



PARLIAMENT OF VICTORIA
Public Accounts and Estimates Committee

**Inquiry into the Impact
on Victorian Government
Service Delivery of
Changes to National
Partnership Agreements**

Parliament of Victoria
Public Accounts and Estimates Committee

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Committee functions

The Public Accounts and Estimates Committee is a joint parliamentary committee constituted under the *Parliamentary Committees Act 2003*.

The Committee comprises nine members of Parliament drawn from both Houses of Parliament.

The Committee carries out investigations and reports to Parliament on matters associated with the financial management of the State. Its functions under the Act are to inquire into, consider and report to the Parliament on:

- any proposal, matter or thing concerned with public administration or public sector finances
- the annual estimates or receipts and payments and other budget papers and any supplementary estimates of receipts or payments presented to the Assembly and the Council
- any proposal, matter or thing that is relevant to its functions and has been referred to the Committee by resolution of the Council or the Assembly or by order of the Governor in Council published in the Government Gazette.

The Committee also has a number of statutory responsibilities in relation to the Office of the Auditor-General. The Committee is required to:

- recommend the appointment of the Auditor-General and the independent performance and financial auditors to review the Victorian Auditor-General's Office
- consider the budget estimates for the Victorian Auditor-General's Office
- review the Auditor-General's draft annual plan and, if necessary, provide comments on the plan to the Auditor-General prior to its finalisation and tabling in Parliament
- have a consultative role in determining the objectives and scope of performance audits by the Auditor-General and identifying any other particular issues that need to be addressed
- have a consultative role in determining performance audit priorities
- exempt, if ever deemed necessary, the Auditor-General from legislative requirements applicable to government agencies on staff employment conditions and financial reporting practices.

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This report is available at the Committee's website.

Contents

Preliminaries	
Committee functions	ii
Committee membership	iii
Committee secretariat	iv
Acronyms and terms	ix
Chair’s foreword	xi
Findings and Recommendations	xiii
1 Introduction	1
1.1 Background to the Inquiry	1
1.2 The Committee’s approach to the Inquiry	1
1.2.1 Submissions to the Inquiry	2
1.2.2 Questionnaires to Departments	3
1.2.3 Public hearings	3
1.2.4 Questions on notice and further follow-up questions	4
1.2.5 Committee visit to Canberra	4
1.3 Structure of the Committee’s report	4
2 Overview and key observations from the Inquiry	7
2.1 Introduction	7
2.2 Key observations of federal financial relations and National Partnership Agreements	9
2.3 Effectiveness of the <i>Intergovernmental Agreement on Federal Financial Relations</i> financial and administrative framework	10
2.3.1 Support for <i>Intergovernmental Agreement on Federal Financial Relations</i> and National Partnership Agreements in Victoria	11
2.3.2 What makes a successful National Partnership Agreement?	13
2.3.3 Committee conclusion	15
2.4 Limitations observed in the current administration of National Partnership Agreements	15
2.4.1 Short-term funding for ongoing service delivery	17
2.4.2 Growing number of Agreements	19
2.4.3 Reintroduction of prescriptive funding conditions	20
2.4.4 Accountability and reporting	20
2.4.5 Uncertainty over future funding	22
2.4.6 Lack of transparent model for indexation of National Partnership funding	22
2.4.7 Unanticipated funding changes	22

2.5	The future of federal financial relations	24
2.5.1	Efforts to improve federal financial relations	24
2.5.2	Reform of the Federation White Paper Review	25
2.5.3	The future for National Partnership Agreements	28
2.5.4	Need for a recommitment to the principles of the <i>Intergovernmental Agreement on Federal Financial Relations</i>	29
3	Establishment of National Partnership Agreements	31
3.1	Introduction	31
3.2	Federal financial relations in Australia	32
3.2.1	<i>The Federal Financial Relations Act 2009</i>	33
3.2.2	<i>Intergovernmental Agreement on Federal Financial Relations</i>	33
3.3	National Partnership Agreements	36
3.3.1	Design principles and structure	36
3.3.2	Implementation Plans for National Partnership Agreements	40
3.4	Negotiation and engagement with the Commonwealth Government on funding agreements	42
3.4.1	Drafting a National Partnership Agreement — timing of negotiation	42
3.4.2	Nature of the negotiation	44
3.4.3	Intra-government review and monitoring of National Partnership Agreements	45
4	Funding for National Partnership Agreements	47
4.1	Introduction	47
4.2	An overview of Commonwealth Government funding to Victoria since 2008	48
4.2.1	National Partnership funding data	48
4.2.2	Commonwealth Government funding provided to Victoria — 2008-09 to 2018-19	50
4.3	National Partnership payments to Victoria — 2008-09 to 2014-15	52
4.3.1	National Partnership funding compared with Victorian Government expenditure	54
4.3.2	National Partnership funding to Victoria by government sector/funding category — 2008-09 to 2014-15	55
4.3.3	Uses of National Partnership funding in Victoria	57
4.4	Utilisation of National Partnership funding by key government sector/ funding category — 2008-09 to 2014-15	61
4.4.1	National Partnership funding to the Health sector	61
4.4.2	National Partnership funding to the Education sector	64
4.4.3	National Partnership funding to the Skills and Workforce Development sector	67
4.4.4	National Partnership funding to the Community Services sector	68
4.4.5	National Partnership funding to the Affordable Housing sector	70
4.4.6	National Partnership funding to the Infrastructure sector	72
4.4.7	National Partnership funding to the Environment sector	74
4.4.8	National Partnership funding categorised as ‘Contingent’	76
4.4.9	National Partnership funding categorised as ‘Other’	77

4.5	Victorian Government funding and support for National Partnership Agreements	79
4.5.1	<i>National Partnership Agreement on Home and Community Care</i>	80
4.5.2	<i>National Partnership Agreement on Aged Care Assessment Program</i>	82
4.5.3	<i>National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders</i>	83
4.5.4	<i>National Partnership Agreement on Homelessness</i>	85
4.5.5	<i>National Partnership Agreement on Legal Assistance Services</i>	86
4.5.6	Other National Partnership Agreements in the Health and Education sectors	88
4.5.7	Conclusion	90
5	Impact of changes to National Partnership Agreements	91
5.1	Introduction	91
5.2	Amendments to National Partnership Agreements	92
5.2.1	Changes to National Partnership funding periods and deferral of funding	93
5.3	Funding models and indexation applied to National Partnership Agreements	95
5.3.1	Lack of transparency in funding models	96
5.3.2	Inadequate indexation	98
5.4	Renegotiation of National Partnership Agreements	101
5.4.1	Short-term funding periods and late negotiation of expiring National Partnership Agreements	102
5.4.2	<i>Project Agreement (NPA) for the National Perinatal Depression Initiative</i>	108
5.4.3	Uncertainty over renegotiation of National Partnership Agreements	110
5.4.4	Committee conclusion	110
5.5	Ongoing implications of National Partnership Agreements which are not renegotiated	111
5.5.1	<i>National Partnership Agreement on Youth Attainment and Transitions</i>	111
5.5.2	<i>National Partnership Agreement on Digital Education Revolution</i>	114
5.5.3	<i>Project Agreement (NPA) for Indigenous Teenage Sexual and Reproductive Health and Young Parent Support</i>	116
5.6	Early termination of National Partnership Agreements	119
5.6.1	<i>National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders</i>	121
5.6.2	<i>National Partnership Agreement on Preventive Health</i>	122
5.6.3	<i>National Partnership Agreement on Improving Public Hospital Services</i>	128
5.6.4	<i>National Partnership Agreement on Training Places for Single and Teenage Parents</i>	130
5.6.5	Committee conclusion	132

6	Other issues related to the use of National Partnership Agreements	135
6.1	Introduction	135
6.2	National Partnership Agreements which support ongoing service delivery in Victoria	135
6.2.1	Nature and form of National Partnership Agreements	136
6.2.2	National Partnerships for longer term service delivery	136
6.2.3	Review processes for expiring Agreements	137
6.2.4	Negotiation of National Partnership Agreements	138
6.2.5	Health and community services	140
6.2.6	Legal assistance services	143
6.2.7	Early childhood education programs	144
6.2.8	Transitioning National Partnership funding to sustainable funding arrangements	145
6.3	Administration of Commonwealth-State financial relations	148
6.3.1	Negotiation and management of National Partnership Agreements	148
6.3.2	Number and complexity of Commonwealth-State funding Agreements	150
6.4	Accountability and reporting	153
6.4.1	Performance reporting	154
6.4.2	Data collection	155
6.4.3	Performance measures and indicators	157
6.5	Costs of compliance	161
6.6	Committee conclusion	165
7	Impact of changes to National Partnerships on the cost of living for Victorians	167
7.1	Introduction	167
7.2	Measuring changes in the ‘cost of living’	168
7.2.1	The Consumer Price Index (CPI)	169
7.2.2	Living Cost Indexes	171
7.2.3	Indexation arrangements	172
7.2.4	Price indexation and Commonwealth National Partnership funding	173
7.3	Changes to National Partnership Agreements and the cost of living for Victorians	175
Appendices		
1	National Partnership Agreements directed at service delivery – health and community services	183
2	National Partnership Agreements directed at service delivery – education and training	187
3	National Partnership Agreements directed at service delivery – legal assistance	193
4	Information gathering visit to Canberra – Committee itinerary	195
5	List of submissions	197
6	List of persons and departments/organisations providing evidence at public hearings	199
7	List of Commonwealth references used	201

Acronyms and terms

ABS	Australian Bureau of Statistics
AFR	<i>Annual Financial Report</i>
BCA	Business Council of Australia
BER	<i>Building the Education Revolution</i>
CAGR	Compound Annual Growth Rate
CLC	Community Legal Centre
COAG	Council of Australian Governments
DER	<i>Digital Education Revolution</i>
ECE	Early Childhood Education
FFR Act	<i>Federal Financial Relations Act 2009</i>
GST	Goods and Services Tax
HACC	<i>Home and Community Care</i>
HTV	<i>Healthy Together Victoria</i>
ICT	Information and Communications Technology
IECD	<i>Indigenous Early Childhood Development</i>
IGA FFR	<i>Intergovernmental Agreement on Federal Financial Relations</i>
IP	Implementation Plan
IPHS	<i>Improving Public Hospital Services</i>
JCPAA	Joint Committee of Public Accounts and Audit
KCC	Knox City Council
MAV	Municipal Association of Victoria
MYEFO	<i>Mid-year Economic and Fiscal Outlook</i>
NHRA	<i>National Health Reform Agreement</i>
NPA	National Partnership Agreement
NPAH	<i>National Partnership Agreement on Homelessness</i>
NPP	National Partnership Payment
NPAPH	<i>National Partnership Agreement on Preventive Health</i>
NPALAS	<i>National Partnership Agreement on Legal Assistance Services</i>
NSPP	<i>National Specific Purpose Payment</i>
NSW	New South Wales
NT	Northern Territory
PHAA	Public Health Association of Australia
QLD	Queensland
RBA	Reserve Bank of Australia

Acronyms and terms

SA	South Australia
TAS	Tasmania
The Committee	The Public Accounts and Estimates Committee
UAECE	<i>Universal Access to Early Childhood Education</i>
VCOSS	Victorian Council of Social Service
VHA	Victorian Health Association
VIC	Victoria
VLA	Victorian Legal Aid
WA	Western Australia

Chair's foreword

I am pleased to present the Committee's report to the Parliament on its *Inquiry into the Impact on Victorian Government Service Delivery of Changes in National Partnership Agreements*. The report represents the culmination of over 12 months work by the Committee.

The *Intergovernmental Agreement on Federal Financial Relations* was signed in 2008 and provides the framework under which Commonwealth funding is provided to the States and Territories in Australia. Each year, Victoria receives around 43 per cent of its total revenue budget from the Commonwealth. In the 2015-16 year, this amounts to approximately \$24.15 billion. Of this amount, almost 9 per cent, or \$2.11 billion, relates to funding provided through National Partnership Agreements (NPAs).

This Inquiry focussed on all NPAs entered into between Victoria and the Commonwealth from 2008-09 to 2014-15. Over this seven year period, National Partnership funding from the Commonwealth to Victoria totalled approximately \$28.82 billion.

National Partnerships vary in terms of their format, funding provisions and reporting requirements. National Partnership funding to Victoria has supported capital works and infrastructure projects in the State, enabled the implementation of service delivery reforms and improvement initiatives, and assisted in the delivery of a number of key services and programs for many members of the Victorian community. Successive Victorian Governments have also contributed State resources to support these National Partnerships.

Under the *Intergovernmental Agreement on Federal Financial Relations*, NPAs are intended to be short-term, time-limited funding arrangements. However, the Committee found a number of National Partnerships in areas of ongoing State service provision which had been established, and renegotiated periodically, by successive Commonwealth Governments, in place of long-term funding arrangements. These services include, home and community care services, homeless services, the provision of concessions programs, and legal assistance services.

Short-term funding through NPAs of ongoing service delivery does not accord with the intent and principles outlined in the *Intergovernmental Agreement on Federal Financial Relations*. The Committee also found that variations to NPAs by successive Commonwealth Governments have impacted the Victorian State Budget. This has caused Victorian Governments to revise funding priorities in the State in order to meet certain community service obligations. In some cases, established services or programs have had to cease or be reduced, in order for the State's financial position to be managed responsibly.

In other instances, the Committee noted that there were NPAs which had been successful in initiating or expanding services and programs in Victoria. However, these Agreements had expired with no consideration of ongoing Commonwealth recurrent funding support, or had been renegotiated for a further short-term, despite evidence of established and ongoing demand for the services (e.g. early childhood education provision).

In order for the Victorian Government and service provider partners to design and implement programs which can provide more effective, longer term outcomes, there needs to be a transition of funding under some National Partnerships to a more sustainable and certain recurrent funding arrangement with the Commonwealth. This would allow programs to more effectively meet the needs of the Victorian community and address disadvantage.

From Victoria's perspective, the State Government has responsibility for an enormous range of services upon which the community depends. Many of these services need to be provided sustainably into the future and not be put at risk by sudden cuts in Commonwealth funding and/or changes in funding formulas.

The Committee hopes that by highlighting the extensive range of programs and services supported through National Partnership funding and the impact on these services of fluctuations and cessation of funding, improvements might be made to the way in which these programs are provided on an ongoing basis with the financial support of the Commonwealth Government.

The Committee notes that many of the deficiencies highlighted through this Inquiry were identified in June 2012 by the Department of Treasury and Finance in its submission to the Parliament of Victoria's Economy and Infrastructure References Committee in its *Inquiry into Commonwealth Payments to Victoria*. This is an indication that the situation with regard to federal financial relations has not significantly changed over the last four years.

There would be benefit in the Council on Federal Financial Relations re-assessing the purpose and nature of NPAs against the principles outlined in the *Intergovernmental Agreement on Federal Financial Relations*. The Committee considers that both the Victorian and Commonwealth Governments should work together to ensure that, as far as possible, NPAs are designed, negotiated and managed in line with those principles and guidelines.

The Committee remains optimistic that jurisdictions will soon agree that Commonwealth-State financial relations have attained a sufficient level of maturity to enable the States to determine their own funding priorities within specific areas of service delivery, and for the Commonwealth to agree to jointly fund those activities, without prescribing them through a series of separate funding agreements.

On behalf of the members of the Public Accounts and Estimates Committee, I thank all those representatives of Victorian government departments and non-government organisations who prepared submissions to the Inquiry and who appeared before the Committee to answer questions at public hearings in November 2015.

I would also like to personally thank my fellow Committee members for their contribution and cooperative approach to this Inquiry.

The Committee is also very appreciative of the research and administrative support provided by staff of the Committee Secretariat.

I commend the report to all Members.



Mr Danny Pearson MP
Chair

Findings and Recommendations

2 Overview and key observations from the Inquiry page

FINDING 1: A number of Victorian Government departments and non-government organisations expressed support for the principles underpinning the *Intergovernmental Agreement on Federal Financial Relations* and the potential effectiveness of National Partnership Agreements. 13

FINDING 2: National Partnership Agreements were found to be most successful in achieving specified improvement or reform when they are, well-designed, flexible, based on genuine collaboration and negotiation between the jurisdictions, and are adequately funded. 13

FINDING 3: Since 2008, National Partnership Agreements have provided critical financial support for a number of improvements in capital and infrastructure, service delivery, and government systems and processes in the State of Victoria. 15

FINDING 4: There have been some concerning deficiencies in the application and administration of National Partnership Agreements by successive Commonwealth Governments which indicate a departure from the underlying principles and intent of the *Intergovernmental Agreement on Federal Financial Relations*. These deficiencies can impact the delivery of programs and services in Victoria and prevent the objectives of the *Intergovernmental Agreement on Federal Financial Relations* from being fully realised. 17

FINDING 5: The Committee was unable to determine why successive Victorian Governments have negotiated and agreed with the Commonwealth Government to accept National Partnership Agreements which have the potential to disadvantage the State in terms of their, lack of appropriateness for purpose, inadequate flexibility, administrative compliance burden and/or inappropriate indexation. 17

FINDING 6: The use of fixed-term National Partnership Agreements to provide funding support for ongoing service delivery in Victoria is inappropriate. 18

RECOMMENDATION 1: The Victorian Government should negotiate with the Commonwealth Government, via the Council of Australian Governments and Treasury forums, to secure an appropriate recurrent funding arrangement for those ongoing services and programs currently funded through National Partnership Agreements. 18

FINDING 7: The Committee found that whilst the intent of the 2008 *Intergovernmental Agreement on Federal Financial Relations* was to simplify the provision of Commonwealth grants to the States and Territories, there has been a gradual re-introduction of small funding agreements tied to specific requirements around how the funds should be spent. This has detracted from the original principles of the *Intergovernmental Agreement*. 21

FINDING 8: The increasing number of funding agreements between Victoria and the Commonwealth, together with instances of increased prescription around how Commonwealth funds should be applied, has had implications for the Victorian Government in terms of managing the associated accountability and reporting requirements and the costs associated with these requirements. 21

FINDING 9: There are many examples of National Partnership Agreements having been used to support programs and initiatives with ongoing demand or increased service capacity. Whilst funding was always agreed to be short-term, the implications of cutting or ceasing the funding support has resulted in the Victorian Government having to make a decision about whether to continue funding an established program or initiative. Where the Victorian Government has not been able to continue to provide a program or service, this has impacted stakeholders who have relied on the services, or been in receipt of some benefit, from the programs and initiatives established. 23

FINDING 10: There is a need for the Commonwealth Government to ensure that adequate and fair notice is provided to the Victorian Government in the event of any significant reduction, or cessation, of funding provided under National Partnership Agreements. 23

FINDING 11: National Partnership Agreements are not legally binding documents and it is the prerogative of successive Commonwealth Governments to determine to alter, or withdraw, funding under these Agreements as policy priorities and other circumstances change. 24

RECOMMENDATION 2: The Victorian Government should seek assurances from the Commonwealth Government that any future significant cuts to National Partnership funding will be given reasonable advance notice, to enable the State to take appropriate and considered action and to plan a measured response to the funding change. 24

FINDING 12: Issues relating to the effective operation of the Australian Federation and the administration and funding of areas of shared interest between the Commonwealth and the States and Territories, highlighted in the Reports of the National Commission of Audit and in Issues Papers released as part of the *White Paper Review on the Reform of the Federation*, will be progressed by the Council on Federal Financial Relations. The Committee looks forward to the review process continuing. 27

FINDING 13: The original underlying principles and terms of the *Intergovernmental Agreement on Federal Financial Relations* are considered sound. However, departures from these principles by successive Commonwealth Governments in its administration of National Partnership Agreements have created challenges and uncertainties for the Victorian Government in its management of the State Budget and for a number of Victorian Government departments and community sector organisations involved in the provision of services and programs. 28

RECOMMENDATION 3: As part of the ongoing review of federal financial relations, there is a need for the Council of Australian Governments to revisit the principles outlined in the *Intergovernmental Agreement on Federal Financial Relations* as they relate to National Partnership Agreements and to encourage Commonwealth and State and Territory Governments to abide by the principles and guidelines supporting the *Intergovernmental Agreement*. 30

3 Establishment of National Partnership Agreements page

FINDING 14: Council on Federal Financial Relations policy guidance states that National Partnership Agreements are generally not appropriate funding arrangements for ongoing financial support to the States and Territories. The guidance indicates that National Partnerships are typically aimed at national reform priorities or specific service delivery improvement. 37

FINDING 15: There are three types of payments which can be made by the Commonwealth to the States under a National Partnership:

- Project payments which relate to funding provided to deliver specific projects or which are used to enhance the quality or quantity of service delivery and support national objectives;
- Facilitation payments which are provided to advance nationally significant reform as a “one-off” or “in-advance” payment; and
- Reward payments which are dependent upon the achievement of specific and ambitious performance targets or benchmarks attached to nationally significant reform. 38

FINDING 16: *Intergovernmental Agreement on Federal Financial Relations* policy guidance states that when drafting National Partnership Agreements the Commonwealth Government may circulate and discuss policy and program design issues with State and Territory portfolio agencies. However, draft National Partnership Agreements cannot be provided to State and Territory portfolio agencies for feedback and negotiation during the drafting stage. 42

FINDING 17: Earlier opportunity for the Victorian Government to participate and negotiate a National Partnership Agreement potentially leads to better designed Agreements containing realistic and achievable outcomes. Earlier involvement would enable Victoria to contribute its practitioner knowledge and experience in policy and program design issues relevant to the specifications of an Agreement. 43

RECOMMENDATION 4: The Victorian Government should investigate opportunities to have earlier input to the Commonwealth Government’s design and drafting of National Partnership Agreements. Earlier engagement and consultation would enable Victoria to maximise its knowledge and expertise in the design of the delivery and targeting of services to areas of highest priority, in the most efficient and effective manner.....43

FINDING 18: A meaningful partnership between the Victorian and Commonwealth Governments is essential to ensuring that taxpayers’ funds are used in a careful and considered way, and in a manner which seeks to maximise outcomes for citizens in the State. 44

RECOMMENDATION 5: The Victorian Government should develop a strategy which identifies the key improvements which could be made to the consultation and negotiation of National Partnership Agreements with the Commonwealth Government. These improvements should be consistently advocated by the Victorian Government during any informal and/or formal interactions with the Commonwealth Government. 44

FINDING 19: The Victorian Government has established internal engagement processes through its central agencies to actively identify and monitor issues related to the implementation and negotiation of agreements under the *Intergovernmental Agreement on Federal Financial Relations*, including National Partnership Agreements.45

4 Funding for National Partnership Agreements page

FINDING 20: The Department of Treasury and Finance includes estimates of Commonwealth Government funding, including National Partnership funding, with details of estimates for individual National Partnership Agreements within each sector of government activity in State Budget Papers. However, actual Commonwealth Government funding received is not reported in a similar level of detail in the State’s *Annual Financial Reports*. As a result, full transparency around Commonwealth Government funding provided to Victoria for Specific Purposes, including National Partnership funding, is limited. 50

RECOMMENDATION 6: The Department of Treasury and Finance should report actual payments received from the Commonwealth Government, including National Partnership funding, in its *Annual Financial Reports* with a view to providing the same detailed format as that provided in the State Budget Papers. This would provide:

- a greater level of completeness, transparency and accountability over Commonwealth payments budgeted, received and spent by the State of Victoria; and
- facilitate tracking and reconciliation of Commonwealth Government funding to Victoria. 50

- FINDING 21:** Total Victorian Government revenues and expenditures have increased, and are expected to increase, over 2008 to 2019 by a Compound Annual Growth Rate (CAGR) of five per cent. The CAGR of Commonwealth Government funding to Victoria over the same period is four per cent. Figures also indicate that, between 2008 and 2015, there has been a change in the composition of Commonwealth Government funding to Victoria with a reduction in National Partnership funding but an increase in funding through other Commonwealth payment categories. This reflects changes in the policy objectives and funding priorities of different successive Commonwealth and Victorian Governments. 51
- FINDING 22:** Commonwealth National Partnership funding levels have fallen across all States and Territories since 2008-09. Victoria has the third highest decrease in Compound Annual Growth Rate in National Partnership funding among all States and Territories behind South Australia and Tasmania over the seven year period 2008-09 to 2014-15. 53
- FINDING 23:** Although there is increased funding in General Revenue Assistance and National Specific Purpose Payments, National Partnership funding to Victoria as a proportion of Victorian Government total expenditure has been decreasing since 2008-09 from 19 per cent in 2008-09 to 3 per cent in 2014-15. National Partnership funding to Victoria is expected to remain significantly low (at around 4 per cent) in the forward estimates period 2015-16 to 2018-19. 55
- FINDING 24:** The proportion of Commonwealth National Partnership funding provided to Victoria to support service delivery was consistently significant over the period 2009-10 to 2014-15. Approximately 50 per cent of the total National Partnership funding provided to Victoria in 2014-15 was applied to service delivery purposes in the State. 60
- FINDING 25:** Commonwealth National Partnership funding provided to support service delivery creates problems for Victoria especially in those instances where funding supports ongoing or long-term service provision such as for homelessness, education, health and legal assistance services. The use of National Partnership Agreements for these purposes is inconsistent with the original principles and intent for National Partnerships as outlined in the 2008 *Intergovernmental Agreement on Federal Financial Relations*. 61
- FINDING 26:** The level of Commonwealth National Partnership funding to the Victorian Health sector has fluctuated over the six year period 2009-10 to 2014-15. The proportion of funding used for service delivery purposes has remained significant over the period at around 25 to 40 per cent of total National Partnership funding to the Victorian Health Sector. 63
- FINDING 27:** A significant amount of Commonwealth National Partnership funding provided for the Education sector in Victoria in 2009-10 and 2010-11 was used for capital works and infrastructure improvements in schools as part of the *National Partnership Agreement on Building the Education Revolution*. Since 2011-12, a significant proportion of National Partnership funding provided to the Education sector has been used for service delivery purposes, comprising around 55 per cent of National Partnership funding to this sector and more recently as high as 83 per cent in 2014-15. 66

FINDING 28: Commonwealth National Partnership funding provided to Victoria for the Skills and Workforce Development sector has been on an increasing trend since first introduced in 2010-11. Funding applied to service delivery in this sector has been significant, especially since 2012-13 when reforms to the Vocational Education and Training sector commenced.....68

FINDING 29: Commonwealth National Partnership funding provided to Victoria for the Community Services sector has been wholly utilised for service delivery. Funding amounts have remained fairly constant over the seven year period 2008-09 to 2014-15.69

FINDING 30: The sudden cessation of funding in 2014-15 provided for under the *National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders* resulted in the Victorian Government compensating for the loss of \$73.8 million in the Commonwealth Government’s contribution for the concessions program.69

FINDING 31: Commonwealth National Partnership funding provided to the Affordable Housing sector in Victoria has fallen significantly over the seven year period 2008-09 to 2014-15. In 2009-10, significant National Partnership funds were provided to boost the supply of social housing stock and as part of the Commonwealth Government’s economic stimulus package in response to the global financial crisis. Since 2012-13, National Partnership funding in this sector has been utilised mainly for service delivery.....72

FINDING 32: Commonwealth National Partnership funding to Victoria for the Infrastructure sector has varied over the period 2008-09 to 2014-15 and has reflected specific, significant infrastructure projects which have been built in Victoria in partnership with the Commonwealth Government. National Partnership funding to the Infrastructure sector was at its highest level in 2013-14 at \$2.95 billion and its lowest level in 2014-15 at \$473 million.....74

