

**PART A: Questions taken on notice and other issues arising from the transcript of evidence dated 17 November 2015.**

- 1. On page 9 of the transcript of evidence, the Committee (Dr Carling-Jenkins) asked what percentage of NPAs to date have been focused on capital works or infrastructure projects, service delivery.**

***The Secretary stated that he would take the question on notice and provide more details.***

***Could the Department please populate the following table below to provide the specific information required on the breakdown of NPAs between capital works and service delivery?***

DTF has used published Commonwealth data<sup>1</sup> as the source for the tables below.<sup>2</sup> Note that this data includes payments paid 'to' the State, and 'through' the State to local government and non-government schools.

Commonwealth grants are not, since 2008, systematically classified by the Commonwealth as recurrent or capital funding. However, in order to aid the Committee in its consideration DTF has undertaken a desktop review of published grant lines, and classified these on the basis of whether they are understood to have been primarily for the delivery of infrastructure projects, service delivery or (for tables under question 2), reform. The approach taken to these groupings, described below, has been framed to provide the Committee with insight into the broad purpose of grants (as per the question asked). Note that this does not necessarily reflect or align with the treatment and presentation adopted for financial transfers included in Victorian estimates of grants to the State.

This analysis is indicative only, is likely more reliable in more recent years, and does not attempt to disaggregate funding type beyond published grants lines. In many cases grants serve multiple functions and are not easily classified into this framework. For example, *Water for the Future* grants (under Environment) cover a suite of policies and programs ranging from large-scale infrastructure programs to water-use rating labelling. DTF has attempted to categorise grants to reflect their predominant function. More detailed information, if required by the Committee, would need to be sought from relevant portfolio departments.

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<sup>1</sup> As discussed under Part A, question 6, Victorian data on financial transfers received from other governments are not specifically structured around Commonwealth payment categories, and so DTF does not hold own-source data which systematically isolates National Partnership payments from other transfers.

<sup>2</sup> The IGAFRR was only finalised mid 2008-09, and so consistent, detailed full year data for grants to states has only been published for years since 2009-10. DTF has additionally focussed its examination on actuals sourced from the Commonwealth final budget outcome data (rather than both actuals and budget), as data was collected and collated specifically for this purpose, rather than extracted from an existing database. FBO figures provided by DTF may differ slightly from portfolio departments' estimates of payments received for specific grants.

- **Reform:** consistent with the original categorisation of National Partnerships (NPs) in the 2008 *Intergovernmental Agreement on Federal Financial Relations* (IGA FFR), DTF has taken reform agreements to refer to NPs which delivered facilitation and/ or reward payments, rather than project payments<sup>3</sup>. The number of NPs that fall into this category has declined over time.<sup>4</sup>
- **Capital:** grants that are understood to have been predominantly for the delivery of discrete infrastructure or capital works.<sup>5</sup>
- **Service delivery:** all other NPs are considered service delivery NPs.<sup>6</sup>

FY	NPA Payments received for capital works/ infrastructure projects (actual \$m)	% of total grants to Victoria	NPA payments received for service delivery (actual \$m)	% of total grants to Victoria	Total NPA payments received from Commonwealth (actual \$m)
2009-10	4,105.3	70.3%	1,731.8	29.7%	5,837.1
2010-11	2,249.9	54.9%	1,851.6	45.1%	4,101.5
2011-12	2,162.7	50.9%	2,085.8	49.1%	4,248.5
2012-13	1,075.1	36.1%	1,900.4	63.9%	2,975.5
2013-14	3,288.2	68.9%	1,483.2	31.1%	4,771.4
2014-15	905.1	34.7%	1,706.9	65.3%	2,612.0

<sup>3</sup> The NP on Low Socio-Economic Status School Communities has been included in this category because of its packaging in the Smarter Schools suite of reform agreements. DTF notes that DHHS has adopted a broader definition of Reform NPs and has identified 'Supporting National Mental Health Reform' as a Reform agreement.

<sup>4</sup> Data has been disaggregated as requested for questions 1 and 2 – accordingly reform NPs are not separately identified under question 1. Instead relevant payments have been classified solely according to whether their primary purpose is for capital works or service delivery.

<sup>5</sup> A significant proportion of payments in the 'Other' category flow from Financial Assistance Grants (FAGs) to local government. FAGs incorporate an Untied Local Roads component, which could otherwise be considered as primarily for the purpose of delivering infrastructure. However this capital component is not separately identified by Commonwealth publications in all years. To avoid large artificial fluctuations in the composition of Other payments between years, DTF has classified FAGs to local government as service delivery grants in all years.

