

THE FEDERATION FUNDING AGREEMENTS FRAMEWORK

Summary

This circular outlines the Federation Funding Agreements Framework that governs Commonwealth-state funding agreements.

I. THE FEDERATION FUNDING AGREEMENTS FRAMEWORK

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 includes five elements.

1. The Intergovernmental Agreement on Federal Financial Relations;
2. CFFR and its role as gatekeeper;
3. the eight FFA Principles;
4. the agreement architecture; and
5. the administrative arrangements.

1. **The Intergovernmental Agreement on Federal Financial Relations (IGA FFR)** outlines the objectives, principles and institutional arrangements governing financial relations between the Commonwealth and state and territory governments (the states). It recognises that the states 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. A link to the IGA FFR is available [here](#).

2. **CFFR has been assigned the role of gatekeeper** of the FFA Framework by National Cabinet. This allows CFFR to provide central oversight of the system with a focus on the form, content and number of agreements and the process for their development. CFFR's involvement in the negotiation of agreements may be determined by National Cabinet, 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.

3. **Eight FFA Principles** were developed by CFFR and endorsed by National Cabinet 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 available in Table 1 below.

Table 1. The eight FFA Principles

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

4. A new **Agreement Architecture** devised in 2020 consolidated existing federal funding arrangements into two types: National Agreements and sectoral FFAs. National Agreements 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.

5. **Administrative arrangements** support the operation of the Framework. These include three Circulars that provide instructional advice to agreement drafters and a modernised website. The relevant Circulars are:

- Circular No. 2021/01
- Circular No. 2021/02
- Circular No. 2021/03

Terminology

Throughout the remaining two circulars, guidance will be provided on **FFA Schedules** under the sectoral FFAs. These FFA Schedules are how funding agreements take effect. For more information regarding existing or new National Agreements please contact the State Payments team at Commonwealth Treasury.

CFFR determines which **negotiation pathway** each FFA Schedule needs to follow. The three negotiation pathways (A, B and C) have varying levels of CFFR involvement. More details on the negotiation pathways, including examples can be found in Circulars No. 2021/02 and 2021/03.

Enquiries:

For questions relating to the circulars please contact the State Payments Team at Commonwealth Treasury.

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