FINDING 33: Commonwealth National Partnership funding provided for the Environment sector in Victoria has been predominantly used for infrastructure and/or capital works projects with funding levels in recent years on an increasing trend. These recent payments have related to funding for the *Sustainable Rural Water Use and Infrastructure Program*.....75

FINDING 34: National Partnership funding categorised as “Contingent” relates to Commonwealth Government payments for unusual or extraordinary circumstances or instances where the Commonwealth Government has committed to provide compensation when an event occurs. Significant payments were provided to Victoria to support disaster recovery programs following the 2009 Victorian Bushfires and the 2011 major flooding across western and central Victoria.....77

FINDING 35: National Partnership funding to Victoria categorised as “Other” has generally been applied for service delivery purposes with the majority of funding relating to the *National Partnership Agreement on Legal Assistance Services*. Funding in this category has been relatively stable over the period 2008-09 to 2014-15, with the exception of the two year period 2011-12 to 2012-13 when about \$106 million was provided by the Commonwealth Government as a “once-off” additional payment for Victorian health services and approximately \$57 million was provided for specific economic reforms under the *National Partnership Agreement to Deliver a Seamless National Economy*. 79

FINDING 36: The Commonwealth Government has provided funding to support home and community care services in Victoria over a long period predating the *Intergovernmental Agreement on Federal Financial Relations*. From 2008-09 this support was provided under a National Partnership Agreement. Between 2008-09 and 2015-16, the Victorian Government contributed approximately \$2.22 billion in State funding as part of this Agreement. From 1 July 2016, the *National Partnership Agreement on Home and Community Care* will be replaced by a new Bilateral Agreement between the Commonwealth and Victoria aimed at transitioning responsibilities for aged care and disability services. 82

FINDING 37: The *Aged Care Assessment Program* has been jointly funded by successive Commonwealth and Victorian Governments since 2008-09. Successive Commonwealth Governments have committed to contributing approximately 63 per cent of Program funding over the period 2008-09 to 2015-16, with Victoria providing the balance. Over the same period successive Victorian Governments have committed to providing approximately \$99.1 million in State funding to this Program. The Agreement with the Commonwealth Government is contracted to cease on 30 June 2016, after which Victoria will continue to fund the Program until 30 June 2018. 83

FINDING 38: In 2008-09 the *National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders* replaced long standing indexed Commonwealth Government funding which had been provided in support of concessions since 1993. Victoria has committed to providing approximately 90 per cent of the funding or \$4.08 billion for these concessions since 2008-09. In 2014-15, the Victorian Government assumed full policy and funding responsibility for the concessions program when the Commonwealth Government unexpectedly terminated the *National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders*. 84

FINDING 39: The *National Partnership Agreement on Homelessness* commenced in 2009-10 with almost equal contributions from the Commonwealth and Victorian Governments. Since 2012-13 the Victorian Government has provided a greater share of the funding in relation to this Agreement. The Victorian Government has also contributed approximately \$33.5 million in capital and support funding for social housing between 2009-10 and 2013-14. 85

FINDING 40: Marginal increases in Commonwealth Government funding under the *National Partnership Agreement on Legal Assistance Services* have not kept pace with increasing demand for these services or with the cost of providing the services. As such, successive Victorian Governments have had to contribute additional and increasing amounts of State funding to address the gap. 87

FINDING 41: Successive Victorian Governments have contributed significant levels of State funding to support a number of National Partnership Agreements entered into with the Commonwealth Government since 2008. In addition, a number of services and programs established through National Partnership funding have received continued support from the Victorian Government after an Agreement has expired or been terminated. Any incumbent Victorian Government, signing up to a National Partnership Agreement with the Commonwealth Government, is responsible for managing the expectations and output expenditure of these time-limited Agreements. 90

5 Impact of changes to National Partnership Agreements page

FINDING 42: The Committee notes that National Partnership funding can be deferred before the commencement of an agreed funding period and varied without prior notice and without any further commitment from the Commonwealth Government to continue funding. These funding amendments have a direct and immediate impact on eligible clients and create uncertainty for the Victorian Government and service providers in planning future service delivery. 95

RECOMMENDATION 7: The Victorian Government should actively encourage the Commonwealth Government to commit to maintaining the initial length of agreement and funding terms specified in National Partnership Agreements and avoid amendments and deferrals. 95

FINDING 43: Commonwealth National Partnership funding provided to support legal assistance services in Victoria remained relatively stable over the period 2010-11 to 2014-15. Limited indexation of legal assistance funding has meant that the Victorian Government has chosen to provide additional funding to meet increasing service demand. The funding set out in the renegotiated five-year *National Partnership Agreement on Legal Assistance Services*, suggests that this funding gap will worsen between 2015 and 2020. 97

FINDING 44: There is a lack of transparency in relation to the funding formulas applied by the Commonwealth Government in determining funding provided through National Partnership Agreements for specific service delivery areas such as legal assistance services. 98

RECOMMENDATION 8: The Victorian Government should seek to negotiate and work with the Commonwealth Government to achieve a formalised and transparent funding model with indexation that considers appropriate factors relevant to specific areas of service delivery when negotiating and agreeing funding for each National Partnership Agreement. This would provide for fairer and more productive negotiation and discussion between the Commonwealth and Victoria about needs and priorities within specific service delivery areas. 98

FINDING 45: The Victorian Government’s total nominal expenditure on homelessness services has been on an increasing trend since 2010-11 while Commonwealth Government funding provided under the *National Partnership Agreement on Homelessness* is diminishing in real terms. As a result the funding gap between Commonwealth financial support for homelessness services and expenditure needs is widening.100

FINDING 46: The renegotiated *National Partnership Agreement on Homelessness* for 2015-17 does not fully fund increases in wage indexation for salaries in the community services sector or for increasing demand for homelessness services. As a result, the value of funding provided by the Commonwealth Government has been effectively eroded over time.100

FINDING 47: Funding provided for some National Partnership Agreements, particularly those supporting the provision of ongoing services such as homelessness, and legal assistance, does not fully fund population growth, demand factors, and cost/price indexation. This inadequate indexation of funding for renegotiated National Partnership Agreements has a direct impact on the Victorian State Budget and has the potential to impact the effectiveness of important services to the Victorian community. 101

RECOMMENDATION 9: The Victorian Government should negotiate and work with the Commonwealth Government to develop a robust process and mechanism to take appropriate account of population growth, service demand, and cost/price factors, in funding indexation formulas. This is critically important to maintain the relevance and effectiveness of National Partnerships as a realistic method of support for ongoing services, such as legal assistance and homelessness services, to vulnerable members of the Victorian community.. . . . 101

FINDING 48: Short-term funding of the *National Partnership Agreement on Universal Access to Early Childhood Education* and late notice of renewal or renegotiated Agreements have posed significant challenges for the Victorian Government, Local Government, kindergartens and other service providers, endeavouring to plan their current and future workforce requirements and program delivery.105

FINDING 49: Short-term, last minute funding decisions have created an environment of uncertainty for the homelessness services sector, impacting staffing and operations. With inadequate funding and uncertainty about future funding, service providers are unable to effectively forward plan their services or support the development of their workforce. While noting that the right funding arrangement should be considered and that the Commonwealth Government’s budgetary position has limited capacity, it is still the responsibility of any incumbent Victorian Government to manage the output expenditure and expectations of any time-limited National Partnership Agreements.107

FINDING 50: Changes made by the Commonwealth Government over the past seven years, and in particular since July 2013, to the Project Agreement for the National Perinatal Depression Initiative have impacted the planning and resourcing of service delivery. Cessation of this Project Agreement will likely make it more difficult for women and their families affected by mental illness in the perinatal period to access affordable assistance without Victorian Government support.109

FINDING 51: Uncertain future Commonwealth Government funding and reductions in funding creates job insecurity and job losses and ultimately disadvantages client outcomes. The uncertainty around whether a National Partnership Agreement will be renegotiated presents risks that more Victorians in disadvantaged groups may not receive the necessary assistance. 110

FINDING 52: Short-term funding of National Partnership Agreements by the Commonwealth Government create uncertainty around the provision of services over the longer term and increase the risk of entrenched disadvantage, service inefficiencies and potentially less effective outcomes for vulnerable members of the Victorian community. While noting that the right funding arrangement should be considered, any incumbent Victorian Government still has the responsibility to manage the output expenditure and expectations of any National Partnership Agreements. 110

RECOMMENDATION 10: The Victorian Government should stress to the Commonwealth Government the critical importance of longer term National Partnership Agreements, which provide some certainty around both future funding levels and the timing of the renegotiation of expiring agreements, or transitioning to other suitable and sustainable funding arrangements. This would assist the efficient and effective delivery of important community services in Victoria and the achievement of effective outcomes for Victorians in receipt of those services. 110

FINDING 53: When Commonwealth Government funding provided through the *National Partnership Agreement on Youth Attainment and Transitions* ceased in 2014-15, the Victorian Government provided State funding to support the continuation of some of these programs. This demonstrates that National Partnership Agreements are not the most suitable funding mechanism for services and programs which are ongoing in nature. 114

FINDING 54: Commonwealth Government funding provided through the *National Partnership Agreement on Digital Education Revolution* assisted a rapid expansion of Information and Communications Technology in the Victorian government school sector, specifically in secondary schools. The *National Partnership Agreement on Digital Education Revolution* expired in 2013. 115

FINDING 55: While noting that successive Commonwealth Governments tend to have differing policy objectives and hence different funding priorities, the Commonwealth Government did not provide any indication that the 2014-15 *Project Agreement for Indigenous Teenage Sexual and Reproductive Health and Young Parent Support* would not be renewed, until the release of the 2015-16 *Commonwealth Budget*. The expiration in June 2013 of the *National Partnership Agreement on Closing the Gap in Indigenous Health*, in addition to the expiry of the *Project Agreement for Indigenous Teenage Sexual and Reproductive Health and Young Parent Support*, means that there is currently no inter-governmental agreement in place which focuses on Aboriginal Health. 118

FINDING 56: Commonwealth Government funding provided through National Partnership Agreements can create increased service capacity and/or additional programs to address ongoing demand/issues in the community. When these National Partnership Agreements lapse they leave a funding gap which directly impacts the provision of programs and services to vulnerable Victorians. While noting that any incumbent Victorian Government still has the responsibility of managing the output expenditure and expectations of time-limited National Partnership Agreements, the loss of these programs or reductions in their availability, puts increased pressure and risks on the physical and mental health outcomes and education and employment opportunities, of disadvantaged and vulnerable members of the Victorian community..... 118

RECOMMENDATION 11: There is a need for the Commonwealth Government to recognise that National Partnership funding enables the establishment of increased service capacity in a number of important areas of State service provision in the education and health sectors. In its negotiation with the Commonwealth Government, the Victorian Government should stress the need for longer term financial support for programs and initiatives which have proven to be effective in terms of their outcomes, such as programs to assist disengaged youth transition to training and/or employment opportunities. 118

FINDING 57: The *National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders* was terminated without advance notice as part of savings measures announced in the *2014-15 Commonwealth Budget*. The Commonwealth Government's termination of this National Partnership Agreement led to a loss of \$73.8 million in Commonwealth funding in 2014-15 and an anticipated total loss of \$229.6 million over the three year period 2014-15 to 2016-17. The Victorian Government has continued to fund the Concessions program from State Budget resources..... 122

FINDING 58: The Commonwealth Government's termination of the *National Partnership Agreement on Preventive Health* in the *2014-15 Commonwealth Budget*, has resulted in a loss of \$89.5 million to Victoria..... 125

FINDING 59: Early termination of the *National Partnership Agreement on Preventive Health* by the Commonwealth Government has resulted in a cessation of a range of programs targeted at smoking, nutrition, alcohol and physical activity in 14 local government areas across Victoria. The loss of Commonwealth Government funding for these preventive health initiatives has also resulted in job losses at the local government level and impacted many residents of local communities..... 126

FINDING 60: Commonwealth Government funding provided under the *National Partnership Agreement on Preventive Health* was significantly important to Victorian communities in helping people to change their lifestyles and for the Victorian Government to develop and implement programs aimed at addressing the increasing prevalence of preventable chronic diseases. 128

FINDING 61: Commonwealth Government funding provided under the *National Partnership Agreement on Improving Public Hospital Services* ceased in 2013-14 with the loss of reward payments to Victoria totalling \$49.6 million. In the absence of ongoing Commonwealth funding to support the increased capacity in emergency, elective surgery and sub-acute services in Victorian public hospitals, the Victorian Government has made adjustments through its annual budget processes to maintain the increased service delivery levels. 130

FINDING 62: The Commonwealth Government terminated the *National Partnership Agreement on Training Places for Single and Teenage Parents* in 2013-14, one year before funding was due to expire, resulting in a loss in funding to Victoria of \$6.3 million for programs aimed at providing training places for teenage parents. 131

FINDING 63: In 2014-15 the Commonwealth Government prematurely terminated a number of National Partnership Agreements amounting to a loss of future funding to Victoria under those Agreements totalling approximately \$420 million, as a result of a change in the Commonwealth Government’s policy decisions and funding priorities. This loss of Commonwealth Government funding caused disruption to a number of important community service programs and initiatives and impacted Victoria’s State Budget as the Victorian Government committed to support ongoing services and programs in a number of key areas of service delivery. . . 132

FINDING 64: Whilst not legally enforceable documents, National Partnership Agreements are intended to commit Parties to the Agreement to the provisions set out in those Agreements, including the tenure and funding to be provided. The early termination of National Partnership Agreements has had serious ramifications for programs and services underway in Victoria. 133

RECOMMENDATION 12: The Victorian Government should seek confirmation from the Commonwealth Government about its commitment to the clauses and provisions set out in National Partnership Agreements and seek to reach an agreement with the Commonwealth Government on a suitable process for renegotiating National Partnership Agreements, in the event of a change in Commonwealth Government policy and funding priorities. 133

6 Other issues related to the use of National Partnership Agreements

page

FINDING 65: National Partnership Agreements established between successive Commonwealth and Victorian Governments since 2008 have taken a variety of forms. The particular characteristics of each Agreement vary depending upon the sectors in which they are initiated, the purposes for which they are initiated, and the relationship between the portfolio departments at the Commonwealth and State and Territory Government levels involved in the negotiation process. 136

FINDING 66: In an effort to provide greater consistency around National Partnership Agreements, the Commonwealth Government has issued guidelines for Commonwealth portfolio departments which set out processes for drafting, negotiating, finalising and varying Agreements. 136

- FINDING 67:** Commonwealth Government guidelines state that funding agreements that pre-date the *Intergovernmental Agreement on Federal Financial Relations* framework involving payments to the States and Territories which are not rationalised into National Specific Purpose Payments, have been “deemed” to be National Partnerships. 137
- FINDING 68:** Commonwealth Government guidelines state that all National Partnership Agreements should include a review process to be undertaken no later than six to 12 months prior to the expiry of an Agreement to assist the decision-making process around whether funding should continue.. . . . 138
- FINDING 69:** Under the *Intergovernmental Agreement on Federal Financial Relations*, the Council on Federal Financial Relations can make an assessment about whether expiring National Partnerships should continue and if so, make a recommendation to the Council of Australian Governments on the form of any ongoing funding. However, this recommendation must incorporate funding decisions made as part of the Commonwealth budget process. 138
- RECOMMENDATION 13:** Victorian Government central agencies should present a strong case to the Council on Federal Financial Relations that National Partnership Agreements are an inappropriate funding mechanism for ongoing services and that there are significant benefits for both the Commonwealth and the State in moving the funding arrangements for these services to a more effective and appropriate recurrent funding arrangement. 140
- FINDING 70:** The *Home and Community Care Program*, which has received Commonwealth Government funding under a National Partnership Agreement since 2008-09, is being transitioned to a different funding arrangement from 1 July 2016 as a result of the *Bilateral Agreement on Transitioning Responsibilities for Aged Care and Disability Services*.. . . . 141
- FINDING 71:** Whilst initial funding contributions from the Commonwealth Government to support the provision of homelessness services in Victoria through the *National Partnership Agreement on Homelessness* have been beneficial, there is a need for a longer term, more appropriate funding arrangement to be negotiated by the Department of Health and Human Services and Victorian Government central agencies with the Commonwealth Government. 141
- FINDING 72:** The constant changes made by the Commonwealth Government to funding support provided through National Partnership Agreements for public dental services have impacted the number of public dental clients treated and public dental waiting times in Victoria.. . . . 142
- FINDING 73:** The Commonwealth Government’s termination of the *National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders* means that the Commonwealth Government no longer provides any contribution for concessions provided by the Victorian Government to Commonwealth concession card holders. This represents a loss of around \$70 million per annum in Commonwealth Government funding for this entitlement program. 143

FINDING 74: The Commonwealth Government has contributed to the provision of legal services to assist disadvantaged Victorians over a long period. Since 2010, the Commonwealth Government’s contribution has been provided through a short-term National Partnership Agreement. This is despite the fact that service provision is well established and demand for the services continue to increase. There is a need for a more sustainable funding arrangement to be agreed with the Commonwealth Government to support this service provision into the future... 144

FINDING 75: Commonwealth Government funding provided under the *National Partnership Agreement on Universal Access to Early Childhood Education* since 2008-09 has assisted Victoria in increasing the provision of early childhood education services. However, as this level of service provision is now well established and expected within the community, there is a need for the Commonwealth and State Governments to negotiate transitioning this funding from a short-term National Partnership Agreement to a more sustainable, core funding arrangement... 145

FINDING 76: National Partnership funding for ongoing service delivery does not align with the original intent and principles outlined in the *Intergovernmental Agreement on Federal Financial Relations*. Changes to National Partnership funding and continued negotiation of short-term funding arrangements, without transition to a more appropriate funding mechanism, has the potential to disrupt, as well as compromise, the quality of service delivery. ... 147

RECOMMENDATION 14: The Victorian Government central agencies should actively advocate, through the Council on Federal Financial Relations, for the development and agreement of clear and objective criteria to assess the continued suitability of National Partnership funding arrangements for the delivery of certain programs and services in Victoria. Such criteria could be used to determine whether funding should be placed on a more suitable and sustainable funding basis. This is especially critical where services are well established and there is evidence of increasing demand within the community... 148

FINDING 77: The Department of Premier and Cabinet undertakes monitoring and oversight during the negotiation of National Partnership Agreements to ensure that Victoria’s reporting to the Commonwealth Government is meaningful, commensurate with the value and size of the Agreement, and includes clear and appropriate governance and accountability arrangements. ... 149

RECOMMENDATION 15: The Victorian Government should continue to enhance its engagement activity and processes with the Commonwealth Government in an effort to minimise the negotiation and administrative costs associated with National Partnership Agreements. ... 149

FINDING 78: Where prescriptive requirements and conditions are detailed by Commonwealth Government portfolio departments in National Partnership Agreements, this restricts Victoria’s flexibility over the use of funds and potentially inhibits the funding being used in the most effective way and to achieve the best outcomes for particular groups within the Victorian community. ... 152

- RECOMMENDATION 16:** In their negotiations with the Commonwealth Government, it is important that Victorian Government portfolio departments take action to ensure that National Partnership Agreements:
- provide flexibility to allow for innovation and service delivery responses that reflect changing needs and evolving evidence of best practice within the State of Victoria; and
 - avoid over prescription by Commonwealth Government portfolio departments with regard to how funds provided by the Commonwealth are applied by the State. 152
- FINDING 79:** More work is required by the Coalition of Australian Governments and the Council on Federal Financial Relations to evaluate and seek to streamline reporting requirements attached to Commonwealth Government funding. This includes those related to the significant number of National Partnership Agreements in place between the Commonwealth and the States, and to reduce the reporting burden on State and Territory Governments. 155
- FINDING 80:** National Partnership Agreements can provide opportunities for the collection of meaningful data to assist policy design, implementation and evaluation of the outcomes of government programs and initiatives. However, uncertainty around continued funding for some programs has meant that data collection and analysis has ceased well before the outcomes can be fully evaluated. ... 156
- FINDING 81:** There is a need for the Coalition of Australian Governments to continue to review the implications of reporting requirements specified in National Partnership Agreements, on the cost of data collection for State and Territory Government departments and agencies and for local service providers, and to work towards more streamlined reporting processes wherever possible..... 157
- RECOMMENDATION 17:** The Victorian Government continue to work with the Commonwealth Government, local government and service providers to streamline data collection processes in an effort to enable more economic reporting on the effectiveness of National Partnership Agreements..... 157
- FINDING 82:** Performance indicators specified in National Partnerships do not always:
- align with the original objectives and principles as set out in the *Intergovernmental Agreement on Federal Financial Relations* to focus on performance outcomes;
 - consider the relevance, appropriateness and practicality of linking performance to funding; and/or
 - provide for flexibility and adaptation as a program or service is delivered. 160
- RECOMMENDATION 18:** In negotiating National Partnership Agreements, Victorian Government portfolio agencies should ensure that key performance indicators and measures set out in Agreements are practical, appropriate and align with the objectives, principles and guidelines established under the *Intergovernmental Agreement on Federal Financial Relations*. 161

FINDING 83: A 2013 report on *Effective and Efficient Intergovernmental Accountability* found that the Victorian Government incurs marginal costs of \$10-\$12 million to comply with formal reporting requirements under National Partnership and Project Agreements. 162

FINDING 84: Compliance and accountability for Commonwealth Government funding provided through National Partnership Agreements needs to be cost-effective and proportional to the nature, size and purpose of the funding activity. 162

FINDING 85: Despite the Commonwealth Government’s indication of support for streamlined reporting wherever possible, National Partnership Agreement reporting requirements remain a burden for the Victorian Government and funded service providers. 163

FINDING 86: Representatives of community service providers indicated that the administrative burden attached to meeting the reporting requirements of National Partnership Agreements can be onerous and can ultimately impact on service delivery. In addition, some reporting requirements were considered to be of little usefulness and others seemed to be duplicated by jurisdictions. 165

RECOMMENDATION 19: New reporting requirements prescribed in a National Partnership Agreement should be verified or audited against existing reporting and compliance requirements to minimise unnecessary duplication in data collection and reporting activity for Victorian Government departments and local service providers. 165

RECOMMENDATION 20: Lead Victorian Government portfolio agencies, such as the Department of Health and Human Services and the Department of Education and Training, responsible for funding community sector organisations, should liaise with peak organisations, such as the Victorian Council of Social Service, the Victorian Healthcare Association and the Australian Charities and Not-for-Profit Commission, in an effort to streamline reporting requirements for community service providers. 165

FINDING 87: Reporting requirements prescribed in National Partnership Agreements are necessary for public accountability and effective performance assessment. However, the Committee was advised that the number of smaller National Partnership Agreements and the reporting requirements in Agreements can be excessive, prescriptive, onerous, and result in some duplication. This can contribute to an additional administrative burden for Victorian Government departments, local government and service providers. 166

RECOMMENDATION 21: The Victorian Government portfolio departments and central agencies continue to actively negotiate with their Commonwealth Government counterparts for improvements and simplifications to intergovernmental reporting processes related to funding provided by the Commonwealth Government through National Partnership Agreements. 166

7 Impact of changes to National Partnerships on the cost of living for Victorians page

FINDING 88: There is no consistent methodology in place for the indexation of Commonwealth National Partnership funding. Using the Consumer Price Index as a common method of indexing funding may not always be the most relevant index as in many cases the costs associated with service provision are higher than the increase in the Consumer Price Index. In addition, the Consumer Price Index does not take into account specific changes in the demographics of the client base and changes in demand for services. 175

RECOMMENDATION 22: The Victorian Government should negotiate with the Commonwealth Government to ensure that indexation reflects appropriate factors relevant to the nature of the services being funded through National Partnership Agreements. This would assist in ensuring that Commonwealth financial support for State delivered government services and programs is more sustainable. 175

FINDING 89: The Committee found a number of difficulties in measuring the impact of changes in National Partnership Agreements on the cost of living in Victoria due to:

- the inability to identify an appropriate index for measuring the impact of changes in the cost of living of various groups within the Victorian community;
- a variety of categories of concession card holders in the Victorian community; and
- a lack of appropriate data and analysis to demonstrate a direct causal link between, changes to National Partnership funding provided for government services and programs, and changes in the cost of living. 176

FINDING 90: The Committee was unable to obtain sufficient relevant evidence to definitively determine and quantify the impact of changes to National Partnership Agreements on the cost of living for Victorians and in particular, Concession Card holders. However, the Victorian Government determined to cover the loss in Commonwealth Government funding to support the Concessions program in Victoria. 179

FINDING 91: The Committee identified a number of National Partnership Agreements which might have the potential, if not adequately addressed, to impact some of the householder expenses influencing the 'cost of living' in Victoria (such as expenses associated with public transport, rents, education and health) and also factors which enable individuals to increase their household income through increased opportunities to participate in the workforce. 181

1.1 Background to the Inquiry

On 5 May 2015, the Legislative Assembly of the Parliament of Victoria requested the Committee to inquire, consider and report on the impact on Victorian Government service delivery of changes to National Partnership Agreements.

In particular, the Committee was required to address the following *Terms of Reference*:¹

- (a) identify and report on funding levels and any additional services the Victorian Government provides or has provided as a result of all National Partnership Agreements entered into since the 2008 Intergovernmental Agreement on Federal Financial Relations was entered into;
- (b) examine all expiring, lapsing or amended National Partnership Agreements and the resulting changes to service delivery that have occurred or will occur in health, education, homeless services and legal assistance, and any other area of service delivery the Committee sees as relevant to the inquiry;
- (c) identify any risks associated with the changes to service delivery referred to in paragraph (b); and
- (d) determine the impact of the changes referred to in paragraphs (a) and (b) on cost of living for Victorians, in particular, concession card holders.

Due to a number of other commitments in the Committee's 2015-16 work program, two time extensions were granted to the initial reporting deadline of 1 December 2015.

1.2 The Committee's approach to the Inquiry

The Committee's approach to the Inquiry has involved evidence gathering and analysis of information sourced from Victorian Government departments and agencies, Commonwealth Government agencies and a number of non-government organisations.

In making its findings and recommendations, the Committee considered:

- submissions from the Victorian Government and non-government organisations;
- evidence taken at public hearings held in November 2015;

¹ *Victorian Parliamentary Debates*, Legislative Assembly, 5 May 2015, p.1210 (Hon. Jacinta Allan MLA)

- responses to questionnaires, questions on notice and follow-up questions sent to a number of Victorian Government departments and other public sector and non-government organisations;
- information gathered during an official visit to Canberra in August 2015; and
- information gathered through desktop research.

The Committee is appreciative to all parties providing information through submissions, questionnaire responses and evidence at public hearings. The information received has greatly assisted the Committee in undertaking the Inquiry. Further details in relation to this information follow.

1.2.1 Submissions to the Inquiry

In June 2015, advertisements were placed in *The Australian Financial Review*, *The Age* and *The Australian* newspapers inviting public submissions addressing the Inquiry's terms of reference.

The Committee received five public submissions from the following organisations:

- Municipal Association of Victoria
- Public Health Association of Australia (Victorian Branch)
- Victorian Council of Social Service
- Victorian Healthcare Association
- Knox City Council

In July 2015, the Committee wrote to the Department of Premier and Cabinet, Department of Treasury and Finance and a number of other Victorian Government departments which were in receipt of funds through National Partnership Agreements, inviting them to make a submission to the Inquiry.

