

Definitions and Institutional Arrangements

INTERGOVERNMENTAL AGREEMENT ON FEDERAL FINANCIAL RELATIONS

DEFINITIONS

National Agreement	An agreement defining the objectives, outcomes, outputs and performance indicators, and clarifying the roles and responsibilities, that will guide the Commonwealth and the States and Territories in the delivery of services across a particular sector.
National Health Reform funding	A Commonwealth financial contribution under the National Health Reform Agreement.
National SPP	A Commonwealth financial contribution to support State and Territory delivery of services in a particular sector.
National Partnership agreement	An agreement defining the objectives, outputs and performance benchmarks related to the delivery of specified projects, to facilitate reforms or to reward those jurisdictions that deliver on national reforms or achieve service delivery improvements.
National Partnership payment	A Commonwealth payment to the States and Territories, in respect of a National Partnership agreement, to support the delivery of specified projects, to facilitate reforms or to reward those jurisdictions that deliver on national reforms or achieve service delivery improvements.
Objectives	Describe the mutually-agreed, overarching aspirations for each new National Agreement.
Outcomes	Describe the impact a government activity is expected to have on community well-being. Outcomes should be strategic, high level and observable goals expressed in clear, measurable and achievable terms.
Outputs	Describe the services being delivered by governments to achieve outcomes. Alternatively they may be used as a proxy for outcomes where outcomes are not readily observable. Outputs can also help to define roles and responsibilities. Outputs should be high level, as detailed outputs run the risk of constraining States' responses to changing demand, cost drivers, priorities and service delivery models.
Performance indicator	Data which informs the community about how governments are progressing towards achieving the objectives, outcomes and outputs.

Performance benchmark	A quantifiable change in a performance indicator, usually expressed in respect of a period of time – for example, an X per cent increase in X by 20XX. Where necessary to inform the community, performance benchmarks should be few in number, high-level and reflect the highest order, most challenging goals toward attainment of outcomes.
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COUNCIL OF AUSTRALIAN GOVERNMENTS

- A1 The Council of Australian Governments (COAG) is the peak intergovernmental forum in Australia. Its role includes initiating, developing, endorsing and monitoring the implementation of policy reforms of national significance which require cooperative action by Australian Governments.
- A2 COAG is the key decision-making body with respect to implementation of the new framework for federal financial relations, and will monitor progress on all aspects of the new framework.

MINISTERIAL COUNCIL FOR FEDERAL FINANCIAL RELATIONS

- A3 Within the framework determined by COAG, the Ministerial Council is able to determine matters relating to this Agreement, but will refer to COAG matters which:
- (a) have major cross portfolio or whole of government implications; or
 - (b) relate to the operations of the COAG Reform Council.
- A4 The functions of the Ministerial Council include:
- (a) the general oversight of the operation of this Agreement on behalf of COAG;
 - (b) an on-going role in monitoring the maintenance of reforms in this Agreement and in making recommendations to COAG for its consideration and endorsement, particularly in respect of-
 - (i) ensuring to the fullest extent possible that National Agreements and National Partnerships are aligned with the design principles in Schedule E;
 - (ii) ensuring that National Partnerships in a sector covered by a National Agreement are aligned with the objectives of that National Agreement;
 - (iii) 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;
 - (iv) negotiating base funding levels and growth factors for National SPPs, having regard to the objectives and outcomes agreed by the relevant COAG Working Group or Ministerial Council;
 - (v) negotiating the funding levels for reform-based National Partnerships;
 - (vi) developing principles for the funding levels of project-based National Partnerships;
 - (vii) assessing whether expiring National Partnerships should be converted into existing or new National SPPs or general revenue assistance; and

- (viii) maintaining a register of the national minimum data sets required to allow comparative reporting of governments' achievement against agreed objectives and outcomes
 - (c) the oversight of the operation of the Goods and Services Tax (GST), including-
 - (i) approving changes to the GST base and rate;
 - (ii) maintaining a performance agreement with the Australian Taxation Office in respect of its efficient and cost-effective administration of the GST;
 - (iii) considering reports of the GST Administration Sub-Committee on-
 - (1) proposed changes to the GST base;
 - (2) the performance of the Australian Taxation Office in GST administration;
 - (3) other matters of operational significance;
 - (d) discussion of Commonwealth Grants Commission recommendations regarding GST revenue sharing relativities prior to the Commonwealth Treasurer making a determination;
 - (e) development and oversight of a new National Performance Reporting System (Schedule C), in consultation with relevant COAG Working Groups and Ministerial Councils;
 - (f) monitoring compliance with the conditions governing the provision of assistance to first home owners set out below;
 - (g) monitoring compliance with the Commonwealth's undertakings with respect to financial support to the States and Territories;
 - (h) reviewing the operation of the Agreement over time and considering any amendments which may be proposed to COAG as a consequence of such review;
 - (i) reviewing funding adequacy under this Agreement, not less than every five years, with an on-going role of monitoring the reporting of outcomes to identify issues that might trigger earlier consideration of funding adequacy and related outcomes;
 - (j) considering on-going reform of federal financial relations;
 - (k) considering other matters covered in this Agreement; and
 - (l) such other matters as are referred to the Council by COAG.
- A5 The Treasurer of the Commonwealth will be the chair of the Council and will convene the Ministerial Council, in consultation with the other members of the Council, not less than once each financial year. If the Commonwealth Treasurer receives a request from a member of the Council, consultation will occur with the other members concerning convening a meeting. The Council may also conduct its business by correspondence.
- A6 All questions arising in the Ministerial Council will be determined by unanimous agreement unless otherwise specified in this Agreement.