<sup>6</sup> Two minor NPs in Education (the 'National Solar Schools Program' and 'Indigenous Early Childhood Development - Children and family centres') have been classified as Service NPs to reflect DTF's treatment of funding. DTF understands that DET has identified these grants as for capital purposes.

2. *With reference to the above table, could the Department please populate the following tables for each financial year period (FY) since 2008 to provide a further breakdown of how much of the NPA payments received were utilised for capital works/ infrastructure projects, ongoing service delivery or facilitating reforms in the various sectors/categories (as per the Commonwealth Government's Final Budget Outcome report).*

<b>2014-15 (\$m)</b>	<b>NPA payments received for capital works/infrastructure projects (actual)</b>	<b>NPA payments received for ongoing service delivery (actual)</b>	<b>NPA payments received for facilitating reforms (actual)</b>	<b>Total NPA payments received from Commonwealth government (actual)</b>
Health	183.9	118.3	-	302.1
Education	24.7	119.6	-	144.3
Skills	-	102.0	-	102.0
Community Services	-	442.0	-	442.0
Housing	2.5	23.1	-	25.6
Infrastructure	444.7	28.1	-	472.8
Environment	249.3	13.6	-	262.9
Contingent	-	3.4	-	3.4
Other	-	856.8	-	856.8
<b>Total</b>	<b>905.1</b>	<b>1,706.9</b>	<b>-</b>	<b>2,612.0</b>

2013-14 (\$m)	NPA payments received for capital works/infrastructure projects (actual)	NPA payments received for ongoing service delivery (actual)	NPA payments received for facilitating reforms (actual)	Total NPA payments received from Commonwealth government (actual)
Health	136.7	165.5	175.3	477.5
Education	38.5	114.2	78.3	231.0
Skills	-	71.9	15.7	87.6
Community Services	-	472.1	-	472.1
Housing	3.4	31.5	-	34.9
Infrastructure	2,922.4	24.3	-	2,946.7
Environment	187.2	10.7	-	197.9
Contingent	-	5.2	-	5.2
Other	-	318.6	-	318.6
<b>Total</b>	<b>3,288.2</b>	<b>1,213.9</b>	<b>269.4</b>	<b>4,771.4</b>

2012-13 (\$m)	NPA payments received for capital works/infrastructure projects (actual)	NPA payments received for ongoing service delivery (actual)	NPA payments received for facilitating reforms (actual)	Total NPA payments received from Commonwealth government (actual)
Health	61.7	125.8	156.8	344.4
Education	39.6	192.0	98.7	330.3
Skills	0.2	74.0	17.0	91.3
Community Services	-	425.7	-	425.7
Housing	6.9	36.3	-	43.2
Infrastructure	898.8	21.3	-	920.1
Environment	56.4	36.0	-	92.4
Contingent	-	49.2	-	49.2
Other	-	672.0	6.9	678.8
<b>Total</b>	<b>1,063.7</b>	<b>1,632.4</b>	<b>279.4</b>	<b>2,975.5</b>

2011-12 (\$m)	NPA payments received for capital works/infrastructure projects (actual)	NPA payments received for ongoing service delivery (actual)	NPA payments received for facilitating reforms (actual)	Total NPA payments received from Commonwealth government (actual)
Health	283.0	167.6	221.8	672.4
Education	186.4	159.9	173.1	519.4
Skills	0.7	14.9	28.0	43.6
Community Services	-	416.1	-	416.1
Housing	70.3	44.6	-	114.9
Infrastructure	1,419.2	22.5	-	1,441.7
Environment	186.2	38.0	-	224.2
Contingent	-	43.9	-	43.9
Other	-	722.7	49.6	772.3
<b>Total</b>	<b>2,145.9</b>	<b>1,630.2</b>	<b>472.4</b>	<b>4,248.5</b>

2010-11 (\$m)	NPA payments received for capital works/infrastructure projects (actual)	NPA payments received for ongoing service delivery (actual)	NPA payments received for facilitating reforms (actual)	Total NPA payments received from Commonwealth government (actual)
Health	18.9	113.0	220.8	352.7
Education	1,265.0	54.0	55.7	1,374.7
Skills	0.0	5.6	17.0	22.6
Community Services	-	394.6	-	394.6
Housing	206.3	111.7	-	318.0
Infrastructure	711.6	20.5	-	732.1
Environment	6.3	32.5	-	38.9
Contingent	-	323.5	-	323.5
Other	-	544.5	-	544.5
<b>Total</b>	<b>2,208.2</b>	<b>1,599.8</b>	<b>293.5</b>	<b>4,101.5</b>