In response to this invitation, on 21 August 2015 the Committee received a whole of Victorian Government submission coordinated by the Department of Premier and Cabinet. The submission provides detailed information in regard to a number of National Partnership Agreements which have been identified to have had a significant impact on the capacity of the Victorian Government to deliver services in the areas health, education, homelessness, and legal assistance. The submission also provides some historical context around the original purpose of National Partnership Agreements and the recent trends which have emerged through the negotiation of these Agreements with the Commonwealth Government. The submission provided the Inquiry with excellent data in relation to the achievements and operation of these National Partnership Agreements since 2008, and also the impacts of amendments to National Partnership funding on services and programs delivered in Victoria.

Submissions to the Inquiry can be found on the Committee's website (www.parliament.vic.gov.au/paec).

1.2.2 Questionnaires to Departments

In October 2015, the Committee sent questionnaires to the following departments seeking further details in relation to information provided in the Victorian Government submission:

- Department of Premier and Cabinet
- Department of Treasury and Finance
- Department of Education and Training
- Department of Health and Human Services
- Department of Justice and Regulation

On 6 November 2015, the Committee received a whole of Victorian Government response to the questionnaires, coordinated through the Department of Premier and Cabinet. The response can be found on the Committee's website (www.parliament.vic.gov.au/paec).

1.2.3 Public hearings

On 17 and 19 November 2015, the Committee held public hearings with the following Victorian Government departments and non-government organisations:

- Department of Premier and Cabinet
- Department of Treasury and Finance
- Department of Education and Training
- Department of Health and Human Services
- Department of Justice and Regulation
- Knox City Council
- Municipal Association of Victoria
- Victorian Council of Social Service
- Victorian Healthcare Association

The hearings provided the Committee with an opportunity to further explore issues associated with the negotiation, implementation and effectiveness of National Partnership funding arrangements to deliver specific programs and initiatives in Victoria.

Transcripts of the hearings together with any accompanying slide presentations can be found on the Committee's website (www.parliament.vic.gov.au/paec).

A list of witnesses appearing at the public hearings is provided at Appendix 6.

1.2.4 Questions on notice and further follow-up questions

Following the public hearings, the Committee remitted any questions taken on notice together with requests for further information to the relevant departments and non-government organisations attending the hearings.

The responses to these questions on notice and follow-up questions can be found on the Committee's website (www.parliament.vic.gov.au/paec).

1.2.5 Committee visit to Canberra

Members of the Committee travelled to Canberra on 27 and 28 August 2015 to gather information about accountability and performance reporting in respect of Commonwealth Government grants to the States and Territories and the effectiveness of National Partnership Agreements as a funding mechanism under the *Intergovernmental Agreement on Federal Financial Relations*. Committee members met with representatives of the:

- Parliamentary Budget Office;
- Australian National Audit Office; and
- Australian Institute of Health and Welfare.

The Committee also met with two members of the Commonwealth Parliament's Joint Committee of Public Accounts and Audit, an academic from the Australian National University specialising in Australian public financial management, federalism and intergovernmental relations, and a former Auditor-General.

1.3 Structure of the Committee's report

The structure of this report has been defined largely by the Inquiry's *Terms of Reference* which focus on the impact on service delivery of changes made to National Partnership Agreements in the areas of health provision, education programs and initiatives, homeless services, and legal assistance services in Victoria.

The report comprises seven chapters as follows:

- This chapter, Chapter One, provides details about the establishment and conduct of the Inquiry.
- Chapter Two details the key observations flowing from the Inquiry including comments on the effectiveness of the 2008 *Intergovernmental Agreement on Federal Financial Relations* (IGA FFR) and the future for National Partnership Agreements.

- Chapter Three provides background about the:
 - principles and objectives of the IGA FFR and the implementation of these principles in Victoria over the past eight years as evidenced through specific National Partnership Agreements;
 - establishment of National Partnership Agreements under the IGA FFR; and
 - negotiation and engagement with the Commonwealth Government on National Partnership Agreements.
- Chapter Four addresses *Term of Reference (a)* and provides current and historical financial details related to National Partnership Agreements entered into between the Victorian and Commonwealth Governments since 2008. Both Commonwealth Government funding as well as funding and additional services provided by the Victorian Government are discussed.
- Chapter Five seeks to address *Terms of Reference (b) and (c)* by identifying the key impacts and impending risks to service delivery in the areas of health, education, homelessness and legal assistance as a result of National Partnership Agreements which have expired, lapsed, or been amended.
- Chapter Six highlights issues related to the use of National Partnership Agreements to fund ongoing service delivery in Victoria and other issues relating to the management and administration of National Partnership Agreements which cause difficulties for Victorian Government departments, local government and non-government community sector organisations.
- Chapter Seven seeks to address *Term of Reference (d)* and determine the impact of changes in funding associated with National Partnership Agreements on the cost of living for Victorians, particularly Concession Card holders. This *Term of Reference* was particularly difficult to address due to the practical difficulties associated with:
 - the definition of the ‘*cost of living*’;
 - a lack of specific ‘*cost of living*’ related data collected by Victorian Government departments;
 - a lack of quantitative analysis undertaken in relation to the impacts of specific changes in funding on the ‘*cost of living*’ in Victoria; and
 - the timeframe required for any meaningful assessment of the impacts of changes in National Partnership funding on the ‘*cost of living*’.

Consequently, the Committee determined to identify factors associated with changes in the availability of some government services as a result of changes to National Partnership funding levels which could contribute to increased consumer/client costs. Specific examples have been included in an effort to illustrate the extent of these potential impacts on ‘*cost of living*’ factors.

2.1 Introduction

National Partnerships are a form of Agreement between the Commonwealth and the States and Territories under which the Commonwealth Government provides funding for specific purposes over an agreed period. Under the 2008 *Intergovernmental Agreement on Federal Financial Relations* (IGA FFR), National Partnerships are intended to focus on funding in support of specific national reform or service delivery improvement in areas of State responsibility.

The IGA FFR was agreed by the Coalition of Australian Governments (COAG) in an effort to improve the operation of the Federation's financial relationship between the Commonwealth and the States and Territories. This relationship is characterised by the relative financial "power" of the Commonwealth and the Federal Treasury and the dependence of the States and Territories on the distribution of taxation revenue in order to provide key services to a significant proportion of Australia's population.

In the 2015-16 financial year, Commonwealth Government grant revenue to Victoria is expected to be about 43 per cent of the total expected revenue in the Victorian Government's 2015-16 State Budget², or approximately \$24.15 billion in Commonwealth Government grant revenue, comprising:³

- \$12.9 billion through *General Revenue Assistance*;
- \$4.17 billion for *National Health Reform Funding*;
- \$3.91 billion for *Students First Funding*;
- \$1.06 billion through *National Specific Purpose Payments* (relating to Skills and Workforce Development, Disability Services and Affordable Housing); and
- \$2.11 billion through *National Partnership Agreements* which includes financial assistance grants to local government.

2 Committee calculations based on Commonwealth of Australia, *Budget 2016-17 Federal Financial Relations Budget Paper No. 3 2016-17* (2016), p.6; Department of Treasury and Finance, *2015-16 SBudget Update*, p.9

3 Commonwealth of Australia, *Budget 2016-17 Federal Financial Relations Budget Paper No. 3 2016-17* (2016), pp.6, 10

Since 2008, the Commonwealth Government has established a series of National Partnership Agreements (NPAs) which have provided funding to the State for a range of short-term funding periods from one to five years. Some NPAs are renewed or renegotiated by the Commonwealth Government at the end of their term.

The short-term nature of these NPAs and variations made to them from time to time by the Commonwealth Government has presented successive Victorian Governments with some serious challenges, particularly in those circumstances where NPAs support the provision of ongoing government services rather than short-term projects or system reform.

The Committee has examined evidence provided by Victorian Government departments and some non-government organisations with respect to a number of NPAs established between the Commonwealth and Victorian Governments since 2008 under the IGA FFR.

It has been a difficult area in which to make recommendations due to the limited degree of influence which Victoria (and other States) have on the decisions made by the Commonwealth Government about how funding is provided to the States and Territories and the purposes for which that funding is provided.

Issues relating to federal financial relations and the shift in responsibilities and roles of the Commonwealth and the States and Territories in respect to the provision of government services and infringement of the Commonwealth into areas of “State responsibilities” have been commented on many times over the years and more recently:

- by State and Commonwealth parliamentary committees (i.e. *Inquiry into Commonwealth Payments to Victoria* in 2012⁴; *Inquiry into National Funding Agreements* in 2011⁵);
- by the Commonwealth National Commission of Audit (*Towards Responsible Government* in 2014⁶); and
- in Issues Papers released throughout 2015 as part of the *Reform of the Federation White Paper* review process⁷.

The Committee hopes that by highlighting its observations in relation to the operation of NPAs established since 2008, improvements might be made to the way in which these Agreements are negotiated and implemented in the future and might be given impetus to a recommitment by governments to the original principles outlined in the IGA FFR.

4 Parliament of Victoria, Economy and Infrastructure References Committee, *Inquiry into Commonwealth Payments to Victoria*, November 2012

5 Parliament of the Commonwealth of Australia, Joint Committee of Public Accounts and Audit, *Inquiry into National Funding Agreements*, November 2011

6 Commonwealth of Australia, National Commission of Audit, *Towards Responsible Government, The Report of the National Commission of Audit*, February 2014

7 Commonwealth of Australia, Department of Prime Minister and Cabinet, *Reform of the Federation*, <www.federation.dpmmc.gov.au/>

2.2 Key observations of federal financial relations and National Partnership Agreements

There is recognition within COAG that some reform of the federal financial relations between the Commonwealth and the States and Territories is required to improve its overall performance in terms of efficiency and effectiveness. Significant time has been spent recently by the Commonwealth Department of Prime Minister and Cabinet and State and Territory governments providing input to the *Reform of the Federation White Paper* review process which has endeavoured to address some of the issues related to federal financial relations and the division of responsibilities between the jurisdictions.

The announcement on 28 April 2016 by the Commonwealth Department of Prime Minister and Cabinet that the *White Paper* will not proceed means that, at this point in time, there is no agreement about what reforms should take place.

The continued lack of agreement between the Commonwealth and the States and Territories as to what reform of federal financial relations should look like or the extent of the reform needed, has circumvented and delayed any necessary action. In the interim, the 2008 IGA FFR remains and the imperative is to ensure that this Intergovernmental Agreement is operating as effectively as possible.

Evidence gathered by the Committee throughout this Inquiry suggests that there is a real need for the Commonwealth Government to recommit to the objectives and principles enunciated in the IGA FFR especially as they relate to the establishment and use of National Partnerships.

The Committee considers that an evaluation of the use of NPAs and Project Agreements by the Commonwealth Government should be undertaken with a view to:

- Avoiding the use of NPAs as a funding mechanism to support the delivery of established and ongoing service delivery in Victoria. NPAs are not an appropriate vehicle to provide funding support for these services. The effectiveness of the financial contribution from the Commonwealth Government would be improved by a shift in this funding to another more secure and stable funding arrangement, such as through a *National Specific Purpose Payment* funding agreement.
- Developing and agreeing formal processes and criteria with the States and Territories to provide for some independent assessment of NPAs, at least six months prior to their expiry, to assess their “eligibility” for transition to a more permanent funding arrangement.
- Seeking to avoid, as much as possible, premature and unexpected termination of funding arrangements agreed under an NPA. In the very least, the Commonwealth Government should provide a minimum six months advance notice of any significant reduction in funding or termination of funding to enable the State to plan ahead and take necessary action to mitigate the impacts of the loss of funding on programs and services underway.

- Avoiding amendments to NPAs, such as deferral of funding and changes to the funding periods or funding amounts, until such time as an Agreement has expired. Amendments to NPAs have significant impacts on the effective management of the Victorian Government's State Budget and for Victorians in receipt of services and programs enabled through the Commonwealth Government's funding of these Agreements.
- Providing earlier negotiation and advice of the Commonwealth Government's funding determinations under NPAs to enable the State to plan for service delivery or system changes.
- Ensuring that funding provided through NPAs includes adequate and appropriate indexation to take account of the relevant demographics, demand, and cost increases within the State. This would assist in ensuring that any increases in the Commonwealth Government's contribution through NPAs are "real" increases and not simply nominal increases in funding.

Addressing these matters would improve the effectiveness of National Partnerships between the Commonwealth and Victoria as purposed under the 2008 IGA FFR.

2.3 Effectiveness of the *Intergovernmental Agreement on Federal Financial Relations* financial and administrative framework

In November 2011, the Commonwealth Parliament's Joint Committee of Public Accounts and Audit (JCPAA), reported on the findings of its *Inquiry into National Funding Agreements*.

The JCPAA found that there was overall support for the IGA FFR framework with many witnesses to the Inquiry stating that the underlying principles and intent of the framework addressed many of the detractions and confusion associated with the previous system of Commonwealth-State financial relations.⁸

In its submission to the JCPAA Inquiry, the Business Council of Australia (BCA), a representative body for senior executives in the private sector, expressed a strong interest in the IGA FFR and its importance to growing Australia's economy. The BCA noted that the IGA FFR had effectively streamlined 92 Specific Purpose Payments into six National Agreements.⁹ The BCA further stated that, if implemented effectively, the IGA FFR provided States and Territories greater flexibility over key policy areas along with higher levels of accountability through annual benchmark reporting.¹⁰

⁸ Parliament of the Commonwealth of Australia, Joint Committee of Public Accounts and Audit, *Report 427 – Inquiry into National Funding Agreements*, November 2011, Foreword

⁹ Business Council of Australia, *Submission to the Joint Public Accounts and Audit Committee, Inquiry into National Funding Agreements*, received 6 May 2011, p.1

¹⁰ *ibid.*, p.3

Throughout this Inquiry, the Committee has sought to evaluate the operational effectiveness of NPAs between the Commonwealth and Victorian Governments, as provided for under the IGA FFR. The Committee has done this through an examination of individual NPAs implemented in Victoria since 2008.

As noted earlier in this Chapter, NPAs are established under the IGA FFR to deliver programs and/or initiatives targeted at improved services and/or outcomes in specific areas. Essentially, the Committee notes that NPAs are time limited instruments, or “tied” grants, supported by both Commonwealth and State funding to achieve service delivery improvement or reforms in shared policy areas.¹¹

The Committee received evidence in support of the use of NPAs under the IGA FFR framework for specific projects and reforms. On the contrary, other evidence and examples provided show that the use of NPAs to support the ongoing delivery of State government services is inappropriate and creates a number of difficulties for the Victorian Government.

2.3.1 **Support for *Intergovernmental Agreement on Federal Financial Relations* and National Partnership Agreements in Victoria**

The Committee received evidence from a number of stakeholders both within and external to the Victorian public sector, highlighting the key strengths of the financial and administrative arrangements set out in the IGA FFR.

In its submission to the Inquiry, the Victorian Government acknowledged the importance of the IGA FFR framework as critical to establishing sustainable Commonwealth Government funding arrangements to assist the States and Territories in fulfilling their service delivery responsibilities. The Victorian Government’s submission to the Inquiry notes:¹²

The IGA FFR aimed to put in place sustainable funding arrangements that ‘recognise[d] the primary role of the States in delivering government services in key sectors and provide ongoing financial support for those services, while acknowledging the role of the Commonwealth in supporting the achievement of national outcomes to improve the wellbeing of all Australians’.

At the Committee hearings, the emphasis for many witnesses was on genuine collaboration, flexibility in service delivery, an emphasis on outcomes, and adequate funding as the key ingredients of a successful partnership between the Commonwealth and Victorian Governments.

¹¹ Department of Premier and Cabinet, *Submission to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.2

¹² *ibid.*

- The Secretary of the Department of Premier and Cabinet, Mr Chris Eccles highlighted the IGA FFR's underlying principles and intent stating that the framework was based on the following philosophy:¹³

States are regarded as partners, not the contractors of the commonwealth; fewer and more strategic agreements will reduce the administrative burden for both the commonwealth and the states; flexibility in delivery of services will be provided to the states, including through reduced commonwealth prescription; and agreements will focus on public outcomes not compliance, such as through frequent performance reporting.

When these principles are adhered to and enough time is provided in the drafting process to take into account relevant evidence...then good outcomes can be achieved in areas of national significance.

- The Secretary of the Department of Treasury and Finance, Mr David Martine stated that the 2008 IGA FFR '*provided a sound basis for efficient and focused interaction between governments and has supported a number of important initiatives over this time.*'¹⁴
- The Secretary of the Department of Education and Training, Ms Gill Callister indicated that NPAs have provided benefits to education and training services in Victoria:¹⁵

At their best they have been a valuable mechanism for partnerships between the commonwealth and the state in education and training projects and reforms of national significance. They have allowed the Commonwealth and Victoria to jointly deliver projects that have led to genuine improvements for Victorians.

- The Secretary of the Department of Health and Human Services, Ms Kym Peake acknowledged that NPAs can be an effective method of achieving reform in areas of shared interest stating:¹⁶

NPAs are created to support one-off capacity building, improve efficiencies in meeting the needs of under-served groups' needs and achieve reform when adequately funded and designed collaboratively.

Submissions by non-government organisations also highlighted positive aspects of the IGA FFR:

- The Victorian Healthcare Association (VHA), a peak body representing Victoria's public healthcare sector, stated that the IGA FFR framework was aimed at ensuring collaboration between the Commonwealth and the States and Territories on policy development and service delivery and to facilitate

¹³ Mr Chris Eccles, Secretary, Department of Premier and Cabinet, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements, Transcript of evidence*, 19 November 2015, pp.2-3

¹⁴ Mr David Martine, Secretary, Department of Treasury and Finance, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements, Transcript of evidence*, 17 November 2015, p.2

¹⁵ Ms Gill Callister, Secretary, Department of Education and Training, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements, Transcript of evidence*, 17 November 2015, p.3

¹⁶ Ms Kym Peake, Secretary, Department of Health and Human Services, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements, Transcript of evidence*, 17 November 2015, p.2

the implementation of economic and social reforms. The VHA's submission also noted that health-related NPAs have been closely linked to the *National Health Reform Agreement* which is aimed at more sustainable funding arrangements for the Australian health system.¹⁷

- The Victorian Council of Social Service (VCOSS) considered that NPAs under the IGA FFR framework could:¹⁸
 - aid in developing coordinated action to improve the wellbeing of Australians irrespective of their state or territory residency;
 - improve the lives of disadvantaged Australians through targeted assistance and improved service delivery;
 - provide targeted financial support to State and Territory Governments and can alleviate increased costs to state and territory governments associated with Commonwealth Government policy changes; and
 - improve the quality and consistency of service delivery for those facing poverty and disadvantage and for the general population.

The Committee concluded that the principles underlying the IGA FFR are well supported. In addition, many stakeholders indicated that NPAs can be an effective method for funding specific, well-targeted outcomes and reform programs, providing the Agreements are well-designed and collaboratively determined.

FINDING 1: A number of Victorian Government departments and non-government organisations expressed support for the principles underpinning the *Intergovernmental Agreement on Federal Financial Relations* and the potential effectiveness of National Partnership Agreements.

FINDING 2: National Partnership Agreements were found to be most successful in achieving specified improvement or reform when they are, well-designed, flexible, based on genuine collaboration and negotiation between the jurisdictions, and are adequately funded.

2.3.2 What makes a successful National Partnership Agreement?

The Victorian Government's submission to the Inquiry stated:¹⁹

The Mental Health NPA, Preventative Health NPA, More Support for Students with Disabilities NPA and Skills Reform NPA are examples of the Commonwealth and States working together to achieve reform in shared, complex policy areas.

¹⁷ Victorian Healthcare Association, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 28 July 2015, p.2

¹⁸ Victorian Council of Social Service, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 28 July 2015, p.2

¹⁹ Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.2

The Committee noted that when established collaboratively, NPAs enable progress to be made on shared priorities for national reform. For example, the *NPA on the National Quality Agenda for Early Childhood Education and Care* enabled the States and the Commonwealth to form a genuine partnership to regulate, fund and deliver early childhood services.²⁰

The Committee noted a number of other examples of successful NPAs which have assisted service improvements and reforms in particular areas of service delivery:

- *NPA to Deliver a National Seamless Economy* — provided facilitation and reward payments to Victoria to implement regulatory and competition reforms to improve the efficiency of regulatory practices and review across Australia.
- *NPA on Smarter Schools: Low SES Communities* — assisted in providing strategies to improve educational and wellbeing outcomes for disadvantaged students in a number of government schools.
- *NPA on Early Childhood Education* — has assisted an increase in the provision of early childhood education from 10 to 15 hours per week per child.
- *NPA on More Support for Students with Disabilities* — supported the implementation of a range of initiatives aimed at improving educational outcomes for students with disabilities.
- *NPA on Youth Attainment and Transitions* — helped to fund a number of initiatives and services to assist young disengaged people with education and employment pathways.
- *NPA on TAFE Fee Waivers for Childcare Qualifications* — encouraged an increase in the qualifications and skills of early childhood education and childcare workers through the funding of Diploma and Advanced Diploma child care courses in Victoria.
- *NPA on Improving Public Hospital Services* — assisted in improvements to the capacity and efficiency of elective surgery, emergency department and sub-acute care services in Victorian public hospitals.
- *NPA on Water for the Future and Water Management Partnership Agreements* — assists in the management of the Murray-Darling Basin reform.

In addition, NPAs which have provided funds for specific capital works and infrastructure in Victoria have included:

- *NPA on Digital Education Revolution* — assisted with ICT technology improvements for students in government schools.
- *NPA on the Nation Building and Jobs Plan: Building Prosperity for the Future and Building Jobs Now* — provided economic stimulus aimed at improving and supporting economic growth and jobs. This NPA also provided new construction and refurbishment of social housing stock in the State.

²⁰ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.5

- *NPA on the National Solar Schools Program.*
- *Project Agreement for the Location-Based Mobile Telephone Emergency Warning Capability.*
- NPA funding provided for the *Western Ring Road Upgrade*; the *Regional Rail Link*; and the *East West Link* projects.

2.3.3 Committee conclusion

The Committee concluded that NPAs are most effective when they:

- Are restricted to funding:
 - Special projects such as capital works and infrastructure projects (e.g. hospitals; roads; rail infrastructure; and ICT infrastructure).
 - Reforms to systems such as training and accreditation or certification systems; economic reforms and restructuring; and structural reform initiatives.
 - “Once-off” assistance such as emergency or disaster relief.
- Set out clear, mutually agreed performance measures and benchmarks.
- Contain clarity around the roles and responsibilities of each of the jurisdictions.
- Provide the State with flexibility in relation to how projects and services are delivered to achieve the agreed performance outputs and/or outcomes.

FINDING 3: Since 2008, National Partnership Agreements have provided critical financial support for a number of improvements in capital and infrastructure, service delivery, and government systems and processes in the State of Victoria.

2.4 Limitations observed in the current administration of National Partnership Agreements

As noted support for the principles and guidelines around the IGA FFR are sound and there have been many examples of NPAs which have been assessed as successful. However, the Committee noted some evidence provided throughout the Inquiry which indicates that the establishment and administration of some NPAs appear contrary to the intent and principles outlined in the IGA FFR. These are:

- **Short-term funding to support ongoing services** — A number of specific NPAs relate to areas of service delivery which are not “once-off” projects or “reform” in nature but relate to programs which are ongoing and for which the community has an expectation of longer term service provision. This contradicts the purpose of NPAs as detailed in the IGA FFR. There appears to be no reasonable or agreed arrangements or processes in place to transition these NPAs to a more recurrent basis of funding.

- **Increased number of funding agreements** — The number of NPAs has been noted as increasing since 2008. This is despite the IGA FFR seeking to reduce the number of individual funding agreements with States and Territories.
- **Over prescription in funding agreements** — Some witnesses advised of some NPAs having overly prescriptive requirements around how funds should be applied. The IGA FFR intended that greater flexibility would be provided to the States in the delivery of services through reduced Commonwealth prescription over how funds are spent.
- **Accountability and reporting burden** — The number of Agreements in place and the reporting requirements for each of these Agreements has led to increasing costs associated with the negotiation, monitoring and performance reporting for both government departments and non-government service providers. The IGA FFR was intended to reduce the administrative burden on jurisdictions by streamlining the number of funding agreements in place between the Commonwealth and the States. Further, performance was intended to focus on outcomes and not compliance through frequent performance reporting.

The Committee also observed other practices in the way in which NPAs have been negotiated and managed which have impacted service delivery in Victoria:

- **Uncertainty around future funding** — A number of examples were noted of funding changes during the term of an NPA, such as funding deferral, and of NPAs being terminated without any reasonable warning or advance notice. Shorter term funding periods and doubts over renegotiation of funding have also added to this uncertainty.
- **Lack of transparent model for indexation of funding agreements** — Increments to NPA funding, especially for those NPAs related to ongoing services, have not taken full account of the relevant factors impacting the provision of services such as population increases, increased demand, or other factors related to increases in the cost of services provided. Further, greater transparency around funding models used by the Commonwealth Government would be beneficial during the negotiation of Agreements with the State.
- **Unanticipated funding changes** — Examples were provided of NPAs which had previously been provided with financial support from the Commonwealth Government being terminated early, or without advance notice, leaving the State with the financial obligations associated with continuing established services and programs.

The Committee notes that NPAs are negotiated funding agreements between the Commonwealth and the States and Territories. The Committee was advised of the processes and stages involved in the drafting, review and agreement of NPAs. However, the Committee was not able to determine why successive Victorian Governments have agreed to accept funding arrangements which are highlighted through this Inquiry as presenting administrative difficulties for the State.

The Committee notes that lack of adherence to the design principles set out in the IGA FFR are affected to some extent by the broader context of Commonwealth-State financial relations. In particular, vertical fiscal imbalance which can create situations which enable the Commonwealth Government to use funding to leverage control over State policy settings which can blur accountabilities and impose additional costs.

These issues are further explained in the following sections. The evidence and examples gathered by the Committee highlighting these issues are detailed and discussed in Chapters 5 and 6 of this report.

FINDING 4: There have been some concerning deficiencies in the application and administration of National Partnership Agreements by successive Commonwealth Governments which indicate a departure from the underlying principles and intent of the *Intergovernmental Agreement on Federal Financial Relations*. These deficiencies can impact the delivery of programs and services in Victoria and prevent the objectives of the *Intergovernmental Agreement on Federal Financial Relations* from being fully realised.

FINDING 5: The Committee was unable to determine why successive Victorian Governments have negotiated and agreed with the Commonwealth Government to accept National Partnership Agreements which have the potential to disadvantage the State in terms of their, lack of appropriateness for purpose, inadequate flexibility, administrative compliance burden and/or inappropriate indexation.

2.4.1 Short-term funding for ongoing service delivery

The Committee heard evidence that the use of fixed-term National Partnerships to fund ongoing service delivery creates a number of problems for Victoria.

This concern was identified in the Victorian Government's submission to the Inquiry and in evidence provided by Departmental Secretaries at the Committee hearings. The Secretary of the Department of Health and Human Services, Ms Kym Peake stated that:²¹

...[a]s a funding mechanism, when not aligned with the [IGA FFR], NPAs pose risks to the state and the department that have the ability to impact on services, particularly if they are used by the commonwealth instead of national agreements to fund ongoing service delivery or if there is no provision in the agreement to support a transition to ongoing funding where required. Recent trends, including shorter term agreements, unanticipated withdrawals in commonwealth funding and limited consultation with states in their development, have eroded the effectiveness of some of these agreements.

21 Ms Kym Peake, Secretary, Department of Health and Human Services, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, Transcript of evidence, 17 November 2015, p.3

The Secretary of the Department of Premier and Cabinet, Mr Chris Eccles reiterated:²²

...national partnership agreements are being used to support core service delivery - for example, the national partnership agreement on legal assistance services. The IGAFFR outlines that national partnership agreements should be used to support the delivery of specified projects or to facilitate reforms which are generally time limited. Their use for core service delivery increases uncertainty and prevents long-term efficient service delivery design.

