funding agreements report. Further information on these pathways can be found at Circular No. 2021/03, with some worked examples at Circular No. 2021/04.

The funding agreements report will be circulated to state and territory Treasuries prior to the meetings of the Deputy Heads of Treasury, Heads of Treasury and CFFR. Once CFFR considers the report and confirms its level of involvement in the development of each arrangement, Commonwealth Treasury will communicate the decision to portfolio departments. State Treasuries will do likewise.

The agreement will be removed from the funding agreements report when the agreement is signed by all jurisdictions involved.

**For reference:** Circulars on the Federation Funding Agreements (FFA) framework:

Circular No. 2021/01 – The Federation Funding Agreements framework

Circular No. 2021/02 – Overview of framework mechanisms

Circular No. 2021/03 – Drafting a funding arrangement

Circular No. 2021/04 – Worked examples of CFFR's role in developing funding arrangements

**Enquiries:**

For questions relating to the circulars please contact Commonwealth-State Relations Division

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