<b>2009-10 (\$m)</b>	<b>NPA payments received for capital works/infrastructure projects (actual)</b>	<b>NPA payments received for ongoing service delivery (actual)</b>	<b>NPA payments received for facilitating reforms (actual)</b>	<b>Total NPA payments received from Commonwealth government (actual)</b>
<b>Health</b>	10.0	115.9	33.8	159.6
<b>Education and Skills</b>	2,345.4	140.8	58.8	2,545.0
<b>Community Services</b>	-	389.0	-	389.0
<b>Housing</b>	961.7	354.4	-	1,316.1
<b>Infrastructure</b>	756.9	19.3	-	776.2
<b>Environment</b>	11.8	47.4	-	59.2
<b>Contingent</b>	-	67.6	-	67.6
<b>Other</b>	-	524.3	-	524.3
<b>Total</b>	<b>4,085.8</b>	<b>1,658.7</b>	<b>92.6</b>	<b>5,837.1</b>

3. On page 10 of the transcript of evidence, the Committee (Ms Ward) asked if there were "any examples of agreements or programs within agreements being partially defunded or defunded before they are complete." The Department indicated it would take this question on notice.

Could the Department populate the following table format below to provide:

- details of all NPAs committed to Victoria being partially defunded or defunded before their completion.
- further remarks and comments on the reasons for NPAs committed to Victoria being partially defunded or defunded before their completion.

The table below outlines those agreements which DTF is aware of being explicitly terminated prior to scheduled expiry. It does not include agreements which have not been renewed.

Name of NPA	NPA agreement period	NPA agreement funding level (\$) Victoria	NPA actual payments received	NPA termination/cancellation date	Further remarks/comments
NP on Training Places for Single and Teenage Parents	July 2011 to July 2015	Payments under the agreement totalling \$19.0m plus an additional payment of \$4.8m agreed via correspondence between Victoria and the Commonwealth.	\$17.4m	Terminated in July 2014	The Commonwealth 2014-15 Budget terminated the NP a year early, at the conclusion of 2013-14. Around \$6.3 million of funding is not available in 2014-15.
NP on Certain Concessions for Pensioner Concession Card and Seniors Card Holders	22 January 2013 to 30 June 2016 (continuation of arrangements in place since 1993)	Part 1: Funding indexed and adjusted based on 2012-13 funding levels at \$67.3m per annum  Part 2: \$6.6m	\$140.1m	Payments ceased 1 July 2014	Savings measure under the 2014-15 Commonwealth Budget.  Cessation of this NPA will cost Victoria \$230.0 million over the period 2014-15 to 2016-17.
NP on Improving Public Hospital Services	2009-10 to 30 June 2017	Total funding available to Victoria was \$822.3m, which included \$99.8m in potential reward funding.	Total funding received for facilitation and capital was \$723.1m and \$5.1m in reward funding.	Reward funding ceased from 2015-16 onwards.	Savings measure under the 2014-15 Commonwealth Budget. Potential reward funding of \$49.6m is no longer available to Victoria.

Name of NPA	NPA agreement period	NPA agreement funding level (\$) Victoria	NPA actual payments received	NPA termination/cancellation date	Further remarks/comments
NP on Preventive Health	Original agreement July 2009 – June 2015  Varied agreement from June 2012 - June 2017	Total funding available to Victoria was \$119.2m for facilitation and \$37.4m in reward payments.	Total funding received was \$67.1m	30 June 2014	Savings measure under the 2014-15 Commonwealth Budget. The cancellation of this NPA resulted in discontinued funding of \$52.1 million in facilitation payments, plus a potential \$37.4 million in reward payments. This is a total of \$89.5 million no longer available to Victoria.



4. ***On page 3 of the transcript of evidence, the Secretary highlighted DTF's key role in advising the Treasurer about whether this is a good (NPA) agreement or a bad (NPA) agreement to sign up to.***

***a. What criteria has been set by DTF in order to advise the Treasurer whether the NPA is good or bad for Victoria?***

***b. Have there been any NPAs that Victoria did not sign up to based on DTF's advice? If so, what were the reasons for Victoria not signing up to these NPAs?***

NPAs are broadly assessed according to the following criteria:

- **Policy merits and program design**
  - Whether the agreement represents genuine reform
  - Retention of state policy autonomy and operational flexibility
  - Whether the agreement supports the delivery of state policy priorities
  - Effectiveness of proposed program to meet objectives
- **Financial costs, benefits and risks**
  - Adequacy of Commonwealth funding
  - Risks associated with funding, including design of payment triggers, timing, and flexibility
  - Risks associated with ongoing funding obligations beyond the life of the agreement
  - Appropriateness and flexibility of Victorian funding requirements
  - Indirect and administrative/reporting costs
- **Reputational considerations/stakeholder relationships**
  - Reputational impact of participating in an IGA
  - Considerations surrounding cessation of programs once funding has expired
  - Appropriateness of performance measurement
- **Governance arrangements and Commonwealth-state implications**
  - Whether the matter is one of national significance requiring a national response
  - Clarity of intergovernmental roles and responsibilities
  - Appropriateness of governance arrangements
  - State level implementation and oversight arrangements.