The Committee noted the following examples of NPAs which are not consistent with the original purpose for NPAs as stated in the IGA FFR framework i.e. providing short-term Commonwealth Government funding to address a specific issue or to support specific reform. These NPAs provide, or have provided, Commonwealth financial support for ongoing service and program delivery in Victoria:

- *NPA on Legal Assistance Services*
- *NPA on Universal Access to Early Childhood Education*
- *NPA on Homelessness*
- *NPA on Home and Community Care Services*
- *NPA on Adult Public Dental Services*
- *NPA on Certain Concessions for Pensioner Concession Card and Seniors Card Holders*

The Secretary of the Department of Premier and Cabinet, Mr Chris Eccles also noted that the IGA FFR provided the possibility of funding for programs or reforms through an NPA to move to some other funding arrangement with the Commonwealth. The Secretary stated:²³

The framework envisages that once the reform is proven to be effective and becomes ongoing service delivery, funding arrangements should be placed on a more sustainable footing either through the provision of general revenue assistance or specific purpose payments.

This issue is discussed in further detail in Chapter 6 of this report.

FINDING 6: The use of fixed-term National Partnership Agreements to provide funding support for ongoing service delivery in Victoria is inappropriate.

RECOMMENDATION 1: The Victorian Government should negotiate with the Commonwealth Government, via the Council of Australian Governments and Treasury forums, to secure an appropriate recurrent funding arrangement for those ongoing services and programs currently funded through National Partnership Agreements.

²² Mr Chris Eccles, Secretary, Department of Premier and Cabinet, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements, Transcript of evidence*, 19 November 2015, p.3

²³ *ibid.*

2.4.2 Growing number of Agreements

The Committee was advised that whilst the 2008 IGA FFR was intended to reduce the number and complexity of funding agreements between the Commonwealth and the States, there were now more funding agreements in place than before the IGA FFR commenced.²⁴

The Committee heard that since 2008, there has been a proliferation of small transactional NPAs which reflect narrow Commonwealth Government objectives rather than shared nationally significant reform.²⁵ The Victorian Government advised that a significant proportion of these Agreements involve less than \$10 million in funding to Victoria.²⁶

In addition, the Committee was advised that in many cases, NPA structures are excessive for small scale, largely transactional funding agreements.²⁷ Further the large number of agreements creates a significant administrative burden for Victoria in terms of their management, and accountability and compliance requirements.

The proliferation of Commonwealth-State agreements has also been noted by the Commonwealth Parliament's JCPAA *Inquiry into National Funding Agreements* in 2011, the Victorian Parliament's *Inquiry into Commonwealth Payments to Victoria* in 2012, the Commonwealth National Commission of Audit in 2014, and in Papers issued through the *Reform of the Federation White Paper Review* process during 2015.

The Committee notes that offering funding to the States and Territories by way of an NPA is one method by which the Commonwealth Government is able to exert some policy influence over what is delivered by the States and Territories in terms of projects and/or programs and services. Hence from time to time there have been a number of time limited NPAs initiated by the Commonwealth Government to implement a particular project or program reform at the State level.

²⁴ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.6

²⁵ Mr David Martine, Secretary, Department of Treasury and Finance, *Transcript of evidence*, 17 November 2015, p.2

²⁶ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.7

²⁷ *ibid.*, p.11

2.4.3 Reintroduction of prescriptive funding conditions

The Committee heard that in addition to the increasing number of funding agreements, there had been increased prescription around how Commonwealth Government funds should be applied. The Secretary of the Department of Treasury and Finance, Mr David Martine noted at the Committee hearings that:²⁸

[S]ince 2008 we have also seen the emergence of a number of issues and problems. Key issues have included the proliferation of small transactional national partnerships which reflect narrow commonwealth objectives rather than shared nationally significant reform; the reintroduction of prescriptive conditions on how services are delivered and detailed reporting and compliance arrangements; and finally, the use of fixed-term national partnerships to fund ongoing service delivery, creating disruptive uncertainty to service systems and planning and unilateral reductions in commonwealth support for service delivery.

A number of other witnesses also commented that there has been a re-introduction of prescriptive conditions about how services under the NPAs should be delivered together with detailed reporting and compliance arrangements which are time consuming and costly to both government departments and non-government service providers.

The Committee heard that this over-prescription causes some NPAs to become “uneconomic” as the costs of compliance effectively detract from funding provided for outcomes.

The Department of Treasury and Finance advised that the Victorian Government advocates for greater flexibility over the use of funds arguing that increased flexibility at the “State end”, with the State having more discretion and determination of how the funds are used, would achieve better outcomes and provide a better form of accountability and reporting.²⁹

The Committee considers it is incumbent on the Department of Premier and Cabinet and the Department of Treasury and Finance, together with the relevant portfolio departments, to ensure as part of their negotiations over NPAs with their Commonwealth Government counterparts, that any “over prescription” with regard to the way funds are utilised by the State to achieve agreed outcomes, is avoided, or at best limited.

2.4.4 Accountability and reporting

It was noted also that the increasing number of funding agreements between Victoria and the Commonwealth has had implications for the Victorian Government in terms of managing the associated accountability and reporting requirements and the costs associated with these requirements.

²⁸ Mr David Martine, Secretary, Department of Treasury and Finance, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, Transcript of evidence, 17 November 2015, p.2

²⁹ *ibid.*, pp.4-5

At the Committee hearings, the Secretary of the Department of Premier and Cabinet, Mr Chris Eccles made this key observation with regard to balancing increased amounts of Commonwealth Government funding with appropriate levels of accountability and reporting for service delivery quality, effectiveness and efficiency:³⁰

[W]hile the IGAFRR was intended to reduce the number and complexity of agreements between the states and the commonwealth in order to focus governments' attention on reforms of national significance, in practice there has been a proliferation of smaller agreements since the framework came into operation. While keeping track of system outcomes is important, it is doubtful that these small, often input-focused agreements warrant the same reporting framework which applies to projects and reforms of national interest.

Reporting on the use of taxpayer funds is a critical component of proper accountability. Many Commonwealth and State Auditors-General are often seen to be advocating for increased accountability over public funds in terms of compliance monitoring and reporting. The Committee considers that it is important that the costs of compliance are commensurate to the amount of funds being accounted for and that governments consider these factors in the drafting of reporting provisions contained in an NPA.

The Committee notes that guidelines issued for NPAs identify that accountability for outcomes and outputs must be balanced against administrative costs. The frequency and scope of performance reporting should match the policy goals and the amount of funding allocated under a National Partnership.³¹

It is important that Commonwealth and State and Territory Government departments seek to meet these objectives when negotiating an Agreement.

FINDING 7: The Committee found that whilst the intent of the 2008 *Intergovernmental Agreement on Federal Financial Relations* was to simplify the provision of Commonwealth grants to the States and Territories, there has been a gradual re-introduction of small funding agreements tied to specific requirements around how the funds should be spent. This has detracted from the original principles of the *Intergovernmental Agreement*.

FINDING 8: The increasing number of funding agreements between Victoria and the Commonwealth, together with instances of increased prescription around how Commonwealth funds should be applied, has had implications for the Victorian Government in terms of managing the associated accountability and reporting requirements and the costs associated with these requirements.

³⁰ Mr Chris Eccles, Secretary, Department of Premier and Cabinet, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements, Transcript of evidence*, 19 November 2015, p.3

³¹ Commonwealth of Australia, Council on Federal Financial Relations, *Federal Finances Circular No. 2015/01 Developing National partnerships under the Federal Financial Relations Framework*, 10 August 2015, p.15

2.4.5 Uncertainty over future funding

Delays in the renewal or renegotiation of NPAs and variations to funding levels provided through NPAs have created levels of uncertainty for Victorian government departments and community service providers. NPA funding which is cut, unexpectedly or constantly varied, or terminated, without notice impacts the Victorian State Budget and can make it difficult for service providers to plan ahead. In some cases Commonwealth Government funding cuts have also forced amalgamations and closures of service providers and also employee redundancies and job losses.

In addition, the Committee noted that the Commonwealth Government has been increasingly negotiating NPAs over shorter terms such as one or two year agreements. This has consequences for the long-term planning of service delivery which can impact the efficiency and effectiveness of services.

Chapter 5 of this report provides detailed examples of NPAs which have been amended, deferred or terminated by the Commonwealth Government and the impacts these changes have had on service providers and the Victorian community.

2.4.6 Lack of transparent model for indexation of National Partnership funding

The Committee was advised that Commonwealth Government funding offers on renewed or renegotiated NPAs have often not accounted for factors such as population growth or price indexation. This can result in a reduction in real funding over time. In addition, there seemed to be some limited transparency around the formulas and modelling used by the Commonwealth Government in establishing funding levels to be provided throughout an Agreement or at the renegotiation of an Agreement.

The Committee considers there is a need for a robust and systematic methodology for the indexation of funding which enables open consideration of the relevant factors impacting projects and services delivered by the State under an NPA. Greater transparency around indexation of funding enables the parties to negotiate in an informed manner and to clarify exactly which factors are considered reasonable as part of the funding indexation process and which factors are not.

2.4.7 Unanticipated funding changes

The Committee noted concerns about the sudden and unanticipated cessation of a number of NPAs. The *2014-15 Commonwealth Budget*, terminated funding unexpectedly for a number of NPAs including certain concessions for pensioner and senior card holders and preventive health funding for programs aimed at the prevention of chronic disease in Victoria. Some programs have been able to continue in a reduced capacity through redirected State Government funding.

The Committee was advised that terminations in funding noted through this Inquiry were made without advance advice or warning. Whilst the Committee acknowledges that NPAs are not legally binding contracts, it is reasonable to expect the Commonwealth Government to provide adequate and fair notice to States in the likelihood of significant reduction or even cessation of funding under an NPA.

The Committee noted that in a number of cases the Victorian Government had determined to re-allocate and re-prioritise the State Budget to provide continued funding for programs and services where Commonwealth Government funding has ceased or been reduced.

Evidence given by the Department of Treasury and Finance indicated that State Treasurers have identified to the Commonwealth Treasurer, on a number of occasions, the importance of providing at least six months notification of National Partnerships which are nearing their end date. Commonwealth Treasurers had committed to providing advice in the mid-year updates (i.e. in December) of any impending cessations or changes. The Committee heard that the States had been making a submission every year to the Commonwealth Government through the Council on Federal Financial Relations advocating for this earlier, formal notification of future funding. The Secretary of the Department of Treasury and Finance, Mr David Martine stated:³²

... coming back to the Council on Federal Financial Relations, in that forum we have a commitment from the commonwealth Treasurer — both the current commonwealth Treasurer and the former commonwealth Treasurer — that the commonwealth would advise states in the context of their midyear update, which is normally in December, about national partnership agreements that are due to expire on 30 June of the following year. That at least can give the states six months. That commitment has been made several times....Certainly issues around short-term funding for something which is really an ongoing commitment, the uncertainty around short-term agreements and the notification process have been really big issues across all of the states. We every year collectively provide submissions to the commonwealth Treasurer about that very point.

FINDING 9: There are many examples of National Partnership Agreements having been used to support programs and initiatives with ongoing demand or increased service capacity. Whilst funding was always agreed to be short-term, the implications of cutting or ceasing the funding support has resulted in the Victorian Government having to make a decision about whether to continue funding an established program or initiative. Where the Victorian Government has not been able to continue to provide a program or service, this has impacted stakeholders who have relied on the services, or been in receipt of some benefit, from the programs and initiatives established.

FINDING 10: There is a need for the Commonwealth Government to ensure that adequate and fair notice is provided to the Victorian Government in the event of any significant reduction, or cessation, of funding provided under National Partnership Agreements.

³² Mr David Martine, Secretary, Department of Treasury and Finance, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements, Transcript of evidence*, 17 November 2015, p.4

FINDING 11: National Partnership Agreements are not legally binding documents and it is the prerogative of successive Commonwealth Governments to determine to alter, or withdraw, funding under these Agreements as policy priorities and other circumstances change.

RECOMMENDATION 2: The Victorian Government should seek assurances from the Commonwealth Government that any future significant cuts to National Partnership funding will be given reasonable advance notice, to enable the State to take appropriate and considered action and to plan a measured response to the funding change.

2.5 The future of federal financial relations

The fiscal power of the Commonwealth Government created through its taxation powers together with the extensive responsibilities of the States and Territories in relation to the delivery of government services creates complexities and imbalances which at times make collaboration between the jurisdictions difficult. The Committee notes that from time to time the relationship between the Commonwealth and the State and Territory Governments and the effective operation of the Federation have come under review.

Most recently the Commonwealth National Commission of Audit made a number of comments in its report in February 2014, on the operation of the Federation and the administration of funds transfer from the Commonwealth to the States via the IGA FFR. The Report notes:³³

‘...the current operation of Australia’s Federation poses particular challenges to the delivery of good, responsible government.’

...

‘The time has arrived to be ambitious and bold in reforming and improving Australia’s Federation.’

2.5.1 Efforts to improve federal financial relations

One of the recommendations of the Commonwealth National Commission of Audit was for a review of the roles and responsibilities of the Commonwealth and State and Territory Governments to be undertaken, informed by:³⁴

- The principle of ‘subsidiarity’ so that policy and service delivery is as far as is practicable delivered by the level of government closest to the people receiving those services.
- Ensuring each level of government is sovereign in its own sphere.

³³ Commonwealth of Australia, National Commission of Audit, *Towards Responsible Government, The Report of the National Commission of Audit, Phase One, Part B: A Way Ahead, Chapter 6-Reforming the Federation*, February 2014, p.68

³⁴ *ibid.*

- Ensuring minimum duplication between the Commonwealth and the States and Territories and where there is some overlap ensuring appropriate cooperation occurs at all times.

In September 2014, the Commonwealth Government commenced a *Reform of the Federation White Paper Review* process (*White Paper Review*) with the aim of providing clarity around the roles and responsibilities of the jurisdictions with a view to strengthening the way the federal system operates in Australia.³⁵

2.5.2 Reform of the Federation White Paper Review

The *White Paper Review* process was established to consider ways to:³⁶

- reduce and end, as far as possible, the waste, duplication and second guessing between different levels of government
- attain a more efficient and effective federation, and in so doing, enhance national productivity
- make interacting with government simpler for citizens
- ensure the Australian federal system:
 - is better understood and valued by Australians (and the case for reform supported)
 - has clearer allocation of roles and responsibilities
 - enhances governments' autonomy, flexibility and political accountability
 - supports Australia's economic growth and international competitiveness.

The Committee notes that the *White Paper* was also seeking to outline the Commonwealth Government's position in relation to the:³⁷

...effectiveness and governance of the current Intergovernmental Agreement on Federal Financial Relations, including the appropriateness of associated requirements in respect of inputs, outputs and outcomes.

The *White Paper* was being developed by a Taskforce within the Commonwealth Department of the Prime Minister and Cabinet. A Steering Committee was established to oversee the process, comprising the Secretaries and Chief Executives of the Commonwealth Department of Prime Minister and Cabinet, State and Territory First Ministers' departments and the Australian Local Government Association.³⁸

³⁵ Commonwealth of Australia, Department of Prime Minister and Cabinet, *Reform of the Federation White Paper*, Terms of Reference, <www.federation.dPMC.gov.au/terms-reference> viewed 25 March 2016

³⁶ Commonwealth of Australia, Department of the Prime Minister and Cabinet, *Reform of the Federation White Paper* <www.federation.dPMC.gov.au/terms-reference> viewed 4 January 2016

³⁷ *ibid.*

³⁸ *ibid.*, viewed 22 January 2016

Victoria's involvement in the *White Paper Review* process

In November 2015, the Committee heard evidence that the Department of Premier and Cabinet were leading discussions with the Commonwealth Government in relation to the *White Paper Review* discussions. These discussions provided an opportunity for Victoria to highlight some of the inefficiencies or unintended consequences of the current funding arrangements associated with National Partnerships.

The Committee sought evidence from witnesses throughout the Inquiry as to the progress of the White Paper review and whether it might improve the way in which NPAs are administered by the Commonwealth Government in the future.

At the Committee hearings, the Secretary of the Department of Health and Human Services, Ms Kym Peake noted that the *Reform of the Federation* process provided the Department with an opportunity to improve the way health and human services are funded and delivered. The Secretary stated the Department would be seeking a recommitment to the IGA FFR from the Commonwealth Government to '*help to rebalance the current trend towards NPAs that do not align with the terms and principles of this overarching agreement.*'³⁹

The Secretary also advised that the Department would be pursuing engagement with the Commonwealth Government to agree on a new sustainable approach to funding in critical health and human services initiatives which have been formerly funded through NPAs.⁴⁰

The submission by VCOSS noted that the *Reform of the Federation* process could create an opportunity for improvement in the operation of the Federation. VCOSS also noted however, that it remained unclear how the Commonwealth Government intends to manage the transfer of funding for important social and service delivery developments in the future.⁴¹

Status of the *White Paper Review*

The Committee noted that following the release of the *Discussion Paper* (Green Paper) on 23 June 2015 there has been limited notification on the *Reform of the Federation* website.

Recent information provided on the Commonwealth Department of Prime Minister and Cabinet *Reform of the Federation* website indicated that, following consideration of Federation reform at the COAG meeting on 1 April 2016, it was determined that work to improve federal financial relations and the transparency

39 Ms Kym Peake, Secretary, Department of Health and Human Services, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, Transcript of evidence, 17 November 2015, p.4

40 *ibid.*

41 Victorian Council of Social Service, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 28 July 2015, p.9

of government spending would be progressed by the Council on Federal Financial Relations, and Commonwealth, State and Territory Treasuries. It is anticipated that a progress report will be presented at the next COAG meeting.⁴²

The COAG Communique of the April 2016 meeting notes:⁴³

COAG welcomed the Commonwealth's initiative to help resolve the longstanding problem of vertical fiscal imbalance and improve state autonomy.

There was not a consensus among states and territories (states) to support further consideration of the proposal to levy income tax on their own behalf.

Leaders agreed to consider proposals to share personal income tax revenue with the states to:

- provide them access to a broad revenue base that grows in line with the economy;
- reduce the number of tied Commonwealth grants to the states, providing them with greater autonomy and reducing administrative burden; and
- create flexibility for states to meet their ongoing expenditure needs.

COAG further agreed to continue pursuing initiatives that will enhance transparency by providing Australian citizens with a greater level of real time data on how government money is spent and on the outcomes and performance of government initiatives.

COAG agreed that this work, along with the work on broader opportunities for tax reform, including state tax reform, will be progressed by the Council on Federal Financial Relations, with a progress report to COAG at its next meeting.

The Committee considers that a significant amount of useful research and analysis is included in the *Reform of the Federation* Issues Papers prepared to date. The Committee looks forward to future reports from the Council on Federal Financial Relations on tax reform, improved transparency around government spending, and initiatives to clarify federal-state responsibilities and improve the administrative arrangements around federal funding to the States and Territories.

FINDING 12: Issues relating to the effective operation of the Australian Federation and the administration and funding of areas of shared interest between the Commonwealth and the States and Territories, highlighted in the Reports of the National Commission of Audit and in Issues Papers released as part of the *White Paper Review on the Reform of the Federation*, will be progressed by the Council on Federal Financial Relations. The Committee looks forward to the review process continuing.

⁴² Commonwealth of Australia, Department of the Prime Minister and Cabinet, *Reform of the Federation White Paper* < federation.dpmc.gov.au/about > viewed 2 May 2016

⁴³ Council of Australian Governments, COAG Communique, 1 April 2016 Meeting, < www.coag.gov.au/node/537 > viewed 2 May 2016

2.5.3 The future for National Partnership Agreements

Whilst comprising a small component of the total amount of Commonwealth Government funding received by Victoria under the IGA FFR framework, the Committee found that NPAs are fundamental in sustaining a number of important government services and programs for the people of Victoria.

In order for NPAs to be most effective, the Victorian Government highlighted that it is critical that the original and underlying principles and terms of the IGA FFR are adhered to, including:⁴⁴

- that States and Territories are regarded as partners rather than contractors of the Commonwealth Government;
- the administrative burden for both the Commonwealth Government and States and Territories is reduced through fewer and more strategic agreements;
- flexibility in government service delivery is provided to the States and Territories to promote service improvements through reduced Commonwealth prescription around inputs; and
- agreements which are focussed on achievable public outcomes rather than compliance through frequent performance reporting.

In its submission to the Inquiry, VCOSS stressed the need for NPAs to be managed in a responsible and coherent manner to maximise their effectiveness and encouraged the Victorian Government to focus on ensuring that any future NPAs contain the following elements:⁴⁵

- clear purpose;
- certainty in the agreement period;
- sufficient and sustainable funding; and
- accountability with agreed goals and targets.

FINDING 13: The original underlying principles and terms of the *Intergovernmental Agreement on Federal Financial Relations* are considered sound. However, departures from these principles by successive Commonwealth Governments in its administration of National Partnership Agreements have created challenges and uncertainties for the Victorian Government in its management of the State Budget and for a number of Victorian Government departments and community sector organisations involved in the provision of services and programs.

⁴⁴ Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.2

⁴⁵ Victorian Council of Social Service, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 28 July 2015, p.9

Improving the effectiveness of National Partnership Agreements

In order to improve the effectiveness of NPAs, the Committee considers that:

- The Victorian Government should alert the Commonwealth Government to the impacts which changes to NPA funding, deferral of funding, and/or withdrawal of reward payments under existing Agreements, have on Victoria's financial position and the programs and services the State is able to continue to deliver.
- The Victorian Government should seek a commitment from the Commonwealth Government that any significant changes to NPA funding will be advised at least six months in advance to enable the State time to make appropriate arrangements to best manage the funding change.
- Commonwealth and State and Territory Government departments should ensure that all NPAs include a formal review process to assess the success or effectiveness of the program, service or increased service capacity and to determine whether the program or service warrants a more certain or permanent funding agreement or mechanism for contribution from the Commonwealth Government.
- Criteria could be developed by COAG, the Council on Federal Financial Relations, or the Commonwealth Productivity Commission, to provide for an evaluation of NPAs which are currently being used to support ongoing programs and services in Victoria to enable evolution or transition to a more permanent recurrent funding arrangement (e.g. through a Specific Purpose Payment under a National Agreement).

The Committee encourages the Victorian Government to take action through COAG, senior officials' forums, departmental portfolio discussions with Commonwealth Government counterparts, and Treasury meetings, to improve the way NPAs are negotiated and managed. This action should seek to identify the mutual benefits of effective collaboration between the Commonwealth and the State and seek to abide by IGA FFR processes which assist in minimising uncertainties around future NPA funding and reduce the risks to service delivery in key sectors of health, education, homelessness and legal assistance services.

These matters are discussed in detail in Chapters 5 and 6 of this report.

2.5.4 Need for a recommitment to the principles of the *Intergovernmental Agreement on Federal Financial Relations*

The Committee notes that many of the deficiencies highlighted through this Inquiry were identified in June 2012 by the Department of Treasury and Finance in its submission to the Parliament of Victoria's Economy and Infrastructure References Committee in its *Inquiry into Commonwealth Payments to Victoria*. This is an indication that the situation with regard to federal financial relations has not significantly changed over the last four years.

The Committee considers there is a need for the Victorian and Commonwealth Governments to re-assess the purpose and nature of NPAs against the agreed principles as set out in the IGA FFR and to work together to ensure that as far as possible, the principles are complied with in the establishment and negotiation of NPAs.

The Committee encourages both levels of Government to re-commit to the principles and guidelines outlined in the IGA FFR and to ensure that NPAs are designed, negotiated and managed in line with these principles and guidelines when they are agreed and signed.

From Victoria's perspective, the Victorian Government has responsibility for an enormous range of services which the community depends upon. Many of these services need to be provided sustainably into the future and not be put at risk by sudden cuts in funding and/or changes in funding formulas. Changes to Commonwealth Government funding provided through NPAs have impacted the Victorian Government's State Budget and caused it to make decisions about funding priorities with regard to its community service obligations and responsible management of the State's financial position.

The Committee remains optimistic that jurisdictions might come to some agreement in the future that Commonwealth-State financial relations have gained a level of maturity whereby the States and Territories can determine their own funding priorities within certain areas of service delivery and the Commonwealth Government agrees to jointly fund those activities without the need to prescribe them through a series of separate funding agreements.

RECOMMENDATION 3: As part of the ongoing review of federal financial relations, there is a need for the Council of Australian Governments to revisit the principles outlined in the *Intergovernmental Agreement on Federal Financial Relations* as they relate to National Partnership Agreements and to encourage Commonwealth and State and Territory Governments to abide by the principles and guidelines supporting the *Intergovernmental Agreement*.

3

Establishment of National Partnership Agreements

3.1 Introduction

The *Australian Constitution* establishes Australia's system of government as a federation comprising the Commonwealth, State and Territory Governments.

Since 1901, the Commonwealth Government has used its powers under Section 96 of the *Australian Constitution* to provide financial support to the States and Territories, including Victoria.⁴⁶

The Commonwealth Government's fiscal power created through its taxation powers together with the spending responsibilities of the States and Territories creates complexities and imbalances which sometimes make collaboration between the different layers of government difficult. Australia has a very significant degree of vertical fiscal imbalance by international comparison. Figures on total tax revenue in 2013-14, indicate that the Commonwealth Government raises 82 per cent of total tax revenue, the States and Territories raise 15 per cent and local governments raise 3 per cent.⁴⁷ Commonwealth Government funding to the States and Territories represents around 25 per cent of the Commonwealth revenue budget and around 40 per cent of State and Territory revenue.⁴⁸

Historically, financial transfers from the Commonwealth Government to the States and Territories have been characterised by a complex administrative and financial landscape as well as strict Commonwealth input controls.⁴⁹ In addition, decisions related to Commonwealth financial support and relations between the Commonwealth Government and the States and Territories have been based on the advice of various ad-hoc advisory bodies and have, at times, been '*acrimonious and highly charged*'.⁵⁰

In response to these issues, in November 2008, the Council of Australian Governments (COAG) agreed to a new framework for the transfer of funds from the Commonwealth to the State and Territories. The *Intergovernmental*

⁴⁶ Australian Constitution, s.96

⁴⁷ Commonwealth of Australia, Department of the Prime Minister and Cabinet, *Reform of the Federation Green Paper (Discussion Paper)*, 23 June 2015, p.9

⁴⁸ Commonwealth of Australia, National Commission of Audit, *Towards Responsible Government, The Report of the National Commission of Audit, Phase One, Part A: Government in Australia and the state of the Finances, Chapter 3-What do governments do in Australia today?*, February 2014, p.22

⁴⁹ Commonwealth of Australia, Department of the Prime Minister and Cabinet, *Reform of the Federation White Paper – A Federation for Our Future (Issue Paper 1)*, September 2014, p.4

⁵⁰ Commonwealth of Australia, Commonwealth Grants Commission, *The Commonwealth Grants Commission: The Last 25 Years*, p.1

Agreement on Federal Financial Relations (IGA FFR) commenced operation on 1 January 2009. The IGA FFR acknowledges the roles and responsibilities of the two levels of government and the relationship between the two, noting:

- that States and Territories are primarily responsible for the delivery of key government services to the community;
- that States and Territories require financial assistance from the Commonwealth Government to deliver key government services;
- the importance of innovation and efficiency in the service and a focus on long-term policy development; and
- the importance of collaboration between the two levels of government to facilitate economic and social reforms.