- A7 The Ministerial Council will provide annually a report to the Department of the Prime Minister and Cabinet as set out in the protocols and principles governing Ministerial Council operations and reporting requirements.
- A8 The Ministerial Council will oversee the GST Administration Sub-Committee comprised of Commonwealth, State and Territory officials to monitor the operation of the GST, make recommendations regarding possible changes to the GST base and rate, and to monitor the Australian Taxation Office's performance in GST administration.

OTHER MINISTERIAL COUNCILS AND COAG WORKING GROUPS

- A9 The role of relevant Ministerial Councils, other than the Ministerial Council for Federal Financial Relations, and relevant COAG Working Groups with respect to this Agreement includes recommending to COAG on:
- (a) development of objectives, outcomes, outputs and performance indicators for National Agreements; and
 - (b) proposing new specific projects and reforms which could be supported by National Partnerships.

COAG REFORM COUNCIL

- A10 The COAG Reform Council will continue as an independent body, reporting to COAG.
- A11 As set out in this Agreement, or otherwise requested by COAG, the Council will report to the Prime Minister, as Chair of COAG, on:
- (a) the publication of performance information for all jurisdictions against National Agreement outcomes and performance benchmarks;
 - (b) production of an analytical overview of performance information for each National Agreement, and National Partnership to the extent it supports the objectives in a National Agreement, noting that the Council would draw on a range of sources, including existing subject experts;
 - (c) independent assessment of whether predetermined performance benchmarks have been achieved before a reward payment for nationally significant reforms under National Partnerships is made;
 - (d) monitoring the aggregate pace of activity in progressing COAG's agreed reform agenda; and
 - (e) other matters referred by COAG.
- A12 Through the assessment and reporting process, the Council will highlight examples of good practice and performance, but will not have a policy-advising role.

MANAGEMENT OF THE GST

Management of the GST rate

A13 A proposal to vary the rate of the GST will require:

- (a) the unanimous support of the State and Territory Governments;
- (b) the endorsement by the Commonwealth Government of the day; and
- (c) the passage of relevant legislation by both Houses of the Commonwealth Parliament.

Management of the GST base

A14 Subject to Clauses A15, A16 and A17, any proposal to vary the GST base will require:

- (a) the unanimous support of the State and Territory Governments;
- (b) the endorsement by the Commonwealth Government of the day; and
- (c) the passage of relevant legislation by both Houses of the Commonwealth Parliament.

A15 Future changes to the GST base should be consistent with:

- (a) the maintenance of the integrity of the tax base;
- (b) simplicity of administration; and
- (c) minimising compliance costs for taxpayers.

A16 A proposal to vary the GST base by way of a Ministerial determination under the GST Act will require the unanimous agreement of the Ministerial Council.

A17 Changes to the GST base to maintain the integrity of the GST base or to prevent tax avoidance will only require the majority support of the Commonwealth, the States and the Territories.

ADMINISTRATION OF THE GST

Australian Taxation Office

A18 The Commissioner of Taxation has the general administration of the GST law.

A19 The Australian Taxation Office will arrange for the Australian Customs Service to assist with the collection of the GST on imports.

A20 The States and Territories will compensate the Commonwealth for the agreed costs incurred by the Australian Taxation Office in administering the GST, including costs incurred by the Australian Customs Service.

A21 Accountability and performance arrangements between the Australian Taxation Office and the Ministerial Council will be the subject of a GST Administration Performance Agreement. These arrangements will include administrative transparency and accountability through a range of effectiveness and efficiency measures. The objective is to optimise voluntary compliance by effectively managing the administrative and compliance risks to the GST system.

GST Administration Sub-Committee

A22 The GST Administration Sub-Committee, will monitor the operation and administration of the GST and make recommendations to the Ministerial Council for Federal Financial Relations regarding modifications to the GST and the administration of the GST.