Good agreements are typically those that have been developed collaboratively with states and territories to meet genuinely shared policy priorities, and are framed around the funding of outcomes – not inputs – to promote flexible and effective service delivery.

Victoria declined to sign the *NP on Rewards for Great Teachers* (in respect of government schools), because the prescriptive design of the program funded through this agreement was inconsistent with Victorian Government policy directions.

**5. On page 3 of the transcript of evidence, the Secretary explained that the NPA money comes into the DTF accounts as revenue, and then it gets appropriated out to the relevant line departments.**

**a. How long does it take the Commonwealth Government to transfer the NPA payments into DTF's accounts after the NPA is signed between the Commonwealth and Victoria? What would be the reasons for this longer than expected transition transfer period if any?**

There is no standard timeframe for payments to be made to Victoria once an agreement has been signed. Initial payments are made in accordance with the broad schedule outlined in individual agreements, often contingent on achievement of performance milestones.

DTF understands that the relevant Commonwealth line department provides advice to the Commonwealth Treasury about when payments should be made.

Section D6 of the IGA FFR provides an outline of arrangements for the processing of intergovernmental financial transfers. A payment is generally made on the 7th day of the month for National Partnership payments from the Commonwealth Treasury to each State or Territory Treasury. Occasionally additional payments will be made.

**b. How long does it take DTF to appropriate the NPA payments out to the relevant line departments' accounts after DTF receives the NPA payments from the Commonwealth Government? What would be the reasons for this longer than expected transition transfer period if any?**

In general, NP grants are drawn by departments from the Consolidated Fund as annotated receipts under Section 29 of the *Financial Management Act 1994*. These annotated receipt arrangements are established following finalisation of an agreement, and then annually as appropriate.

The Commonwealth notifies the State of the amount to be paid for each NP and DTF advises the relevant amounts to the appropriate department, within 1-2 days of receiving notification from the Commonwealth. Departments can then draw these amounts from the Consolidated Fund as required.

6. ***On page 3 of the transcript of evidence, the Secretary explained that the NPA money comes into the DTF accounts as revenue, and then it gets appropriated out to the relevant line departments. In the Commonwealth Final Budget Outcome report, there is a clear reference of NPA funding level provided to Victoria. However, this NPA funding level is not clearly referenced, identified or reconciled in the Victorian Government's Annual Financial Report (AFR) under "Note 6: Grant Revenue".***

***Other than the financial year period 2008-09, it is not clear on why the total grant revenue received from the Commonwealth Government as shown in the AFR is significantly higher than the figures shown in the Commonwealth Final Budget Outcome report. The following table shows the corresponding figures for each financial year since 2008. Please provide explanations for each financial year.***

DTF does not routinely seek to reconcile final published Commonwealth data on payments to Victoria for specific purposes with final Victorian total grant revenue estimates, and so does not have comprehensive information on annual variances, as requested by the Committee (table, page 6). However, DTF has reviewed available information in order to identify key differences between these data for the most recent year, which should be indicative of annual differences. This is discussed below.

DTF understands that *Victorian total grant revenue* as reported in Note 6 of the Annual Financial Report is not equivalent in scope to *total payments (to Victoria) for specific purposes*, as reported in the Commonwealth Final Budget Outcome.

The Commonwealth Final Budget Outcome<sup>7</sup> notes that total payments for specific purposes include:

- National Specific Purpose Payments (National SPPs) in respect of key service delivery sectors;
- National Health Reform funding;
- Students First funding; and
- National Partnership payments.

These payment types are framed by the IGA FFR. Further information on payments included and excluded from this framework may be found at <http://www.federalfinancialrelations.gov.au/content/guidelines/Short-Guide-Payments.pdf>.

By contrast, *Victorian total grant revenue* reflects financial transfers from governments of other jurisdictions (including the Commonwealth) to Victoria. They may include a number of transfers to Victoria which are not identified in Commonwealth publications as *payments for specific purposes*.