This Chapter provides information about the:

- federal financial relations framework in Australia;
- establishment of National Partnership Agreements;
- current financial and administrative arrangements in place between the Commonwealth and Victoria; and
- negotiation and engagement with the Commonwealth Government on funding agreements.

3.2 Federal financial relations in Australia

Historically, the Commonwealth Government demonstrated a high degree of prescription in relation to many financial transfers to the States and Territories. COAG noted that such arrangements tend to hinder flexibility and innovation in service delivery and created significant challenges for States and Territories in:⁵¹

- setting their own priorities; and
- addressing their own circumstances to achieve the best community outcomes.

COAG also noted that the Commonwealth Government experienced systemic inefficiencies associated with the time and effort required in prescription, and in monitoring and acquitting compliance in relation to a large number of financial payments and agreements.⁵²

In response to these issues, in November 2008, COAG agreed to the establishment of the IGA FFR as the new framework for financial transfers from the Commonwealth Government to the States and Territories.

⁵¹ Commonwealth of Australia, Council on Federal Financial Relations, *A Short Guide to the Intergovernmental Agreement on Federal Financial Relations and the Federal Financial Relations Framework*, p.1

⁵² *ibid.*

3.2.1 *The Federal Financial Relations Act 2009*

The *Federal Financial Relations Act 2009* (FFR Act) commenced on 1 April 2009 and provides the legislative authority for the Commonwealth Government's role in providing ongoing financial support for the delivery of services by the States and Territories.⁵³

The FFR Act establishes and defines the IGA FFR as providing the overarching framework:⁵⁴

- to operationalise the ongoing financial support from the Commonwealth Government to the States and Territories; and
- for related collaboration on policy development and service delivery.

The Committee notes that the FFR Act was introduced to improve the way in which States and Territories were funded by the Commonwealth Government to:

- eliminate the complex administrative arrangements and prescriptive Commonwealth input controls; and
- provide clearly defined roles and responsibilities with an enhanced focus on accountability for improving outcomes and service delivery.

The legislation also provided a framework through which the Commonwealth Government could advance its policy objectives for service delivery reforms nationally.

3.2.2 *Intergovernmental Agreement on Federal Financial Relations*

Objective and principles

A description of the objectives, principles and key features of the federal financial relations framework is set out in *A Short Guide to the IGA and the Federal Financial Relations Framework* (the Guide). The COAG Guide states that the framework represents a significant shift in Commonwealth-State financial relations.⁵⁵

The main objective of the IGA FFR is to improve the wellbeing of all Australians through:⁵⁶

- collaborative working arrangements which include clearly defined roles and responsibilities and fair and sustainable financial arrangements focussed on long-term policy development and improved service delivery;
- simpler, standardised and more transparent performance reporting across all jurisdictions in an effort to improve public accountability;

⁵³ *Federal Financial Relations Act 2009* s.1, p.1

⁵⁴ *Federal Financial Relations Act 2009* s.4, p.3

⁵⁵ Commonwealth of Australia, Council on Federal Financial Relations, *A Short Guide to the Intergovernmental Agreement on Federal Financial Relations and the Federal Financial Relations Framework*, p.1

⁵⁶ *ibid.*, p.2

- reduced administration and compliance costs;
- increased incentives to implement economic and social reforms;
- ongoing provision of Goods and Services Tax revenue to the States and Territories; and
- equalisation of fiscal capacity between the States and Territories.

The following key principles are stated in the Guide as underpinning the IGA FFR:⁵⁷

- Recognising that States and Territories are primarily responsible for service delivery but that coordinated action is necessary to address economic and social challenges confronting the Australian community.
- Improving quality, efficiency and effectiveness of government service delivery.
- Coordinating federal action through a shared commitment to cooperative working arrangements, with COAG monitoring of all aspects of the framework and with parties acknowledging the need to pursue ongoing reform of Federal financial relations.
- Improving public accountability of governments to their communities, not just for expenditure in delivering services, but for the quality and efficiency of the services delivered and the outcomes achieved.
- Providing ongoing financial support to the States and Territories for their service delivery efforts.
- Providing for economic and social reform through National Partnership Payments to the States and Territories which support the delivery of specified outputs or projects and to facilitate reforms or reward those jurisdictions that deliver on nationally significant reforms or service delivery

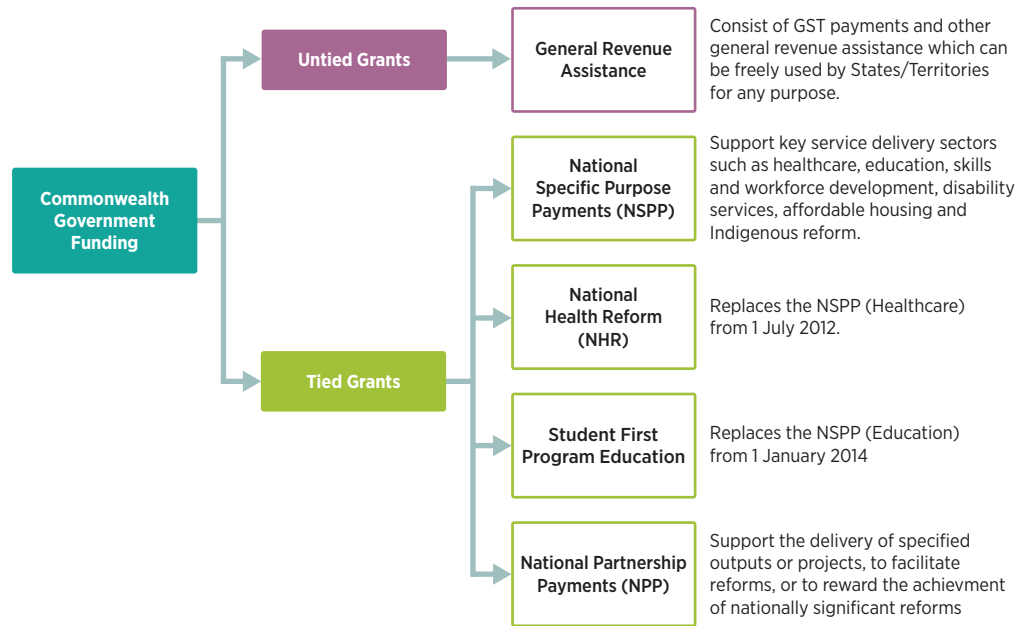
Types of Commonwealth payments

As noted above, one of the key principles underpinning the IGA FFR is the Commonwealth Government's commitment to provide ongoing financial support to the States and Territories for the provision of government services.

This support is provided through a number of different payment arrangements. There are presently five types of payment arrangements provided by the Commonwealth Government to States and Territories under the IGA FFR as shown below in Figure 3.1 below.

57 *ibid.*, pp.2-3

Figure 3.1 Types of Commonwealth Payment Arrangements



Source: Commonwealth of Australia, Council on Federal Financial Relations, <www.federalfinancialrelations.gov.au> viewed 15 December 2015; Commonwealth of Australia, Council on Federal Financial Relations, *Intergovernmental Agreement on Federal Financial Relations - Payment Arrangements (Schedule D)*; Parliament of Victoria, Economic and Infrastructure References Committee, *Inquiry into Commonwealth Payments to Victoria* (2012), p.18

Based on the Commonwealth Government's budget and financial documentation for 2015-16, the Committee notes that it is expected:⁵⁸

- General Revenue Assistance ("untied grants") makes up around 53 per cent of total Commonwealth funding to Victoria and contributes approximately 23 per cent of Victoria's total expected revenue.
- Payments for specific purposes, consisting of National Specific Purpose Payments, National Health Reform payments and Student First Program Education funding, make up around 38 per cent of total Commonwealth funding to Victoria and contribute approximately 16 per cent of Victoria's total expected revenue.
- National Partnership payments comprise around 9 per cent of total Commonwealth funding to Victoria and contribute approximately 3.8 per cent of Victoria's total expected revenue.

The focus of this Inquiry is National Partnership (NP) payments which are made through National Partnership Agreements.

⁵⁸ Committee calculations based on Commonwealth of Australia, *Budget 2016-17 Federal Financial Relations Budget Paper No.3 2016-17* (2016), pp.6,10; Department of Treasury and Finance, *2015-16 Budget Update* (2015), p.9

3.3 National Partnership Agreements

3.3.1 Design principles and structure

National Partnership Agreements (NPAs) are the documents which formalise a funding arrangement between the Commonwealth and the State for the achievement of agreed objectives, outcomes, outputs or performance targets. The Agreements nominate certain NP payments over a specified period to be made by the Commonwealth to the State for the implementation and achievement of those specified objectives or outcomes.

According to the IGA FFR *Definitions and Institutional Arrangements*, NPPs are provided to the States and Territories to:⁵⁹

- Support the delivery of specified outputs or projects.
- Facilitate reforms.
- Reward jurisdictions that deliver on national reforms or achieve service delivery improvements.

The Council on Federal Financial Relations issues guidance and procedural documents, referred to as the *Federal Finances Circular*, to assist the Australian public sector in the establishment of NPAs and their related payments under the IGA FFR. This guidance is updated by the Council on Federal Financial Relations from time to time.

The *Federal Finances Circular* states that Commonwealth portfolio ministers must obtain policy and budget authority for any proposal requiring an agreement with the States and/or Territories before approaching Commonwealth central agencies to draft and negotiate an NPA under the IGA FFR.⁶⁰

Further, the Circular also highlights that where NPAs are proposed to be developed for reform, '*particular consideration must be given to the provisions of the [IGA FFR], as well as to payment design, particularly the use of reward payments*'⁶¹ during Commonwealth portfolio agencies' consultations with the Department of the Prime Minister and Cabinet and the Department of Treasury.

Purpose of National Partnerships

The IGA FFR also includes principles to guide the Commonwealth Government's support for specific national reforms or service delivery improvements in areas of State or Territory responsibility, where the support:⁶²

⁵⁹ Commonwealth of Australia, Council on Federal Financial Relations, *Intergovernmental Agreement on Federal Financial Relations – Definitions and Institutional Arrangements (Schedule A)*, p.A-1; *Federal Financial Relations Act 2009* s.1, p.1

⁶⁰ Commonwealth of Australia, Council on Federal Financial Relations, *Federal Finances Circular No. 2015/03 Processes for Drafting, Negotiating, Finalising and Varying Agreements Under the Federal Financial Relations Framework, and Related Estimates and Payments Processes*, 10 August 2015, p.2

⁶¹ *ibid.*, p.6

⁶² Commonwealth of Australia, Council on Federal Financial Relations, *Intergovernmental Agreement on Federal Financial Relations – National Policy and Reform Objectives (Schedule E)*, p.E-4

- is closely linked to a current or emerging national objective or expenditure priority of the Commonwealth Government;
- has “national public good” attributes;
- has “spill over” benefits that extend beyond the boundaries of a single State or Territory;
- has an exceptionally strong impact on aggregate demand or sensitivity to the economic cycle, consistent with the Commonwealth Government’s macro-economic management responsibilities; and
- addresses a need for policy harmonisation between the States and Territories to reduce barriers to movement of capital and labour.

The Council on Federal Financial Relations *Federal Finances Circular* emphasises that:⁶³

- National Partnerships or NPAs are not generally appropriate for ongoing financial transfers between the Commonwealth and the States/Territories but are designed to provide flexibility around how objectives are achieved while ensuring public accountability for the achievement of specific objectives, outcomes, outputs and performance benchmarks as specified in the NPA.
- a simpler version of an NPA called a Project Agreement may be utilised if the policy proposal or payment is assessed as relatively low value and/or low risk. Project Agreements generally have the same NPA design principles but typically:
 - relate to one-off and/or smaller projects; and
 - include less detail with fewer reporting requirements and payments due to a focus on relatively straightforward program or project delivery.

FINDING 14: Council on Federal Financial Relations policy guidance states that National Partnership Agreements are generally not appropriate funding arrangements for ongoing financial support to the States and Territories. The guidance indicates that National Partnerships are typically aimed at national reform priorities or specific service delivery improvement.

National Partnership payment arrangements

The *Federal Finances Circular* states that National Partnership payment arrangements should be directed at achieving outcomes which are concise, realistic and focused on a desired end result that is also measurable.⁶⁴

⁶³ Commonwealth of Australia, Council on Federal Financial Relations, *Federal Finances Circular No. 2015/01 Developing National Partnerships Under the Federal Financial Relations Framework*, 10 August 2015, pp.5, 8

⁶⁴ *ibid.*, p.10

The *Circular* further states that National Partnership payments should be structured in a way which:⁶⁵

- encourages the achievement of ambitious milestones or performance benchmarks as set out in an NPA.
- provides an incentive to the States and Territories, being primarily responsible for service delivery, to deliver on national reforms or achieve service delivery improvements, and reward them where they do so.

In relation to the achievement of outcomes, the *Circular* states:⁶⁶

National Partnership payment structures should be used to create an incentive to the States to achieve outcomes, rather than attempting to achieve outcomes through input controls, detailed reporting or other prescriptions.

Under the centrally administered payment arrangements of the IGA FFR, the Commonwealth Treasury makes National Partnership payments directly to State or Territory treasuries on the seventh day of the month.⁶⁷ The payments are also divided into one twelfth of the estimated annual payments for simplified administration unless other alternative payment arrangements have been agreed.⁶⁸ There are three types of National Partnership payments:

- Project payments;
- Facilitation payments; and
- Reward payments.

FINDING 15: There are three types of payments which can be made by the Commonwealth to the States under a National Partnership:

- Project payments which relate to funding provided to deliver specific projects or which are used to enhance the quality or quantity of service delivery and support national objectives;
- Facilitation payments which are provided to advance nationally significant reform as a “one-off” or “in-advance” payment; and
- Reward payments which are dependent upon the achievement of specific and ambitious performance targets or benchmarks attached to nationally significant reform.

The purpose and particular characteristics of each of these types of NP payments are presented in Table 3.2 below.

⁶⁵ *ibid.*, p.18

⁶⁶ *ibid.*

⁶⁷ Commonwealth of Australia, Council on Federal Financial Relations, *Federal Finances Circular No. 2015/03 Processes for Drafting, Negotiating, Finalising and Varying Agreements Under the Federal Financial Relations Framework, and Related Estimates and Payments Processes*, 10 August 2015, p.16

⁶⁸ Commonwealth of Australia, Council on Federal Financial Relations, *Intergovernmental Agreement on Federal Financial Relations – Payment Arrangements (Schedule D)*, p.D-2

Table 3.1 Three types of National Partnership payments

NP Payment Type	Purpose	Characteristics and Rules
Project payments	Funding provided to: <ol style="list-style-type: none"> (1) Deliver specific projects; and (2) Enhance the quality or quantity of service delivery and projects which support national objectives. 	<ul style="list-style-type: none"> • Comprise set funding arrangements that specifically outline the amount to be paid at certain times, subject to the States/Territories accomplishing milestones satisfactorily. • Can only be paid by the Commonwealth Treasury when the Commonwealth Minister (or authorised delegate) confirms that the related milestones are met. • Are not designed to support the implementation of nationally significant reforms (refer to Facilitation or Reward payments). • Are treated according to their defining characteristics, and not necessarily the definitions used in the National Partnership. • Cannot be treated as Facilitation payments should they be mislabelled in the NPA or Implementation Plan.
Facilitation payments	Funding provided in advance of progressing or achieving nationally significant reform.	<ul style="list-style-type: none"> • May only be paid as “one-off” or “in-advance” payments. In-advance payments may be paid where there is a legitimate reason such as, administrative and other costs associated with undertaking the reform or service delivery improvement. • Need to respond to a legitimate and demonstrated requirement in terms of the purpose and funding amount. • Should only be included in NPAs which clearly specify arrangements to achieve reforms. • Are most appropriate for inclusion in a National Partnership with Reward payments to enable the States/Territories to achieve the benchmarks that allow for Reward payments to follow. • Should not be used to encourage States/Territories to become a party to an NPA where States/Territories are not convinced that outcomes are achievable. • Should not constitute the majority or the entirety of the Commonwealth Government’s contribution to the reform or improvement in service delivery as this would represent an unacceptable financial risk to the Commonwealth Government.
Reward payments	Funding provided in recognition of the delivery or achievement of nationally significant reform.	<p>Must be structured to encourage the achievement of ambitious performance benchmarks, continuous improvement in service delivery and provide significantly better outcomes than would be expected in the absence of reform, as detailed in NPAs or Implementation Plans.</p> <p>Contingent upon the achievement of performance benchmarks, with that achievement assessed independently.</p> <p>Must provide the maximum incentive to States/Territories to achieve outcomes, rather than attempting to achieve outcomes through input controls, detailed reporting or other prescriptions.</p> <p>May recognise partial performance against performance benchmarks where NPAs set out graduated benchmarks, provided they are objective, clear, achievable and measurable, noting that recognition of partial attainment may be particularly relevant to multi-element NPAs consisting of discrete activities.</p>

Source: Commonwealth of Australia, Council on Federal Financial Relations, *Federal Finances Circular No. 2015/01 Developing National Partnerships under the Federal Financial Relations Framework*, 10 August 2015, pp.19-21

3.3.2 Implementation Plans for National Partnership Agreements

According to the *Federal Finances Circular*, whilst not necessary for all National Partnerships, an Implementation Plan (IP) may be required where there are significant differences in jurisdictional context or where jurisdictions agree that there is complexity and risk in the reform or project which it is considered needs additional transparency.⁶⁹

The *Circular* states that IPs should be:⁷⁰

...succinct high-level documents that allow states and territories to deliver national partnership outcomes in a flexible and self-determined way, with a primary emphasis on accountability to the public.

The IP is a bilateral schedule to an NPA between the Commonwealth and the States and Territories which provides additional information on how an individual jurisdiction intends to achieve the outcomes specified in the National Partnership.⁷¹

Purpose and requirements of Implementation Plans

As schedules to National Partnerships, IPs form part of the public accountability framework. IPs are public documents that seek to provide confidence throughout the community that a strategy is in place for the implementation of an NPA. IPs are not intended to place additional obligations on the States and Territories.⁷²

As noted, IPs are not required for all National Partnerships. The need for an IP should be discussed and agreed between jurisdictions during the negotiation stage. Also, IPs are not required for *Project Agreements* which are simpler versions of NPAs and considered as low-value and/or low-risk.⁷³

The *Federal Finances Circular* specifies that IPs may be required for NPAs where:⁷⁴

- There are significant differences in jurisdictional context or approach.
- Jurisdictions concur that the complexity and risks inherent in the reform or project warrant additional public transparency and accountability over how the agreed outcomes or outputs set out in the National Partnership are proposed to be achieved.
- There is insufficient detail within the National Partnership specific to each jurisdiction concerning performance and reporting arrangements (in most cases this detail should be included in the NPA).

69 Commonwealth of Australia, Council on Federal Financial Relations, *Federal Finances Circular No. 2015/02 Developing Implementation Plans for National Partnerships*, 10 August 2015, p.i

70 *ibid.*, p.i

71 *ibid.*, p.13

72 *ibid.*, p.1

73 *ibid.*, p.14

74 *ibid.*, p.1

Developing Implementation Plans

The *Federal Finances Circular* directs that central and portfolio agencies from the State, Territory and Commonwealth Governments should be involved in the early stages of developing IPs in order to maintain consistency with the design principles of the IGA FFR and to prevent unnecessary delays at a later stage.⁷⁵

The States and Territories are generally responsible for most aspects of developing IPs and, according to the *Circular*, their responsibilities include:⁷⁶

- drafting the IP (by a portfolio agency in consultation with central agencies and the relevant Commonwealth portfolio agency) with any changes to the proposed approach to be supported by best practice evidence;
- ensuring IPs complement existing State programs or reforms where possible;
- securing the relevant State Minister's endorsement and agreement to the IP;
- delivering the project or reform in accordance with NPA terms and conditions; and
- highlighting any significant risks and concerns with implementing the project or reform as soon as possible.

The policy guidance also states that the Commonwealth Government plays a key role in coordinating the development of IPs but not providing direction or prescribing how the outcomes should be pursued. The Commonwealth Government is responsible for coordinating the drafting of IPs and ensuring they complement existing Commonwealth program or reforms where appropriate.⁷⁷

The Commonwealth Government policy iterates that a well-designed IP should:⁷⁸

- seek to reduce the administrative and compliance burden on States and Territories;
- assist in tracking progress that supports transparent public reporting, the making of payments, appraisals and evaluations; and
- satisfy public accountability requirements by summarising how certain activities and initiatives will lead to the agreed improvement in outcomes.

75 *ibid.*, p.2

76 *ibid.*

77 *ibid.*, pp.2-3

78 *ibid.*, p.3

3.4 Negotiation and engagement with the Commonwealth Government on funding agreements

In a Federation such as Australia's, where the bulk of expenditure on the provision of government services to citizens is undertaken by the States and Territories through revenue provided by the Commonwealth Government, the importance of an effective partnership and mutually respectful relationships between the two jurisdictions cannot be understated.

The Committee has sought to gain some insight into the quality and effectiveness of Federal financial relations between Victoria and the Commonwealth Government. As part of the Inquiry, the Committee has considered the nature and extent of negotiation and consultation occurring between Victoria and the Commonwealth Government in relation to the establishment and administration of NPAs.

3.4.1 Drafting a National Partnership Agreement — timing of negotiation

According to the Council on Federal Financial Relations IGA FFR policy guidance, when drafting an NPA, Commonwealth Government portfolio agencies take the lead in most consultations, collaborating with their respective Commonwealth central agencies to discuss the NPA requirements and processes as well as taking into account any cross-portfolio issues as part of policy and program design.⁷⁹

The guidance also indicates that draft NPAs cannot be provided to State and Territory portfolio agencies for feedback and negotiation during the drafting stage. However, despite this limitation, policy and program design issues may be circulated and discussed with State and Territory portfolio agencies through an "Issues paper" if required.⁸⁰

FINDING 16: *Intergovernmental Agreement on Federal Financial Relations* policy guidance states that when drafting National Partnership Agreements the Commonwealth Government may circulate and discuss policy and program design issues with State and Territory portfolio agencies. However, draft National Partnership Agreements cannot be provided to State and Territory portfolio agencies for feedback and negotiation during the drafting stage.

The Committee was advised that following Commonwealth Government policy and budget approval of a proposal, a draft NPA is circulated to the Department of Premier and Cabinet, the Department of Treasury and Finance and the relevant portfolio agency for comment.⁸¹

79 Commonwealth of Australia, Council on Federal Financial Relations, *Federal Finances Circular No. 2015/03 Processes for Drafting, Negotiating, Finalising and Varying Agreements Under the Federal Financial Relations Framework, and Related Estimates and Payments Processes*, 10 August 2015, p.6

80 *ibid.*

81 Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 21 January 2016, p.1

Draft NPAs are analysed to determine the benefits and risks with regard to the policy merits and program design, financial implications and governance arrangements. Advice is then prepared for the relevant Ministers including details of a negotiation strategy, where appropriate. The Department of Premier and Cabinet advised that this “joint” position informs Victoria’s negotiations on Agreements and provides feedback to the Commonwealth Government on the initial drafts.⁸²

The Department also advised that throughout the process, it provides ongoing strategic advice and support to portfolio departments on intergovernmental context, policy issues and priorities and/or negotiating tactics.⁸³

At the hearings, the Secretary of the Department of Premier and Cabinet, Mr Chris Eccles stressed the importance for involvement of the State in the design and drafting an agreement with the Commonwealth Government. The Secretary advised:⁸⁴

The key for me is that if we can continue to demonstrate the value we bring to service delivery design and service delivery reform, then the commonwealth in its own interest will engage us early. That then starts to create the conditions for a genuine partnership, because you are dealing with the issues as equals.

The Committee considers that the process as outlined in the Council on Federal Financial Relations IGA FFR policy guidance could present some disadvantage for the State as it limits Victoria’s ability to provide detailed practitioner knowledge and experience of a particular service area into the drafting of the terms and conditions of an NPA. This also has the potential to diminish outcomes for Victorians. Limited input in the early stages also increases the situation where the Commonwealth Government exerts its fiscal power in a “take it or leave it approach” to “partnership” on service delivery and program outcomes.

The Committee considers that providing early opportunities for States and Territories to participate, formally or informally, in the review and evaluation of policy and program design issues prior to the NPA drafting stage, is key to an effective NPA with realistic and achievable outcomes.

FINDING 17: Earlier opportunity for the Victorian Government to participate and negotiate a National Partnership Agreement potentially leads to better designed Agreements containing realistic and achievable outcomes. Earlier involvement would enable Victoria to contribute its practitioner knowledge and experience in policy and program design issues relevant to the specifications of an Agreement.

RECOMMENDATION 4: The Victorian Government should investigate opportunities to have earlier input to the Commonwealth Government’s design and drafting of National Partnership Agreements. Earlier engagement and consultation would enable Victoria to maximise its knowledge and expertise in the design of the delivery and targeting of services to areas of highest priority, in the most efficient and effective manner.

⁸² *ibid.*

⁸³ *ibid.*

⁸⁴ Mr Chris Eccles, Secretary, Department of Premier and Cabinet, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements, Transcript of evidence*, 19 November 2015, p.6

3.4.2 Nature of the negotiation

The Department of Premier and Cabinet advised that interaction and engagement with parties in the Commonwealth Government can be both formal and informal in nature. While NPAs are initially drafted by Commonwealth portfolio departments, the Commonwealth may have consulted informally with the States through review and evaluation of a previous Agreement or via forums such as the COAG Senior Officials' Meeting.⁸⁵

At the hearings, the Secretary of the Department of Premier and Cabinet, Mr Chris Eccles advised that in his experience the Commonwealth Government may choose from time to time to informally negotiate with States and Territories outside of the IGA FFR framework. In this way, some States and/or Territories can gain “first-mover” advantage.⁸⁶ The Secretary explained that this can provide further opportunity for a State to contribute its knowledge and experience to influence the design of an Agreement.

In commenting on the general nature of the engagement with the Commonwealth Government on areas of shared interest, the Secretary of the Department of Premier and Cabinet stated that it was important for Victoria to reinforce the real meaning of a genuine “partnership” in the relationship. The Secretary noted:⁸⁷

But I think if we can reinforce to the commonwealth that if you talk the language of partnership, that genuine partnership means that you have a mutual accountability for the achievement of the outcome — that is the definition of a partnership; it is different to cooperation, it is different to coordination.

The Committee considers that a meaningful partnership between the Victorian and Commonwealth Governments is essential to enabling taxpayers' funds to be applied in a careful and considered way and in a manner which seeks to maximise outcomes for citizens in Victoria. The Victorian Government should continue to strengthen its engagement processes and activities with the Commonwealth Government prior to designing and drafting an NPA.

FINDING 18: A meaningful partnership between the Victorian and Commonwealth Governments is essential to ensuring that taxpayers' funds are used in a careful and considered way, and in a manner which seeks to maximise outcomes for citizens in the State.

RECOMMENDATION 5: The Victorian Government should develop a strategy which identifies the key improvements which could be made to the consultation and negotiation of National Partnership Agreements with the Commonwealth Government. These improvements should be consistently advocated by the Victorian Government during any informal and/or formal interactions with the Commonwealth Government.

⁸⁵ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 21 January 2016, p.1

⁸⁶ Mr Chris Eccles, Secretary, Department of Premier and Cabinet, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements, Transcript of evidence*, 19 November 2015, p.5

⁸⁷ *ibid.*

3.4.3 Intra-government review and monitoring of National Partnership Agreements

The Committee notes advice from the Department of Premier and Cabinet that mechanisms are in place within the Victorian public sector to review and monitor the administration of NPAs.