A23 The GST Administration Sub-Committee will comprise Treasury officials from each Party to the Agreement, as well as representatives from the Australian Taxation Office as required. The Commonwealth Treasury will chair the GST Administration Sub Committee.

A24 The Chair will convene the GST Administration Sub-Committee in consultation with other members of the Sub-Committee as often as may be necessary, and not less than once per year, to conduct its business. If the Chair receives a request from a member of the Sub-Committee, the Chair will consult with the other members concerning convening a meeting.

A25 The functions of the GST Administration Sub-Committee will include:

- (a) monitoring the performance of the Australian Taxation Office in the administration of the GST;
- (b) assessing policy proposals for the modification of the GST rate and base;
- (c) making recommendations to the Ministerial Council on the need for legislation which might significantly affect the GST base; and
- (d) requesting the Australian Taxation Office to produce draft Public Rulings in specified areas.

A26 The States and Territories will be consulted on draft Public Rulings prior to consideration by the Australian Taxation Office Rulings Panel and before public consultation. There will be a representative from the States and Territories on the Australian Taxation Office Rulings Panel in relation to GST matters.

A27 Public rulings will not be referred to the Ministerial Council. However, the GST Administration Sub-Committee will refer a proposed change to an Australian Taxation Office interpretative view to the Ministerial Council for consideration if it is of the view that the change could have a significant impact on GST revenues.

APPLICATION OF THE GST TO GOVERNMENT

A28 The Parties intend that the Commonwealth, States, Territories and local governments and their statutory corporations and authorities will operate as if they were subject to the GST legislation. They will be entitled to register, pay GST or make voluntary or notional payments where necessary and will be entitled to claim input tax credits in the same way as non-government organisations. All such payments will be included in GST revenue.

GOVERNMENT TAXES AND CHARGES

A29 The Parties agree that Division 81 of the GST Act will exempt Australian taxes, fees and charges from GST in accordance with the following principles:

- (a) taxes that are in the nature of a compulsory impost for general purposes and compulsory charges by the way of fines or penalties will be exempt from GST;
- (b) regulatory charges that do not relate to particular goods or services will be exempt from GST, including-
 - (i) fees and charges levied on specific industries and used to finance particular regulatory or other activities in the government sector; and
 - (ii) licences, permits and certifications that are required by government prior to undertaking a general activity.

FIRST HOME OWNERS SCHEME

A30 The States and Territories will assist first home buyers through the funding and administration of a uniform First Home Owners Scheme, consistent with the following principles.

- (a) Eligible applicants will be entitled to \$7,000 assistance (per application) on eligible homes under the First Home Owners Scheme.
- (b) Assistance will be available directly as a one off payment. If the recipient expressly consents, it may be available as an offset against statutory levies and charges or some combination of these.
- (c) Eligible applicants must be natural persons at least 18 years of age who are Australian citizens or permanent residents who are buying or building their first home in Australia. An applicant's spouse (or de facto) must be included on the application. States and Territories will have discretion in allowing applicants to be aged below 18 years of age in genuine cases where applicants are not trying to circumvent the eligibility criteria.
- (d) To qualify for assistance, neither the applicant nor the applicant's spouse (or de facto) must have previously owned a home, either jointly, separately or with some other person.
- (e) Entering into a binding contract, or commencement of building in the case of owner builders, must have occurred on or after 1 July 2000.
- (f) An eligible home will be a new or established house, home unit, flat or other type of self contained fixed dwelling that meets local planning standards. Fixed dwellings will include demountable dwellings where these meet local planning standards.
- (g) An eligible home must be intended to be a principal place of residence and occupied within a reasonable period. The home must be located in the State or Territory in which the application is made. Applicants who have entered into a financing mechanism which involves a shared equity arrangement will be eligible.
- (h) Assistance will not be means tested. From the date of expiry of the Australian Government's First Home Owners' Boost, the States and Territories will be able to set a cap on the value of property purchased in order for an applicant to be eligible for a First Home Owner's Scheme grant. Any cap may not be less than 1.4 times the relevant

jurisdiction's capital city median house price as at the quarter immediately preceding the date of the imposition of the cap. If a jurisdiction sets a cap, it must be reviewed on the anniversary of the imposition of the cap and amended to ensure the cap remains no less than 1.4 times the relevant jurisdiction's capital city median house price as at the quarter immediately preceding the date of review.

- (i) The relevant State and Territory legislation will contain adequate administrative review and appeal mechanisms, along with provision to prevent abuse of the First Home Owners Scheme. The States and Territories will cooperate in the exchange of information to identify eligible first home owners.

A31 Further details concerning eligibility criteria consistent with the above principles are to be agreed between the Commonwealth and each State and Territory.

A32 The States and Territories will not introduce or vary any taxes or charges associated with home purchase with the intention of offsetting the benefits of the First Home Owners Scheme for recipients.