Primary among these in 2014-15 appears to be revenue (primarily operating revenue) received directly by Victorian hospitals from the Commonwealth Government for a variety of items, including for residential aged care and under the Pharmaceutical Benefit Scheme. This accounts for more than \$700 million in 2014-15 (although smaller in previous years). There are a variety of other such payments, of lesser magnitude, across portfolios. While DTF cannot advise how the Commonwealth treats such payments, it seems likely many are classified as Commonwealth own purpose payments and included within normal Commonwealth departmental expenses.

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<sup>7</sup> Final Budget Outcome 2014-15, page 55.

Victorian total grant revenue in 2014-15 also includes grants from other states, territories and local governments (approximately \$92 million), and tax compensation payments (some \$23 million in 2014-15), which DTF would not expect to be reflected in Commonwealth *total payments (to Victoria) for specific purposes*.

The treatment and presentation of individual grant estimates may also result in variances. Notably, Final Budget Outcome documents note that 'actual cash payments to non-government schools [and included in payments to states for specific purposes] may be inclusive of GST; however, Final Budget Outcome figures are reported exclusive of GST'<sup>8</sup>. DTF understands that this produces a significant variance between payments received for passing through to non-government schools and Commonwealth published grants (of around \$240 million in 2014-15).

DTF considers that Commonwealth published NP data provides the most direct aggregate picture of relevant grant funding for the Committee's consideration. DTF can provide an electronic version of much of this data should this aid the Committee's work.

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<sup>8</sup> See 2014-15 Final Budget Outcome, page 69, also 2013-14, 2012-13.

**PART B: Questions arising from the whole of government response (dated 6 November 2015) to the Committee questionnaire (dated 14 October 2015)**

1. ***As the service delivery practitioner that executes and implements the NPAs, does the Department engage/consult formally or informally with the respective Commonwealth portfolio counterparts to contribute the practitioner knowledge and experience on policy and programme design issues during the NPA drafting stage?***

DTF typically has limited or no agreements where it is a lead service delivery practitioner.

DTF's role (in partnership with DPC) is usually to advise the lead negotiating department and the Victorian Treasurer on funding design or drafting issues. In doing so, DTF does sometimes engage both formally and informally with counterparts in Commonwealth central agencies.

2. ***Page 2 of the whole of government response stated that DTF is primarily responsible for whole-of-government economic policy and budgetary and financial management issues which includes a framework-level (rather than agreement-specific) reform leadership role in relation to Commonwealth-State financial relations***

- a. ***Could the Department please provide more details, through specific NPA examples, on how it works with lead departments on whole of government economic policy and budgetary and financial management issues?***

DTF has taken a lead role in relation to selected agreements directly focused on economic policy and reform, including the *NP to Deliver a Seamless National Economy*. Within individual agreements, DTF provides feedback on issues associated with financial and payment arrangements (particularly conditions around payments), to assist lead departments in the conduct of negotiations. DTF had significant input around the design of payment milestones and conditions in the recently renewed *NP on Universal Access to Early Childhood Education*, and the adequacy of provision of funding under the *NP on Legal Assistance Services*. Management of financial risk within programs remains the responsibility of relevant portfolio departments.

- b. ***Could the Department please provide more details, through specific NPA examples, on how it provides a framework-level (rather than agreement-specific) reform leadership role in relation to Commonwealth-State financial relations when working with lead departments?***

DTF provides a leadership role in advising on federal financial relations policy and frameworks. This includes whole-of-government oversight of compliance of agreements with the IGA FFR, particularly with respect to significant common issues that arise across multiple agreements.

For example, some recent draft NPs have included clauses that would impose onerous conditions on state service delivery. This has included the *NP on Legal Assistance Services*, where clauses could have imposed conditions on eligibility for Victorian legal aid across the legal assistance system, despite the Commonwealth's minority funding share (approximately 30 per cent of total government funding for legal assistance). Similar provisions and inappropriate matched funding

requirements have been proposed by the Commonwealth in other NPs, including the *NP on Homelessness*.

3. *Page 2 of the whole of government response stated that DTF works in collaboration with lead departments on funding design issues, including the implementation of the COAG 2008 Intergovernmental Agreement on Federal Financial Relations (IGA FFR).*

***a. Could the Department please provide more details, through specific NPA examples, on how it collaborates with lead departments on funding design issues?***

As part of deliberations regarding the *NP on Adult Public Dental Services* DTF worked with DHHS and DPC to provide feedback to the Commonwealth on draft versions of the agreement. DTF undertook analysis of the draft agreements focusing on the policy merits of the agreement, examining the additional costs and regulatory burden of the agreement and its consistency with the IGA FFR.

***b. Is there a more effective and efficient way of collaborating on funding design issues?***

DTF actively maintains productive relationships with the portfolio departments that regularly negotiate NPs, and is able to effectively collaborate on funding design issues when they arise.