The Committee was advised that the Department maintains core working relationships across Victorian Government departments which are regularly engaged in NPA negotiation. Further, the Department also coordinates a bi-annual whole of Victorian Government IGA FFR monitoring process which takes place after the Commonwealth Government Budget and the Mid-Year Economic and Fiscal Outlook. The aim of this bi-annual monitoring process is to maintain central oversight of IGA FFR agreements. The Department advised that it uses this process to identify and monitor any significant trends or impending issues associated with the implementation of Agreements and this also provides useful information for future negotiations with the Commonwealth Government over agreements.⁸⁸

The process involves Victorian Government departments identifying all IGA FFR agreements within their portfolio and providing information on the status of each NPA, noting:⁸⁹

- issues arising during negotiation such as any significant issues which may not be resolved or timelines which may not be achieved;
- issues arising during implementation such as any timelines, milestones or performance targets which may not be achieved; and
- successes where NPAs are tracking well and/or exceeding performance targets.

FINDING 19: The Victorian Government has established internal engagement processes through its central agencies to actively identify and monitor issues related to the implementation and negotiation of agreements under the *Intergovernmental Agreement on Federal Financial Relations*, including National Partnership Agreements.

⁸⁸ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 21 January 2016, p.2

⁸⁹ *ibid.*

4 Funding for National Partnership Agreements

4.1 Introduction

Commonwealth Government funding to Victoria is essential to maintaining a range of government services and programs and also to support specific policy initiatives and priorities directed at improving outcomes for Victorians. This funding is provided under the *Intergovernmental Agreement on Federal Financial Relations* (IGA FFR) framework in the form of two main types of assistance: *General Revenue Assistance* and *Payments for Specific Purposes*.⁹⁰

General Revenue Assistance relates to a broad category of payments, including Victoria's share of the Goods and Services Tax (GST) entitlement, and is provided without conditions for the Victorian Government to spend according to its own budget priorities.

In 2015-16, Victoria expects to receive approximately \$24.15 billion in Commonwealth Government payments, both in *General Revenue Assistance* and *Payments for Specific Purposes*, which will comprise approximately 43 per cent of the total expected revenue in the Victorian Government's 2015-16 State Budget.⁹¹

Payments for Specific Purposes are designated Commonwealth Government payments provided to the States and Territories for state and local government programs and activities in the areas of health, education, skills and workforce development, community services, housing, Indigenous affairs, infrastructure and the environment.⁹² *Payments for Specific Purposes* are currently categorised as follows:⁹³

- *National Specific Purpose Payments* (NSPPs) for key service delivery sectors. In 2015-16, NSPPs to Victoria are expected to total \$1.06 billion.⁹⁴
- *National Health Reform Funding* which replaced the NSPP (Healthcare) from 1 July 2012. In 2015-16, this funding to Victoria expects to total \$4.17 billion.⁹⁵

90 Commonwealth of Australia, Council on Federal Financial Relations, *Intergovernmental Agreement on Federal Financial Relations – Payment Arrangements (Schedule D)*, p.D-1

91 Committee calculations based on Commonwealth of Australia, *Budget 2016-17 Federal Financial Relations Budget Paper No. 3 2016-17* (2016), p.6; Department of Treasury and Finance, *2015-16 Budget Update* (2015), p.9

92 Commonwealth of Australia, Council on Federal Financial Relations, <www.federalfinancialrelations.gov.au/content/national_agreements.aspx> viewed 15 December 2015

93 Commonwealth of Australia, Council on Federal Financial Relations, <www.federalfinancialrelations.gov.au> viewed 15 December 2015; Commonwealth of Australia, Council on Federal Financial Relations, *Intergovernmental Agreement on Federal Financial Relations – Payment Arrangements (Schedule D)*; Parliament of Victoria, Economic and Infrastructure References Committee, *Inquiry into Commonwealth Payments to Victoria* (2012), p.18

94 Commonwealth of Australia, *Budget 2016-17 Federal Financial Relations Budget Paper No. 3 2016-17* (2016), p.10

95 *ibid.*

- *Students First Funding* which replaced the NSPP (Education) from 1 January 2014. In 2015-16, this funding to Victoria is expected to total \$3.91 billion.⁹⁶
- *National Partnership Payments* (NPPs) — In 2015-16, National Partnership funding to Victoria is expected to total \$2.11 billion⁹⁷ which includes financial assistance grants to local government.

This Inquiry focuses on *National Partnership Payments* (referred to in this report as National Partnership (NP) funding) as these payments provide the funding mechanism for NPAs.

This Chapter includes:

- An overview of total Commonwealth Government funding provided to Victoria over the seven year period from 2008-09 when the IGA FFR commenced, until 2014-15. In some cases, forward estimates to 2018-19 have been included in the review.
- An analysis of Commonwealth National Partnership funding provided to Victoria between 2008-09 and 2014-15.
- An analysis of National Partnership funding provided to Victoria between 2008-09 and 2014-15 within specific sectors of government activity.
- A review and analysis of the use of Commonwealth National Partnership funding within specific sectors of government activity in Victoria.
- Information in relation to any funding and other additional services provided by the Government as a result of specific National Partnership Agreements entered into with the Commonwealth Government.

The Committee has referenced figures published in the Commonwealth Government's *Final Budget Outcome* reports, the Victorian Government's *Budget Papers*, and information provided to the Committee by the Department of Treasury and Finance.

4.2 An overview of Commonwealth Government funding to Victoria since 2008

4.2.1 National Partnership funding data

The Inquiry's Terms of Reference require the Committee to identify and report on funding levels associated with NPAs since the commencement of the IGA FFR in 2008. To do this, the Committee examined figures on Commonwealth Government funding presented in the Victorian Government's *Budget Papers* and *Annual Financial Reports*, prepared by the Department of Treasury and Finance, from 2008-09 to 2014-15.

96 *ibid.*

97 *ibid.*

The Victorian Government's *Budget Paper No.5 Statement of Finances* lists the estimated or expected, *National Partnership* funding and *National Specific Purpose Payments* estimated or expected to be received from the Commonwealth Government together with detailed tables for each government service sector and for individual NPAs.⁹⁸

The *Annual Financial Report* (AFR) provides details relating to the expenditure of Commonwealth Government funding only as the total consolidated total, referred to as *Other Specific Purpose Grants*. Expenditure relating to individual NPAs however is not provided.

As a result, the Committee was unable to reconcile the amounts detailed in *Budget Paper No.5 Statement of Finances* with key details of actual NP funding spent as reported in the AFR. The Committee found that the level of detail provided in the *Budget Paper No.5 Statement of Finances* in respect to the estimated funding for each NPA was not matched by the actual expenditures of *Specific Purpose Grants* as reported in the AFR. As such, the Committee was unable to determine the actual NP funding received from the Commonwealth Government by Victoria in each year.

In response to questions from the Committee on this matter, the Department of Treasury and Finance advised the Committee that it '*does not routinely seek to reconcile final published Commonwealth data on payments to Victoria for specific purposes [i.e. including actual NP funding received] with final Victorian total grant revenue estimates*'⁹⁹ (i.e. as listed in the *Budget Paper No. 5 Statement of Finances*).

The Department instead referred the Committee to National Partnership funding figures published in the Commonwealth Government's *Final Budget Outcome* reports. The Department explained that these reports provide the most direct aggregate picture of relevant grant funding to assist the Committee in identifying and reporting on actual National Partnership funding levels to Victoria.¹⁰⁰

The Committee notes that the *Financial Management Act 1994* stipulates that a key principle of sound financial management is that the Victorian Government must:¹⁰¹

...provide full, accurate and timely disclosure of financial information relating to the activities of the [Victorian] Government and its agencies.

⁹⁸ According to the Budget Paper No. 5 Statement of Finances, the listed sectors are Affordable Housing, Community Services, Education, Environment, Health, Infrastructure, Contingent/Other. For example, Department of Treasury and Finance, *Budget Paper No. 5: 2016-17 Statement of Finances* (2016), pp.155-62; Department of Treasury and Finance, *Budget Paper No. 5: 2015-16 Statement of Finances* (2015), pp. 171-83; Department of Treasury and Finance, *Budget Paper No. 5: 2014-15 Statement of Finances* (2014), pp. 165-78; Department of Treasury and Finance, *Budget Paper No. 5: 2013-14 Statement of Finances* (2013), pp. 182-96

⁹⁹ Department of Treasury and Finance, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, p.11

¹⁰⁰ *ibid.*, p.12

¹⁰¹ *Financial Management Act 1994* (Vic) s.23D(1)(e)

The Committee considers that, in order to provide a greater level of *'full, accurate and timely disclosure of financial information'*¹⁰², actual Commonwealth Government funding received and spent by Victoria should be presented in the AFR to a similar level of detail as that provided in *Budget Paper No.5 Statement of Finances*.

FINDING 20: The Department of Treasury and Finance includes estimates of Commonwealth Government funding, including National Partnership funding, with details of estimates for individual National Partnership Agreements within each sector of government activity in State Budget Papers. However, actual Commonwealth Government funding received is not reported in a similar level of detail in the State's *Annual Financial Reports*. As a result, full transparency around Commonwealth Government funding provided to Victoria for Specific Purposes, including National Partnership funding, is limited.

RECOMMENDATION 6: The Department of Treasury and Finance should report actual payments received from the Commonwealth Government, including National Partnership funding, in its *Annual Financial Reports* with a view to providing the same detailed format as that provided in the State Budget Papers. This would provide:

- a greater level of completeness, transparency and accountability over Commonwealth payments budgeted, received and spent by the State of Victoria; and
- facilitate tracking and reconciliation of Commonwealth Government funding to Victoria.

4.2.2 Commonwealth Government funding provided to Victoria – 2008-09 to 2018-19

The Committee used the Commonwealth Government's *Final Budget Outcome* reports, as recommended by the Department of Treasury and Finance, to identify the total amounts of funding provided by the Commonwealth Government to Victoria in the form of National Partnership funding (for NPAs), *Payments for Specific Purposes* and *General Revenue Assistance*.

Figure 4.1 shows Commonwealth Government payments compared to total Victorian Government revenue and expenditure over the ten year period 2008-09 to 2018-19 (figures for 2015-16 to 2018-19 are based on forward estimates).

According to the Victorian Government's *Annual Financial Reports* between 2009 and 2015, Victorian Government revenue and expenditure increased at a *Compound Annual Growth Rate (CAGR)* of five per cent. Within this same period,

102 *ibid.*

total Commonwealth Government payments to Victoria increased at a CAGR of four per cent and are expected to remain relatively stable at around 43 per cent of the Victorian Government total expenditure in the forward estimates.¹⁰³

The Committee notes that the composition of Commonwealth Government funding as shown in Figure 4.1 indicates a significant reduction in National Partnership funding to Victoria but increased funding in other Commonwealth Government payment categories. Specifically, analysis of the figures indicates that between 2008 and 2015:¹⁰⁴

- Commonwealth *National Partnership* funding to Victoria (excluding funding contributions due to the 2009 National Economic Stimulus Package to boost the Australian economy during the Global Financial Crisis¹⁰⁵) has been declining at a CAGR of about negative 19 per cent (from about \$6.36 billion in 2008-09 to about \$1.80 billion in 2014-15).
- Commonwealth *Payments for Specific Purposes* to Victoria (excluding NP funding) have increased at a CAGR of about 29 per cent (from about \$2.04 billion in 2008-09 to about \$9.36 billion in 2014-15).
- Commonwealth *General Revenue Assistance* to Victoria (consisting of GST payments and other general revenue assistance¹⁰⁶) has increased at a CAGR of about 4 per cent (from about \$9.32 billion in 2008-09 to about \$12.01 billion in 2014-15).

The Committee also understands that changes in the composition of Commonwealth Government payment categories reflect the policy objectives and funding priorities of different successive Commonwealth and Victorian Governments.

FINDING 21: Total Victorian Government revenues and expenditures have increased, and are expected to increase, over 2008 to 2019 by a Compound Annual Growth Rate (CAGR) of five per cent. The CAGR of Commonwealth Government funding to Victoria over the same period is four per cent. Figures also indicate that, between 2008 and 2015, there has been a change in the composition of Commonwealth Government funding to Victoria with a reduction in National Partnership funding but an increase in funding through other Commonwealth payment categories. This reflects changes in the policy objectives and funding priorities of different successive Commonwealth and Victorian Governments.

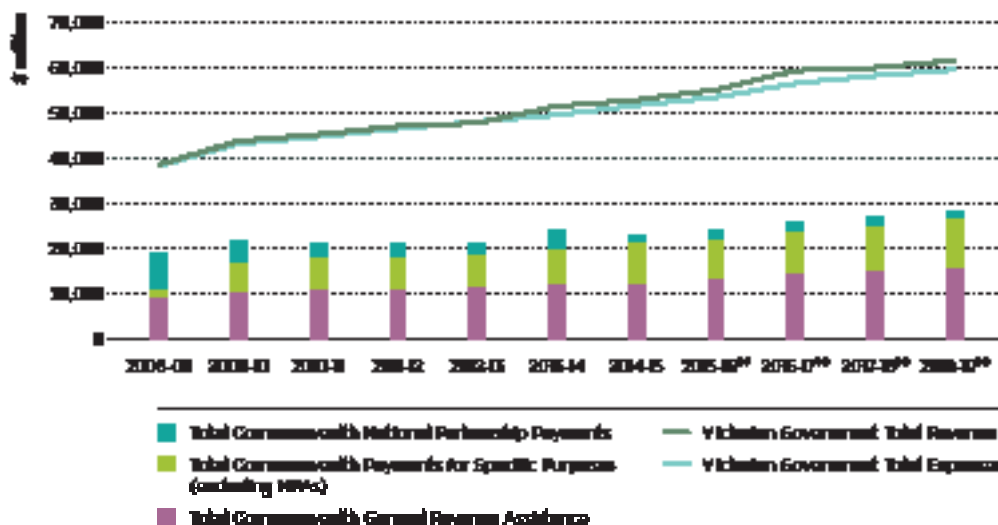
¹⁰³ Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2008-09 to 2014-15; Commonwealth of Australia, *Budget 2016-17 Federal Financial Relations Budget Paper No. 3 2016-17* (2016), pp.6, 10; Department of Treasury and Finance, *Financial Report (Incorporating Quarterly Financial Report No. 4)*, 2008-09 to 2014-15; Department of Treasury and Finance, *2015-16 Budget Update* (2015), p.9; Department of Treasury and Finance, *Budget Paper No. 5: 2016-17 Statement of Finances* (2016), p.6

¹⁰⁴ *ibid.*

¹⁰⁵ Commonwealth of Australia, *Updated Economic and Fiscal Outlook*, February 2009, pp.9-26

¹⁰⁶ Commonwealth of Australia, Council on Federal Financial Relations, *Intergovernmental Agreement on Federal Financial Relations – Payment Arrangements (Schedule D)*, p.D-1

Figure 4.1 Victorian Government revenues and expenditures and Commonwealth Government funding to Victoria (2008-09 to 2018-19)



(a) Figures shown for 2015-16 to 2018-19 represent forward estimates.

Source: Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2008-09 to 2014-15; Commonwealth of Australia, *Budget 2016-17 Federal Financial Relations Budget Paper No. 3 2016-17* (2016), pp.6, 10; Department of Treasury and Finance, *Financial Report (Incorporating Quarterly Financial Report No. 4)*, 2008-09 to 2014-15; Department of Treasury and Finance, *2015-16 Budget Update* (2015), p.9; Department of Treasury and Finance, *Budget Paper No. 5: 2016-17 Statement of Finances* (2016), p.6

4.3 National Partnership payments to Victoria — 2008-09 to 2014-15

The IGA FFR defines National Partnership payments as:¹⁰⁷

A Commonwealth [Government] 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.

For the purposes of this Inquiry, the Committee has not included financial assistance grants to local governments in the analysis of National Partnership (NP) funding received by Victoria. Although delivered through the NP funding mechanism, the Commonwealth Government’s financial assistance grants to local government are considered “untied grants” and not provided under an NPA.

Table 4.1 provides a comparison of NP funding levels across States and Territories. Review and analysis of the Commonwealth Government’s *Final Budget Outcome* reports from 2008-09 to 2014-15 indicates that:¹⁰⁸

- Total NP funding levels have fallen across all States and Territories at a CAGR of negative 14.6 per cent over the seven-year period.

¹⁰⁷ Commonwealth of Australia, Council on Federal Financial Relations, *Intergovernmental Agreement on Federal Financial Relations – Definitions and Institutional Arrangements (Schedule A)*, p.A-1

¹⁰⁸ Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2008-09 to 2014-15

- NP funding to Victoria has decreased at a CAGR of negative 19.0 per cent, which is the third highest rate of decrease across all States and Territories.

Table 4.1 Comparison of National Partnership funding across States and Territories (2008-09 to 2014-15)

State/ Territory	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	CAGR ^(a)
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(per cent)
SA	2,181	847	546	1,091	522	529	432	-23.7
TAS	634	219	471	427	276	278	162	-20.3
VIC	6,366	1,563	1,511	2,059	1,561	4,501	1,804	-19.0
ACT	371	89	109	182	87	153	113	-18.0
NSW	8,381	2,228	2,122	2,630	1,848	3,606	2,833	-16.5
QLD	5,114	1,420	6,684	3,368	2,961	2,663	2,438	-11.6
WA	2,583	959	1,033	1,234	685	1,167	1,773	-6.1
NT	556	326	733	691	375	482	601	-1.3
Total	26,187	7,652	13,210	11,682	8,315	13,379	10,156	-14.6

(a) Compound Annual Growth Rate (CAGR) is used to measure the mean growth of National Partnership funding over a time period without being affected by volatile or fluctuating funding values during the period which can render the ratio irrelevant.

Notes: Commonwealth Government financial assistance grants to local governments are not included in the National Partnership funding figures shown.

Comparison of National Partnership funding figures across States/Territories do not include the 2009 National Economic Stimulus Package (approximately \$46.7 billion in actual total National Partnership payments being disbursed between 2008-09 and 2012-13 to States/Territories) consisting of the Nation Building and Jobs Plan, the Nation Building Program (Infrastructure) and the Nation Building Plan for the Future (Infrastructure) to boost the Australian economy during the Global Financial Crisis.

Source: Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2008-09 to 2014-15; Commonwealth of Australia, *Updated Economic and Fiscal Outlook*, February 2009, pp.9-26

The Committee notes that the comparison of NP funding levels across States and Territories, shown in Table 4.1, does not include the *2009 National Economic Stimulus Package* comprising funding under the: *Nation Building and Jobs Plan*; the *Nation Building Program (Infrastructure)*; and the *Nation Building Plan for the Future (Infrastructure)*; to boost the Australian economy during the Global Financial Crisis.¹⁰⁹

FINDING 22: Commonwealth National Partnership funding levels have fallen across all States and Territories since 2008-09. Victoria has the third highest decrease in Compound Annual Growth Rate in National Partnership funding among all States and Territories behind South Australia and Tasmania over the seven year period 2008-09 to 2014-15.

¹⁰⁹ Commonwealth of Australia, *Updated Economic and Fiscal Outlook*, February 2009, pp.9-26

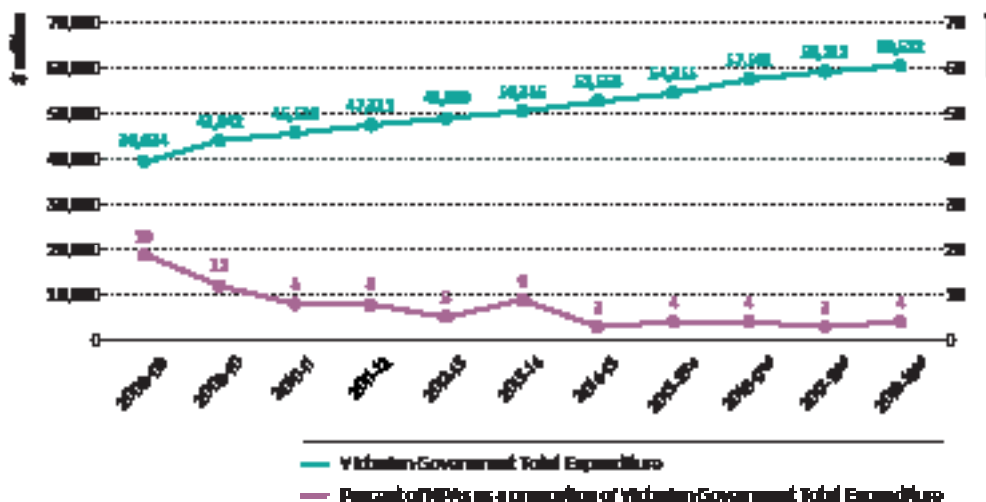
4.3.1 National Partnership funding compared with Victorian Government expenditure

Figure 4.2 shows the percentage contribution of NP funding to Victoria as a proportion of the Victorian Government’s total expenditure over the period 2008-09 to 2018-19 (including the forward estimates). Using additional information provided in the Commonwealth Government’s *Federal Financial Relations Budget Paper No. 3 2016-17* report:¹¹⁰

- NP funding as a proportion of the Victorian Government’s total expenditure fell from 19 per cent in 2008 to 3 per cent in 2014-15.
- According to the forward estimates, NP funding levels as a proportion of the Victorian Government’s total expenditure is expected to remain low, at less than five per cent in 2015-16, and eventually remains as around four per cent in 2018-19.

The Committee notes that NP funding forward estimates as reported in the Commonwealth Government’s *Mid-Year Economic and Fiscal Outlook (MYEFO) 2015-16* may change as a number of NPAs are yet to be finalised and/or are currently under negotiation between the Commonwealth Government and the States and Territories. In other words, NP funding levels published in the *MYEFO 2015-16* report do not include NPAs which are “in progress”.

Figure 4.2 National Partnership funding to Victoria as a proportion of Victorian Government total expenditure (2008-09 to 2018-19)



(a) Figures shown for 2015-16 to 2018-19 represent forward estimates.
 Source: Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2008-09 to 2014-15; Commonwealth of Australia, *Budget 2016-17 Federal Financial Relations Budget Paper No. 3 2016-17* (2016), pp.6, 10; Department of Treasury and Finance, *Financial Report (Incorporating Quarterly Financial Report No. 4)*, 2008-09 to 2014-15; Department of Treasury and Finance, *2015-16 Budget Update* (2015), p.9; Department of Treasury and Finance, *Budget Paper No. 5: 2016-17 Statement of Finances* (2016), p.6

110 Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2008-09 to 2014-15; Commonwealth of Australia, *Budget 2016-17 Federal Financial Relations Budget Paper No. 3 2016-17* (2016), pp.6, 10; Department of Treasury and Finance, *Financial Report (Incorporating Quarterly Financial Report No. 4)*, 2008-09 to 2014-15; Department of Treasury and Finance, *2015-16 Budget Update* (2015), p.9; Department of Treasury and Finance, *Budget Paper No. 5: 2016-17 Statement of Finances* (2016), p.6

FINDING 23: Although there is increased funding in General Revenue Assistance and National Specific Purpose Payments, National Partnership funding to Victoria as a proportion of Victorian Government total expenditure has been decreasing since 2008-09 from 19 per cent in 2008-09 to 3 per cent in 2014-15. National Partnership funding to Victoria is expected to remain significantly low (at around 4 per cent) in the forward estimates period 2015-16 to 2018-19.

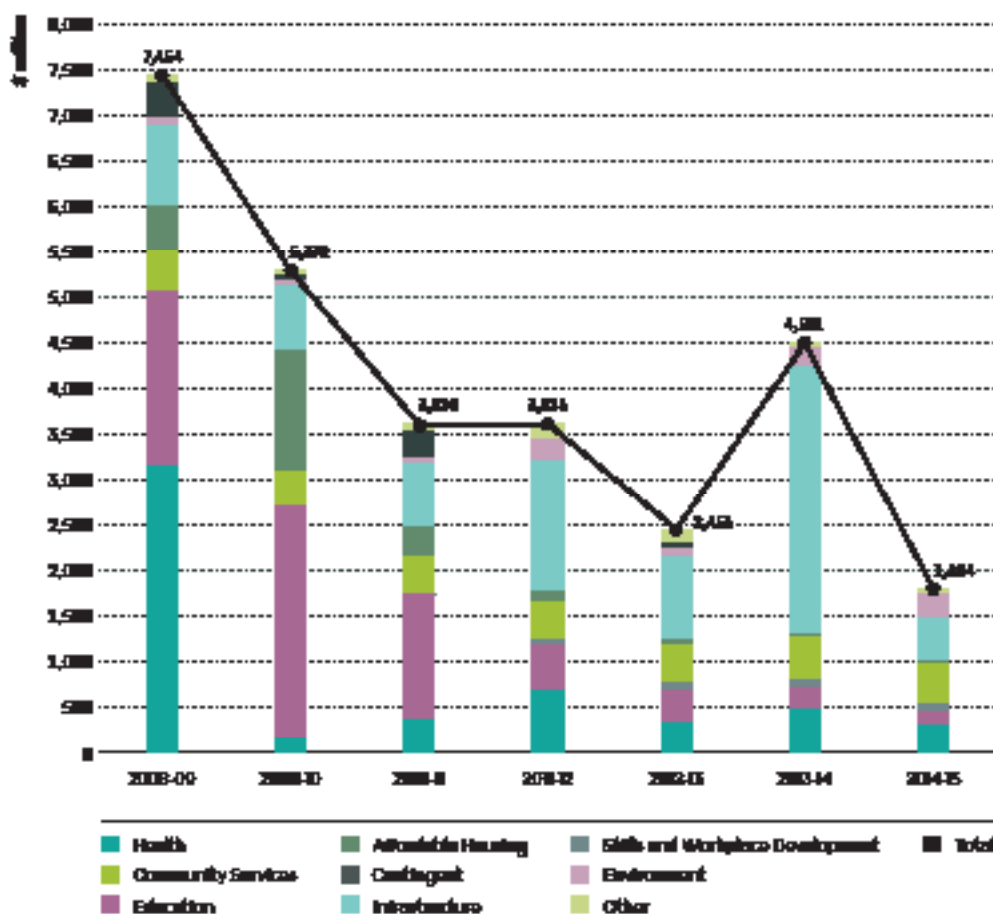
4.3.2 National Partnership funding to Victoria by government sector/funding category – 2008-09 to 2014-15

The Commonwealth Government categorises NPAs across the following service sectors and funding groups:

- Health
- Education
- Skills and Workforce Development
- Community Services
- Affordable Housing
- Infrastructure
- Environment
- Contingent
- Other

Figure 4.3 shows NP funding to Victoria over the seven year period 2008-09 to 2014-15 categorised into the key government service sectors and groupings.

Figure 4.3 National Partnership funding^(a) to Victoria by sector (2008-09 to 2014-15)



(a) Although delivered through a National Partnership funding mechanism, the Commonwealth Government’s financial assistance grants to local governments are not related to NPAs and hence are not included in the figures shown.

Source: Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2008-09 to 2014-15

Based on an analysis of the Commonwealth Government’s *Final Budget Outcome* reports which detail the NP funding provided to Victoria in each financial year, the Committee noted that over the periods between 2008-09 and 2014-15:

- The general trend in NP funding is downward with the exception of 2013-14 when significant funding was provided for capital works and infrastructure, specifically the Regional Rail Link (although Commonwealth Government funding started from 2010-11 under the NPA’s *Nation Building Plan for the Future – Building Australia Fund* programme¹¹¹) and then East West Link projects.
- The *Education* sector received the largest share of total NP funding between 2008-09 and 2010-11.

111 Department of Treasury and Finance, *Budget Paper No. 4: 2010-11 Statement of Finances* (2011), p.181; Commonwealth of Australia, Council on Federal Financial Relations, *National Partnership Agreement on Implementation of Major Infrastructure Projects in Victoria (2009-2014)*, p.21; Commonwealth of Australia, *Final Budget Outcome 2010-11* (2011), p.82; Commonwealth of Australia, *Final Budget Outcome 2011-12* (2012), p.83; Commonwealth of Australia, *Final Budget Outcome 2012-13* (2013), p.87; Commonwealth of Australia, *Final Budget Outcome 2013-14* (2014), p.76

- The *Infrastructure* sector received the largest share of total NP funding between 2011-12 and 2014-15.
- The *Skills and Workforce Development* sector was the only sector in which NP funding experienced an increase in the *Compound Annual Growth Rate* (CAGR) over the whole period 2008-09 to 2014-15, measured at 46 per cent.
- NP funding for the *Affordable Housing* sector (excluding the “Contingent” funding category¹¹²) experienced the largest decrease in the CAGR of negative 39 per cent.

These variations provide some indication of the priorities of successive Commonwealth Governments over the seven year period.

4.3.3 Uses of National Partnership funding in Victoria

Evidence provided to the Committee in relation to the purpose and implementation of NPAs indicated that whilst some NPAs are clearly directed at a specific capital works or infrastructure type project, other NPAs relate to service delivery or aspects of service delivery within a specific sector of government activity.

To gain a better understanding of how NP funding to Victoria has been utilised, the Committee requested the Department of Treasury and Finance to provide a categorisation of NPAs between capital works and service delivery.

The Department advised the Committee that Commonwealth Government funding is not systematically classified as ‘recurrent’ or ‘capital’.¹¹³ In many cases NPAs include a mix of funding applications which are not easily classified as requested. However, to assist the Committee’s Inquiry, the Department undertook a review of published Commonwealth grant lines and classified these on the basis of whether the funding was provided primarily for:¹¹⁴

- the delivery of capital works and infrastructure projects;
- service delivery purposes; and
- the facilitation of reforms.

The Department further stressed that the classification is ‘*indicative only, is more likely reliable in more recent years and does not attempt to disaggregate funding type beyond published grants lines*’.¹¹⁵ The Department also advised that an analysis of figures for 2008-09 were not available as full year datasets for NP funding to Victoria only commenced in 2009-10.¹¹⁶

112 National Partnership funding provided under the “Contingent” category arises where the Commonwealth Government commits to provide compensation when an event occurs or otherwise guarantees a State or Territory’s financial position.

113 Department of Treasury and Finance, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, p.1

114 *ibid.*, p.2

115 *ibid.*, p.1

116 *ibid.*

Figure 4.4 has been prepared using the information provided by the Department of Treasury and Finance for the six year period 2009-10 to 2014-15. The information indicates that the bulk (i.e. 43 to 76 per cent) of NP funding provided to Victoria over this period has related to ‘capital works and infrastructure projects’.¹¹⁷

The Committee noted that NP funding received for capital works and infrastructure projects via an NPA would be appropriate within the definitions set out in the IGA FFR which states that NP payments can be provided to support ‘*the delivery of specified projects*’.¹¹⁸

In terms of NP funding received for ‘facilitating reforms’, the information provided to the Committee indicates that these payments have varied over the six year period and are relatively small by comparison, ranging between 2 to 13 per cent of the total NP funding to Victoria.¹¹⁹

The Committee also notes that the amounts applied to ‘facilitating reforms’ have been declining since 2011-12 and was not utilised in 2014-15. The Department of Treasury and Finance advised that it has taken ‘reform agreements’ to refer to NPAs which delivered facilitation and/or reward payments rather than project payments. The Department stated that this treatment was consistent with the original categorisation of National Partnerships in the IGA FFR.¹²⁰

The Department advised that the balance of NP funding has been categorised as relating to service delivery, although it was noted that some NPAs may have been treated by portfolio departments as being for capital purposes (e.g. two smaller NPAs in the Department of Education and Training: *National Solar Schools Program* and *Indigenous Early Childhood Development- Children and Family Centres*).¹²¹

117 Committee calculations based on Department of Treasury and Finance, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, pp.3-6

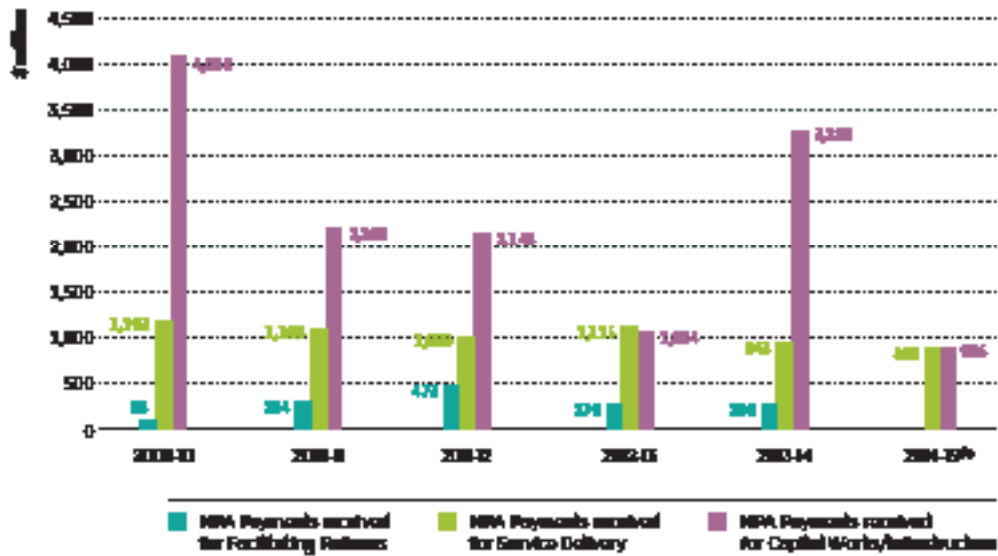
118 Commonwealth of Australia, Council on Federal Financial Relations, *Intergovernmental Agreement on Federal Financial Relations – Definitions and Institutional Arrangements (Schedule A)*, p.A-1; *Federal Financial Relations Act 2009* s.16(1)

119 Committee calculations based on Department of Treasury and Finance, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, pp.3-6

120 Department of Treasury and Finance, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, p.2

121 *ibid.*

Figure 4.4 Utilisation of National Partnership funding to Victoria (indicative^(a)) (2009-10 to 2014-15)



(a) The Department of Treasury and Finance highlighted that the data provided is indicative only and ‘does not necessarily reflect or align with the treatment and presentation adopted for financial transfers included in Victorian estimates of grants’¹²² to Victoria.

(b) In 2014-15, NP funding was not utilised for facilitating reforms

Notes: Although delivered through a National Partnership funding mechanism, the Commonwealth Government’s financial assistance grants to local government are not related to NPAs and hence are not included in the figures shown.

Source: Committee calculations based on Department of Treasury and Finance, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, pp.3-6

National Partnership funding used for service delivery purposes

Table 4.2 shows NP funding received by Victoria for ‘service delivery’ by government sector. The figures indicate that total NP funding provided for this purpose has declined, from \$1.19 billion in 2009-10 to \$899 million in 2014-15, at a Compound Annual Growth Rate of negative 5.5 per cent over the six year period.¹²³ Table 4.2 also shows the Community Services sector, understandably, receiving the largest share of funding for this purpose.¹²⁴

Table 4.2 also indicates the proportion of total NP funding provided to Victoria to support ‘service delivery’ in each year. The proportions have varied but remained significant with approximately 50 per cent of total NP funding used for service delivery purposes in 2014-15.

122 *ibid.* p.1

123 Committee calculations based on Department of Treasury and Finance, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, pp.3-6

124 *ibid.*

Table 4.2 National Partnership funding to Victoria for service delivery by sector (indicative^(a)) (2009-10 to 2014-15)

Sector	2009-10 (\$ million)	2010-11 (\$ million)	2011-12 (\$ million)	2012-13 (\$ million)	2013-14 (\$ million)	2014-15 (\$ million)
Health	116	113	168	126	166	118
Education	141	54	160	192	114	120
Skills and Workforce Development	-	6	15	74	72	102
Community Services	389	395	416	426	472	442
Affordable Housing	354	112	45	36	32	23
Infrastructure	19	21	23	21	24	28
Environment	47	33	38	36	11	14
Contingent	68	324	44	49	5	3
Other	59	53	93	154	48	49
Total NP funding used for service delivery	1,193	1,108	1,000	1,115	943	899
Proportion of total NP funding received	22%	31%	28%	45%	21%	50%

(a) The Department of Treasury and Finance highlighted that the data provided is only indicative and 'does not necessarily reflect or align with the treatment and presentation adopted for financial transfers included in Victorian estimates of grants'¹²⁵ to Victoria.

Note: Although delivered through a National Partnership funding mechanism, the Commonwealth Government's financial assistance grants to local government are not related to NPAs and hence are not included in the figures shown.

Source: Committee calculations based on Department of Treasury and Finance, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Specific Questionnaire*, received 27 January 2016, pp.3-6

FINDING 24: The proportion of Commonwealth National Partnership funding provided to Victoria to support service delivery was consistently significant over the period 2009-10 to 2014-15. Approximately 50 per cent of the total National Partnership funding provided to Victoria in 2014-15 was applied to service delivery purposes in the State.

The Committee found that the provision and application of NP funding for 'service delivery' purposes could be questioned against the principles and intent of the IGA FFR which states that NP payments should be purposed towards:¹²⁶

- supporting the delivery of specified outputs or projects;
- facilitating reforms; and/or
- rewarding jurisdictions that deliver on national reforms or achieve service delivery improvements.

¹²⁵ Department of Treasury and Finance, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Specific Questionnaire*, received 27 January 2016, p.1

¹²⁶ Commonwealth of Australia, Council on Federal Financial Relations, *Intergovernmental Agreement on Federal Financial Relations – Definitions and Institution Arrangements (Schedule A)*, p.A-1; *Federal Financial Relations Act 2009* s16(1)

Some of the NPA examples provided as evidence to the Committee indicated that issues arise when NP funding is provided to support services which are “ongoing” in nature as opposed to funding provided as a “once-off” injection to increase service capacity or to target a specific issue associated with service improvement.

The Committee considers that the provision and application of NP funding for ongoing service delivery is not consistent with the objectives articulated for NPAs in the IGA FFR. Consequently, Commonwealth Government funding which is provided to support or sustain ongoing service delivery in areas such as housing, education, health and legal assistance should be provided through recurrent funding mechanisms rather than through NPAs which were originally intended to be short-term funding arrangements.

Specific NPAs which illustrate the difficulties posed to Victoria when the Commonwealth Government use NP funding to support ongoing service delivery are discussed in Chapters 5 and 6 of this report.

FINDING 25: Commonwealth National Partnership funding provided to support service delivery creates problems for Victoria especially in those instances where funding supports ongoing or long-term service provision such as for homelessness, education, health and legal assistance services. The use of National Partnership Agreements for these purposes is inconsistent with the original principles and intent for National Partnerships as outlined in the 2008 *Intergovernmental Agreement on Federal Financial Relations*.

4.4 Utilisation of National Partnership funding by key government sector/ funding category — 2008-09 to 2014-15

The Committee used the Commonwealth Government’s *Final Budget Outcome* reports from 2008-09 to 2014-15 to analyse the level of NP funding provided to Victoria across a number of key government sector/funding category. Comments are provided to explain the variations in funding levels over the period reviewed. The Committee has also used the information provided by the Department of Treasury and Finance to provide an indication of how NP funding has been utilised within each sector for either:

- capital works and infrastructure projects;
- service delivery purposes; or
- facilitation of reforms.

4.4.1 National Partnership funding to the Health sector

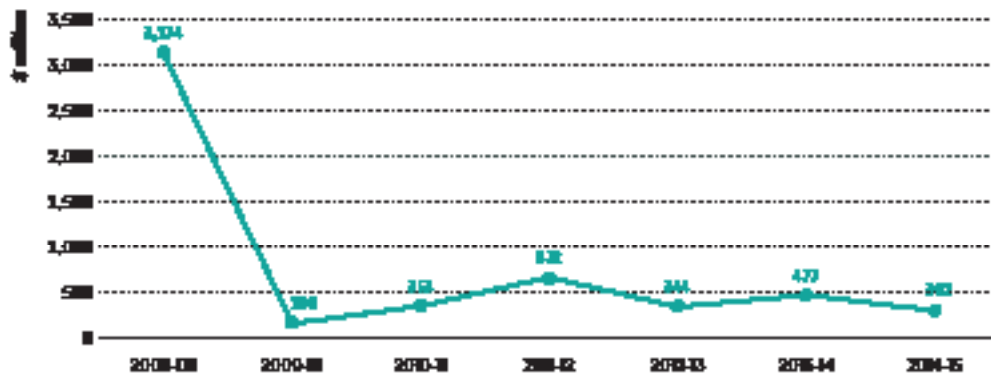
As shown in Figure 4.5, the Health sector in Victoria received a significant amount of NP funding (\$3.17 billion) in 2008-09. Figure 4.5 also indicates reductions in NP funding in 2009-10 and again in 2012-13. These reductions occurred as a result of changes to the way in which the Commonwealth Government has funded the healthcare sector over the past seven years.

In 2008-09, a number of Commonwealth Government payments, which had been previously provided through NP funding, were transferred to another Commonwealth funding mechanism known as the *National Healthcare Specific Purpose Payment (SPP)* which commenced on 1 July 2009.¹²⁷ Under the IGA FFR, *National Healthcare SPPs* are made as part of a separate National Healthcare Agreement which supports the States and Territories in delivering services across the Health sector.

In August 2011, a new National Health Agreement was signed by COAG in an effort to deliver major reforms to the funding and delivery of health and aged care services across Australia.¹²⁸ As a result, from July 2012, *National Health Reform Funding* replaced the *National Healthcare SPP*.¹²⁹ The Commonwealth Government's *National Health Reform Funding* is provided to the States and Territories on a per capita basis. In 2014-15, Victoria received \$3.85 billion as part of this funding arrangement.¹³⁰

The Commonwealth Government continues to provide additional funding for the Health sector through NPAs. Between 2012-13 and 2014-15, NP funding for the Health sector has varied between 11 and 17 per cent of the total NP funding provided to Victoria.¹³¹ This is not expected to change significantly as indicated in the forward estimates.¹³²

Figure 4.5 Health National Partnership funding to Victoria (2008-09 to 2014-15)



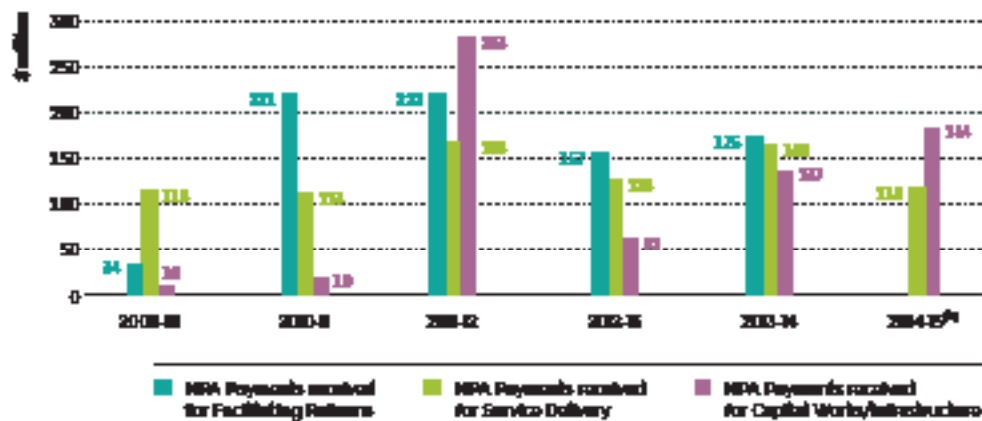
Notes: National Healthcare Specific Purpose Payments commenced from July 2009.
 National Health Reform Funding replaced *National Healthcare Specific Purpose Payments* from July 2012.
 Source: Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2008-09 to 2014-15

Figure 4.6 provides an indication of how NP funding has been utilised within the Health sector in Victoria. The bar graphs indicate that:¹³³

127 Commonwealth of Australia, *Final Budget Outcome 2008-09* (2008), p.61
 128 Commonwealth of Australia, Council on Federal Financial Relations, *National Health Reform*, <www.federalfinancialrelations.gov.au/content/national_health_reform.aspx>, viewed 30 May 2016
 129 *ibid.*
 130 Commonwealth of Australia, *Final Budget Outcome 2014-15* (2015), p.59
 131 Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2012-13 to 2014-15
 132 Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2008-09 to 2014-15; Commonwealth of Australia, *Mid-Year Economic and Fiscal Outlook 2015-16* (2015), pp.76-80
 133 Committee calculations based on Department of Treasury and Finance, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, pp.3-6

- NP funding used for ‘facilitating reforms’ and ‘capital works and infrastructure projects’ has varied over the six year period 2009-10 to 2014-15. For example, in 2011-12 there was a significant increase in NP funding for capital works through the *NPA on Health Infrastructure* which related to the National Cancer System.¹³⁴
- NP funding applied to ‘facilitating reforms’ was substantially higher in both 2010-11 and 2011-12 compared with other years.
- The proportion of NP funding applied to ‘service delivery’ purposes in the Health Sector was the highest in 2009-10 (at around 73 per cent) and remained significant between 2010-11 and 2014-15 at around 25 to 40 per cent.
- The amount of NP funding provided for service delivery peaked in 2011-12 at \$167.60 million, mainly due to the new subacute beds guarantee funding as part of the *NPA on Improving Public Hospital Services*.¹³⁵

Figure 4.6 Utilisation^(a) of Health National Partnership funding to Victoria (2009-10 to 2014-15)



(a) The Department of Treasury and Finance highlighted that the data provided on utilisation of funding is indicative only and ‘does not necessarily reflect or align with the treatment and presentation adopted for financial transfers included in Victorian estimates of grants’¹³⁶ to Victoria.

(b) In 2014-15, NP funding was not utilised for facilitating reforms.

Source: Committee calculations based on Department of Treasury and Finance, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/ Specific Questionnaire*, received 27 January 2016, pp.3-6

FINDING 26: The level of Commonwealth National Partnership funding to the Victorian Health sector has fluctuated over the six year period 2009-10 to 2014-15. The proportion of funding used for service delivery purposes has remained significant over the period at around 25 to 40 per cent of total National Partnership funding to the Victorian Health Sector.

¹³⁴ Committee calculations based on Commonwealth of Australia, *Final Budget Outcome 2011-12* (2012), pp.74-7

¹³⁵ *ibid.*

¹³⁶ Department of Treasury and Finance, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Specific Questionnaire*, received 27 January 2016, p.1

4.4.2 National Partnership funding to the Education sector

In 2008-09, a separate *National Education Agreement* commenced under the IGA FFR through which the Commonwealth Government provided *National Schools Specific Purpose Payments* (SPPs) to support the States and Territories in delivering services across the education sector.¹³⁷

From 1 January 2014, a new National Education Reform Agreement was agreed. This Agreement is known as the *Students First Funding* arrangement and replaced the *National Schools SPP*.¹³⁸ Payments under the new Agreement are paid to States, Territories and non-government education sectors on a per capita basis. In 2014-15, Victoria received \$3.68 billion as part of this funding arrangement.¹³⁹

Figure 4.7 shows the NP funding provided to Victoria for the Education sector from 2008-09 to 2014-15. The data indicates that significantly higher funding levels were provided between 2008-09 and 2010-11. This was mainly due to:

- Approximately 69 per cent (\$1.31 billion) of the NP funding provided to Victoria in 2008-09 related to *Indigenous Education Strategic Initiatives; School Grants; Targeted Programs; and Skilling Australia's Workforce*. From 1 January 2009, these payments were included in funding provided through the *National Schools SPPs* rather than through NPs.¹⁴⁰
- In 2008-09 and 2009-10, NP funding to the Education sector included funding for '*Skills and Workforce Development*'. NPAs to this sector were separated in 2010-11.
- Between 2009-10 and 2010-11, the *NPA on National Building and Jobs Plan (Building the Education Revolution (BER))* was implemented as part of the then Commonwealth Government's economic stimulus package. The BER component of the NPA injected large amounts of Commonwealth Government funding for Victorian school infrastructure and capital works projects¹⁴¹.
- Between 2008-09 and 2012-13, the *NPA on Digital Education Revolution* provided approximately \$27 million each year to support the expansion of ICT in Victorian schools.¹⁴²

¹³⁷ Commonwealth of Australia, Council on Federal Financial Relations, *National Agreements*, <www.federalfinancialrelations.gov.au/content/national_agreements.aspx>, viewed 30 May 2016

¹³⁸ Commonwealth of Australia, Council on Federal Financial Relations, *Students First*, <www.federalfinancialrelations.gov.au/content/students_first.aspx>, viewed 30 May 2016

¹³⁹ Commonwealth of Australia, *Final Budget Outcome 2014-15 (2015)*, p.59

¹⁴⁰ Committee calculations based on Commonwealth of Australia, *Final Budget Outcome 2008-09 (2009)*, pp.62, 74.

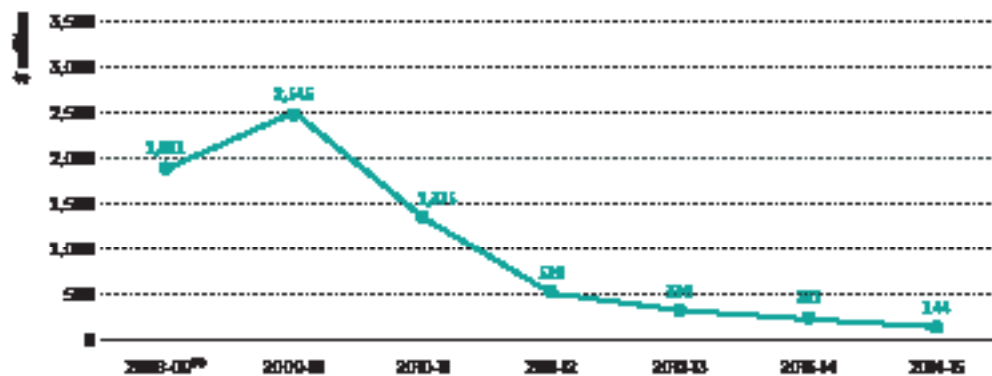
¹⁴¹ Commonwealth of Australia, *Final Budget Outcome 2009-10 (2010)*, pp.59-79; Commonwealth of Australia, *Final Budget Outcome 2010-11 (2011)*, pp.66-86

¹⁴² Committee calculations based on Department of Education and Training, *Committee Hearing: Supporting Material for Inquiry into the Impact of Victorian Government Service Delivery Changes to National Partnerships 17 November 2015 (Amended)*, supplementary evidence received 17 November 2015, p.5

Figure 4.7 also shows that NP funding provided to the Education sector decreased substantially in 2011-12 (a drop of 62 per cent on 2010-11) and continued to fall by around 30 to 35 per cent each year from \$519.40 million in 2011-12 to \$144.34 million in 2014-15. This significant decrease was due to:

- reduced funding under the *NPA on National Building and Jobs Plan (Building the Education Revolution)*, which was nearing the end of its agreement period; and
- the expiry of the *NPA on Digital Education Revolution* in 2012-13.

Figure 4.7 Education National Partnership funding to Victoria (2008-09^(a) to 2014-15)



(a) In 2008-09, approximately 69 per cent (\$1.31 billion) of the NP funding related to payments for *Indigenous Education Strategic Initiatives, School Grants, Targeted Programs* and *Skilling Australia's Workforce*. From 1 January 2009, these payment categories were subsequently recorded as part of the *National Schools SPPs*.

Source: Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2008-09 to 2014-15

Figure 4.8 provides an indication of how NP funding has been utilised for capital works and infrastructure, service delivery, and facilitating reforms in the Education sector over the six year period 2009-10 to 2014-15. The bar graphs indicate that:¹⁴³

- In 2009-10 and 2010-11, approximately 92 per cent of Education NP funding was provided for 'capital works and infrastructure projects' through the *NPA on National Building and Jobs Plan (Building the Education Revolution)*.¹⁴⁴ There was a smaller proportion of NP funding utilised for capital works in 2011-12 (approximately 36 per cent) as this NPA came to an end. In recent years, NP funding for capital works, as a proportion of total Education NP funding, has been minimal at around 17 per cent in 2014-15.
- While Education NP funding applied to 'service delivery' has varied over the six year period, it has also comprised the predominant use of NP funding since 2011-12. Funds utilised for 'service delivery' purposes was at its highest in 2012-13 at about \$192.0 million (about 58 per cent of total NP funding

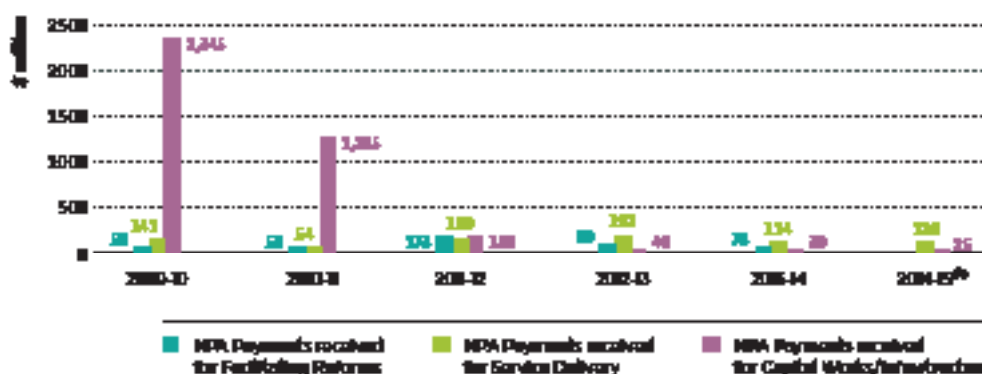
¹⁴³ Committee calculations based on Department of Treasury and Finance, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, pp.3-6

¹⁴⁴ Committee calculations based on Commonwealth of Australia, *Final Budget Outcome 2009-10* (2010), pp.71-2; Commonwealth of Australia, *Final Budget Outcome 2010-11* (2011), pp.77-8

for Education). In 2014-15, NP funding used for ‘service delivery’ purposes was significant at \$119.6 million, which comprised about 83 per cent of total NP funding for Education.

- NP funding used for ‘facilitating reforms’ fluctuated over the six year period. Amounts used for ‘facilitating reforms’ was reasonably low between 2009-10 and 2010-11 and remained at about 33 per cent between 2011-12 and 2013-14. The data shows no NP funding was applied to reform initiatives in the Education sector in 2014-15.

Figure 4.8 Utilisation^(a) of Education National Partnership funding to Victoria (2009-10 to 2014-15)



(b) The Department of Treasury and Finance highlighted that the data provided on utilisation of funding is indicative only and ‘does not necessarily reflect or align with the treatment and presentation adopted for financial transfers included in Victorian estimates of grants’¹⁴⁵ to Victoria.

(c) In 2014-15, NP funding was not utilised for facilitating reforms.

Source: Committee calculations based on Department of Treasury and Finance, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/ Specific Questionnaire*, received 27 January 2016, pp.3-6

FINDING 27: A significant amount of Commonwealth National Partnership funding provided for the Education sector in Victoria in 2009-10 and 2010-11 was used for capital works and infrastructure improvements in schools as part of the *National Partnership Agreement on Building the Education Revolution*. Since 2011-12, a significant proportion of National Partnership funding provided to the Education sector has been used for service delivery purposes, comprising around 55 per cent of National Partnership funding to this sector and more recently as high as 83 per cent in 2014-15.

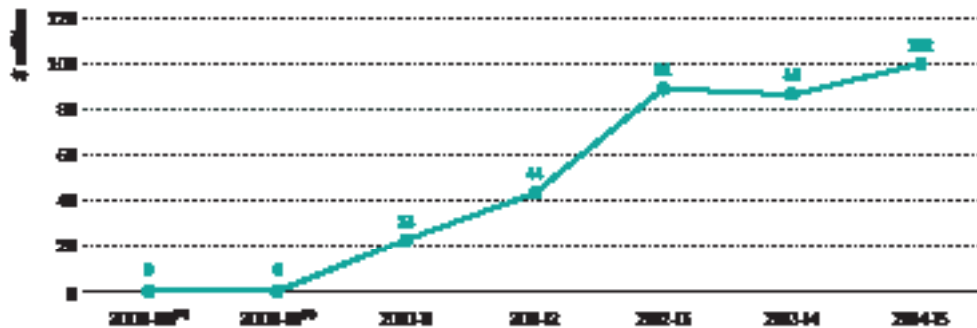
145 Department of Treasury and Finance, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Specific Questionnaire*, received 27 January 2016, p.1

4.4.3 National Partnership funding to the Skills and Workforce Development sector

As noted in the previous section, from 2008-09 to 2010-11, NP funding for the *Skills and Workforce Development* sector was included in payments to the Education sector. In 2010-11, *Skills and Workforce Development* was introduced by the Commonwealth Government as a separate NP sector.

Figure 4.9 shows a steady increase in NP funding levels for this sector over the five year period 2010-11 to 2014-15. There was a significant increase in NP funding from 2012-13 as a result of the implementation of the *NPA on Skills Reform* which was aimed at reform of the Vocational Education and Training system.¹⁴⁶

Figure 4.9 Skills and Workforce Development National Partnership funding to Victoria (2008-09 to 2014-15)



(a) In 2008-09 and 2009-10, National Partnership funding for the Skills and Workforce Development sector was previously included in payments to the Education sector.

Source: Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2008-09 to 2014-15

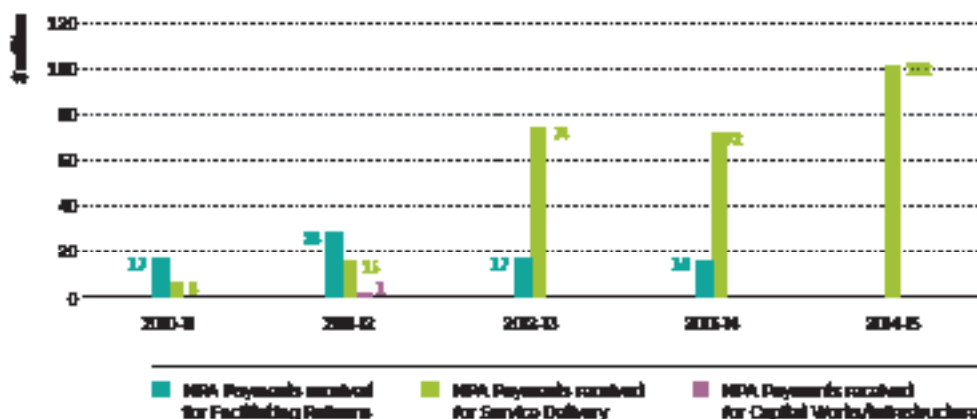
Figure 4.10 indicates how Skills and Workforce Development NP funding to Victoria over the five year period 2010-11 to 2014-15. The Committee notes that, as a proportion of the total NP funding to Victoria for this sector:¹⁴⁷

- NP funding applied to ‘capital works and infrastructure projects’ has been very minimal, at less than three per cent, over the period.
- NP funding used for ‘service delivery’ was low in 2010-11 and 2011-12 but became more significant in 2012-13 at approximately 81 per cent of NP funding to the sector in that year. In 2014-15, NP funding applied to ‘service delivery’ purposes comprised 100 per cent of total NP funding to the sector and was at its most significant dollar amount of about \$102 million.
- NP funding applied to ‘facilitating reforms’ peaked in 2011-12 at about 28 per cent (\$28 million) of total Skills and Workforce Development NP funding. Since then it has fallen from \$28 million in 2011-12 to \$15.7 million in 2013-14.

¹⁴⁶ Department of Education and Training, *Committee Hearing: Supporting Material for Inquiry into the Impact of Victorian Government Service Delivery Changes to National Partnerships 17 November 2015 (Amended)*, supplementary evidence received 17 November 2015, p.5

¹⁴⁷ Committee calculations based on Department of Treasury and Finance, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, pp.3-6

Figure 4.10 Utilisation^(a) of Skills and Workforce Development National Partnership funding to Victoria (2010-11 to 2014-15)



(a) The Department of Treasury and Finance highlighted that the data provided on utilisation of funding is indicative only and 'does not necessarily reflect or align with the treatment and presentation adopted for financial transfers included in Victorian estimates of grants'¹⁴⁸ to Victoria.

(b) NP funding was not utilised for facilitating reforms in 2014-15.

(c) NP funding was not utilised for capital works/infrastructure projects in 2010-11, 2012-13, 2013-14 and 2014-15.

Source: Committee calculations based on Department of Treasury and Finance, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, pp.3-6

FINDING 28: Commonwealth National Partnership funding provided to Victoria for the Skills and Workforce Development sector has been on an increasing trend since first introduced in 2010-11. Funding applied to service delivery in this sector has been significant, especially since 2012-13 when reforms to the Vocational Education and Training sector commenced.

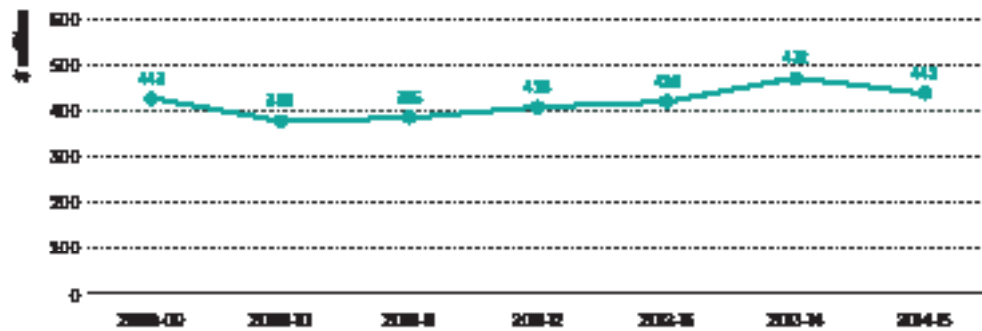
4.4.4 National Partnership funding to the Community Services sector

Figure 4.11 indicates that NP funding levels provided to Victoria for the Community Services sector have remained fairly stable over the seven year period 2008-09 to 2014-15. Most of the NP funding to the Community Services sector (between 60 to 92 per cent) relates to either:

- the agreement for the *Home and Community Care (HACC)* program; or
- the *Bilateral Agreement between the Commonwealth and Victoria for Transitioning Responsibilities for the Aged Care and Disability Services in Victoria*.

148 Department of Treasury and Finance, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Specific Questionnaire*, received 27 January 2016, p.1

Figure 4.11 Community Services National Partnership funding to Victoria (2008-09 to 2014-15)



Source: Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2008-09 to 2014-15

Information provided to the Committee by the Department of Treasury and Finance indicates that NP funding to the *Community Services* sector has been wholly applied to 'service delivery' purposes.¹⁴⁹

The Committee notes that one of the more significant NP funding agreements in this sector related to the *NPA on Certain Concessions for Pensioner Concession Card and Seniors Card Holders* which provided for 'ongoing funding and provision of certain concessions for pensioners and Seniors Card holders'.¹⁵⁰

The Commonwealth Government's *Final Budget Outcome 2014-15* and *Federal Financial Relations Budget Paper No. 3 2016-17* reports indicate that funding for the *NPA on Certain Concessions for Pensioner Concession Card and Seniors Card Holders* has been discontinued. The Victorian Government advised the Committee that the termination of this NPA had resulted in a funding shortfall in 2014-15 of \$73.8 million.¹⁵¹ The termination of this NPA by the Commonwealth Government is discussed in further detail in Chapter 5 of this report.

FINDING 29: Commonwealth National Partnership funding provided to Victoria for the Community Services sector has been wholly utilised for service delivery. Funding amounts have remained fairly constant over the seven year period 2008-09 to 2014-15.

FINDING 30: The sudden cessation of funding in 2014-15 provided for under the *National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders* resulted in the Victorian Government compensating for the loss of \$73.8 million in the Commonwealth Government's contribution for the concessions program.

149 Committee calculations based on Department of Treasury and Finance, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, pp.3-6

150 Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.25

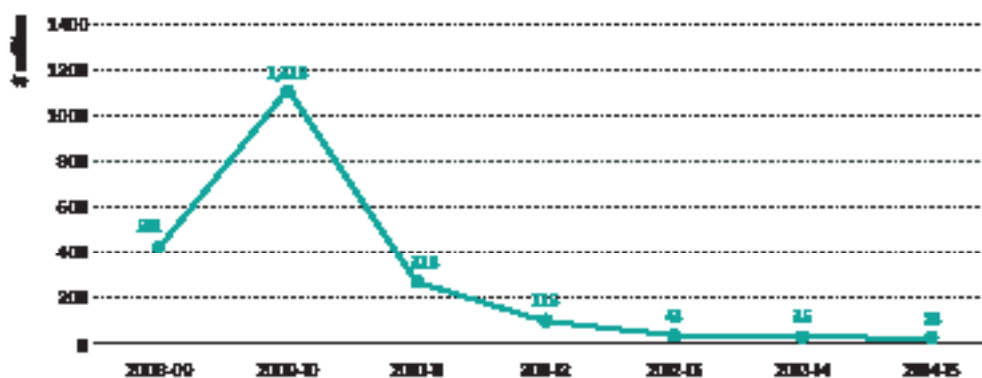
151 *ibid.*, p.4

4.4.5 National Partnership funding to the Affordable Housing sector

In 2008-09, around 26 per cent (\$130.35 million) of total NP funding to the Affordable Housing sector in Victoria related to the payments for: *Commonwealth-State Housing Agreement Block Assistance/Base Funding; Community Housing; Crisis Accommodation Assistance; Housing Assistance for Indigenous People; and Supported Accommodation Assistance*.¹⁵² From 1 January 2009, these payments were subsequently paid as *National Specific Purpose Payments* which later became the *National Affordable Housing Agreement*.¹⁵³

Figure 4.12 indicates a spike in NP funding in this sector in 2009-10. This was due to a significant portion (approximately 69 per cent or \$905 million)¹⁵⁴ of funding provided through the *NPA on Nation Building and Jobs Plan (Social Housing)* as part of the Commonwealth Government's economic stimulus package aimed at avoiding the economic impacts of the Global Financial Crisis.

Figure 4.12 Affordable Housing National Partnership funding to Victoria (2008-09^(a) to 2014-15)



(a) In 2008-09, approximately 26 per cent (\$130.35 million) of the NP funding related to payments for *Commonwealth-State Housing Agreement Block Assistance/Base Funding, Community Housing, Crisis Accommodation Assistance, Housing Assistance for Indigenous People and Supported Accommodation Assistance*. From 1 January 2009, these payment categories were subsequently recorded as part of the *National Specific Purpose Payments*.

Source: Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2008-09 to 2014-15

The primary aim of this NPA was to 'increase the supply of social housing through new construction, and contribute to reduced homelessness, and improved outcomes for homeless and Indigenous Australians'.¹⁵⁵

After 2010-11, NP funding for the Affordable Housing sector was significantly reduced as the *NPA on Nation Building and Jobs Plan (Social Housing)* came to an end. From 2010-11 onwards, the majority of other NP funding in this sector related to the *NPA on Homelessness* and the *NPA on First Home Owners Boost*.

¹⁵² Committee calculations based on Commonwealth of Australia, *Final Budget Outcome 2008-09* (2009), pp.62, 77

¹⁵³ *ibid.*

¹⁵⁴ Committee calculations based on Commonwealth of Australia, *Final Budget Outcome 2009-10* (2010), p.74

¹⁵⁵ Commonwealth of Australia, Council on Federal Financial Relations, *National Partnership Agreement on Social Housing*, <www.federalfinancialrelations.gov.au/content/npa/housing.aspx> viewed 21 January 2016

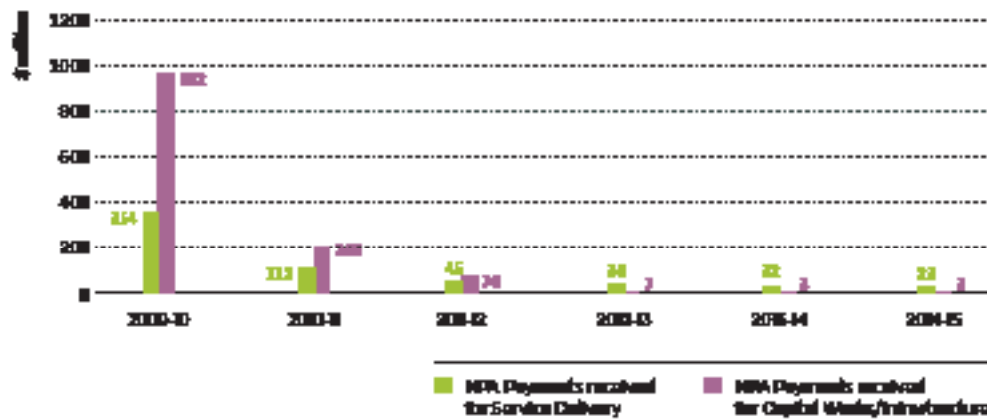
From 2012-13, the *NPA on Homelessness* comprised the majority (around 90 per cent) of the total NP funding provided to Victoria for the Affordable Housing sector.¹⁵⁶

The figures indicate that since 2010-11, NP funding in this sector has been falling steadily each year, decreasing by:

- approximately 63 per cent in 2011-12 and 2012-13;
- 18.6 per cent in 2013-14; and
- 25.7 per cent in 2014-15.

Figure 4.13 shows how NP funding received for the Affordable Housing sector has been utilised over the six year period 2009-10 to 2014-15.

Figure 4.13 Utilisation^(a) of Affordable Housing National Partnership funding to Victoria (2009-10 to 2014-15)



(a) The Department of Treasury and Finance highlighted that the data provided on utilisation of funding is indicative only and 'does not necessarily reflect or align with the treatment and presentation adopted for financial transfers included in Victorian estimates of grants'¹⁵⁷ to Victoria.

Source: Committee calculations based on Department of Treasury and Finance, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, pp.3-6

Based on analysis of the information provided by the Department of Treasury and Finance, the Committee notes that:¹⁵⁸

- NP funding applied to 'capital works and infrastructure projects' was significantly high in 2009-10 and 2010-11 due to the Commonwealth Government's economic stimulus package to avoid a recession created by the global financial crisis. In 2009-10, funding for capital works comprised 73 per cent (\$962 million) of the total NP funding to Victoria for the Affordable Housing sector. After 2011-12, funding applied for this purpose has declined significantly.

¹⁵⁶ Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2012-13 to 2014-15

¹⁵⁷ Department of Treasury and Finance, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Specific Questionnaire*, received 27 January 2016, p.1

¹⁵⁸ Committee calculations based on Department of Treasury and Finance, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, pp.3-6

- Between 2009-10 and 2011-12, NP funding used for ‘service delivery’ comprised a fairly small proportion of total NP funding provided for the Affordable Housing sector (between 27 to 39 per cent). From 2012-13, funding applied to service delivery in this sector increased substantially as a proportion. In 2014-15, NP funding used for service delivery comprised 90 per cent (\$23 million) of the NP funding provided to the Affordable Housing sector in that year.

As noted earlier, the Commonwealth Government also provides financial assistance to the Affordable Housing sector through the *National Affordable Housing Agreement*.¹⁵⁹ In 2014-15, Victoria received approximately \$325 million under the Agreement which is directed towards improving housing affordability and homelessness outcomes for Australians.¹⁶⁰

FINDING 31: Commonwealth National Partnership funding provided to the Affordable Housing sector in Victoria has fallen significantly over the seven year period 2008-09 to 2014-15. In 2009-10, significant National Partnership funds were provided to boost the supply of social housing stock and as part of the Commonwealth Government’s economic stimulus package in response to the global financial crisis. Since 2012-13, National Partnership funding in this sector has been utilised mainly for service delivery.

4.4.6 National Partnership funding to the Infrastructure sector

Evidence gathered by the Committee throughout the Inquiry has suggested that NPAs have been typically suited to supporting capital works and infrastructure projects across a number of government service areas (e.g. health and education). NPAs provided under the Infrastructure sector are related to specific and significant capital works projects within the State.

As indicated in Figure 4.14, NP Infrastructure sector funding in Victoria was reasonably stable between 2008-09 and 2010-11 after which it has varied, ranging from \$1.44 billion in 2011-12 up to \$2.95 billion in 2013-14, and down to \$473 million in 2014-15.

Funding to this sector is predominantly impacted by Commonwealth Government contributions to significant infrastructure projects in the State. For example, the two funding spikes indicated in Figure 4.14 relate to:

- the Western Ring Road Upgrade, which was funded in 2011-12;¹⁶¹ and
- the Regional Rail Link and the East West Link infrastructure projects, which were funded in 2013-14.¹⁶²

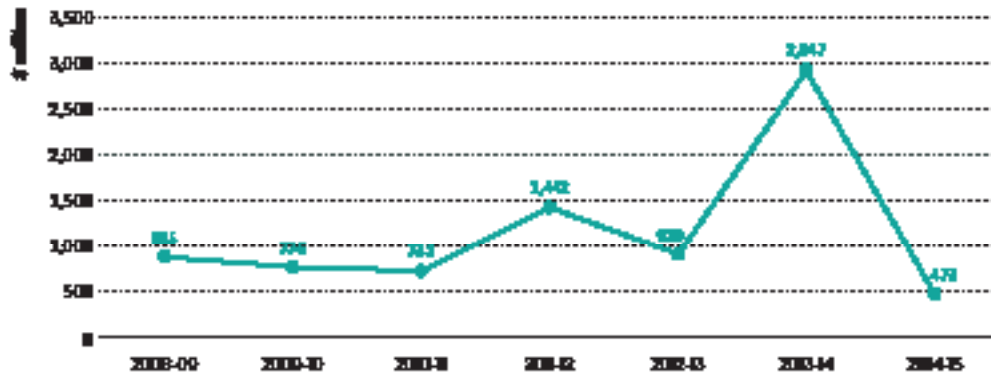
¹⁵⁹ Commonwealth of Australia, Council on Federal Financial Relations, *National Affordable Housing Agreement*, <www.federalfinancialrelations.gov.au/content/national_agreements.aspx> viewed 20 April 2016.

¹⁶⁰ Commonwealth of Australia, *Final Budget Outcome 2014-15* (2015), p.59

¹⁶¹ Department of Treasury and Finance, *2011-12 Financial Report (Incorporating Quarterly Financial Report No.4)* (2012), pp. 6, 120

¹⁶² Department of Treasury and Finance, *2013-14 Financial Report (Incorporating Quarterly Financial Report No.4)* (2014), pp. 2, 140

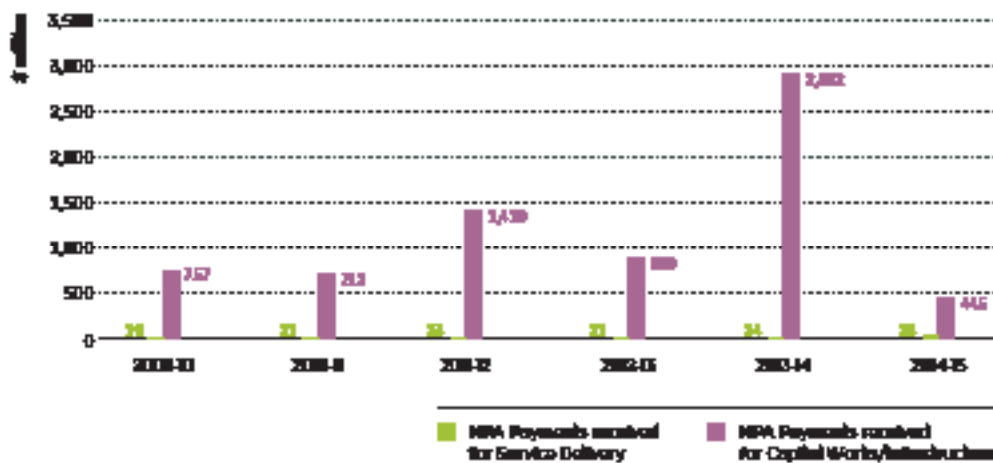
Figure 4.14 Infrastructure National Partnership funding to Victoria (2008-09 to 2014-15)



Source: Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2008-09 to 2014-15

Figure 4.15 indicates that, as expected, almost all of the NP funding provided for the Infrastructure sector over the six year period 2009-10 to 2014-15 has been applied to ‘capital works and infrastructure projects’, with 2014-15 having the lowest NP funding level over the reporting period. NP funding applied to ‘service delivery’ has been consistently minimal over this period: below 3 per cent between 2009-10 and 2013-14 and about 6 per cent in 2014-15.¹⁶³

Figure 4.15 Utilisation^(a) of Infrastructure National Partnership funding to Victoria (2009-10 to 2014-15)



(a) The Department of Treasury and Finance highlighted that the data provided on utilisation of funding is indicative only and ‘does not necessarily reflect or align with the treatment and presentation adopted for financial transfers included in Victorian estimates of grants’¹⁶⁴ to Victoria.

Source: Committee calculations based on Department of Treasury and Finance, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, pp.3-6

163 Committee calculations based on Department of Treasury and Finance, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, pp.3-6

164 Department of Treasury and Finance, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016 p.1

FINDING 32: Commonwealth National Partnership funding to Victoria for the Infrastructure sector has varied over the period 2008-09 to 2014-15 and has reflected specific, significant infrastructure projects which have been built in Victoria in partnership with the Commonwealth Government. National Partnership funding to the Infrastructure sector was at its highest level in 2013-14 at \$2.95 billion and its lowest level in 2014-15 at \$473 million.

4.4.7 National Partnership funding to the Environment sector

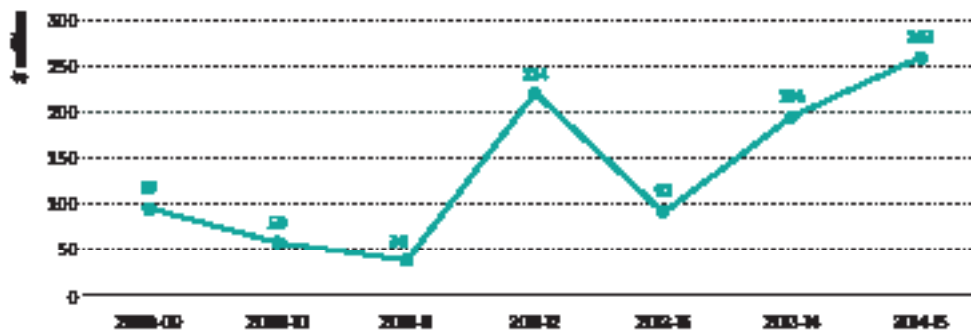
NP funding to the Environment sector has been typically provided for specific environmental initiatives involving the Commonwealth Government and the States and Territories.

Figure 4.16 indicates that NP funding levels for this sector have fluctuated over the period 2008-09 to 2014-15, ranging from a low point of \$39 million in 2010-11 to a high point of \$263 million in 2014-15.

A significant portion of this funding has been provided under the *NPA on Water for the Future and Water Management Partnership Agreements* relating to the *Intergovernmental Agreement on Murray-Darling Basin Reform*.¹⁶⁵

The data indicates three peak funding years in 2011-12 (\$224 million), 2013-14 (\$198 million) and 2014-15 (\$263 million). These related to increased funding provided for the *Sustainable Rural Water Use and Infrastructure Program*. Since 2011-12, the *Sustainable Rural Water Use and Infrastructure Program* contributed between 53 to 94 per cent of the total NP funding provided for the Environment sector.¹⁶⁶

Figure 4.16 Environment National Partnership funding to Victoria (2008-09 to 2014-15)



Source: Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2008-09 to 2014-15

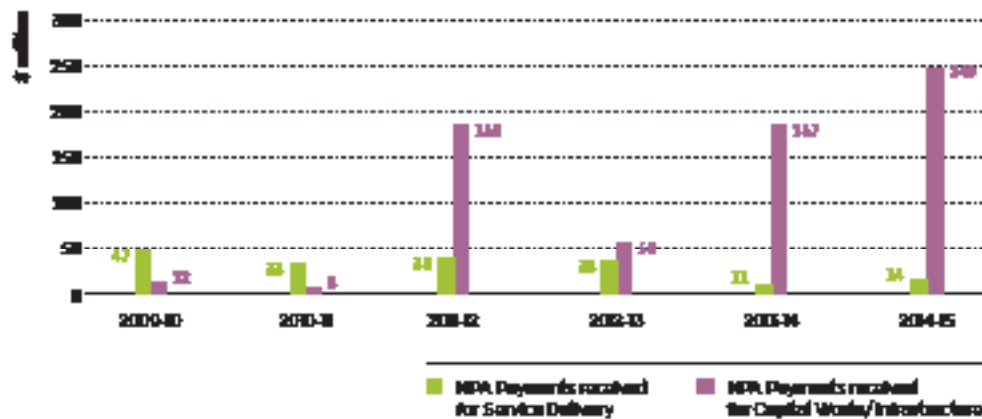
165 Commonwealth of Australia, *Budget 2015-16 Federal Financial Relations Budget Paper No. 3 2015-16* (2015), p.67

166 Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2011-12 to 2014-15

Figure 4.17 shows how NP funding to the Environment sector has been applied. The Committee notes that:¹⁶⁷

- As a proportion of total NP funding provided for the Environment sector, the percentage used for ‘capital works and infrastructure projects’ was relatively low at 20 per cent in 2009-10 (\$12 million) and 16 per cent in 2010-11 (\$6 million). In 2014-15, almost all (\$249 million or 95 per cent) NP funding was applied to ‘capital works and infrastructure projects’.
- In 2009-10, the proportion of total NP funding for the Environment sector applied to ‘service delivery’ peaked at 80 per cent (\$47 million) but has decreased substantially as a proportion over time, from approximately 17 per cent in 2011-12 (\$38 million) down to a low of approximately 5 per cent in 2013-14 (\$10.7 million).

Figure 4.17 Utilisation^(a) of Environment National Partnership funding to Victoria (2009-10 to 2014-15)



(a) The Department of Treasury and Finance highlighted that the data provided on utilisation of funding is indicative only and ‘does not necessarily reflect or align with the treatment and presentation adopted for financial transfers included in Victorian estimates of grants’¹⁶⁸ to Victoria.

Source: Committee calculations based on Department of Treasury and Finance, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, pp.3-6

FINDING 33: Commonwealth National Partnership funding provided for the Environment sector in Victoria has been predominantly used for infrastructure and/or capital works projects with funding levels in recent years on an increasing trend. These recent payments have related to funding for the *Sustainable Rural Water Use and Infrastructure Program*.

¹⁶⁷ Committee calculations based on Department of Treasury and Finance, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, pp.3-6

¹⁶⁸ Department of Treasury and Finance, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Specific Questionnaire*, received 27 January 2016, p.1

4.4.8 National Partnership funding categorised as ‘Contingent’

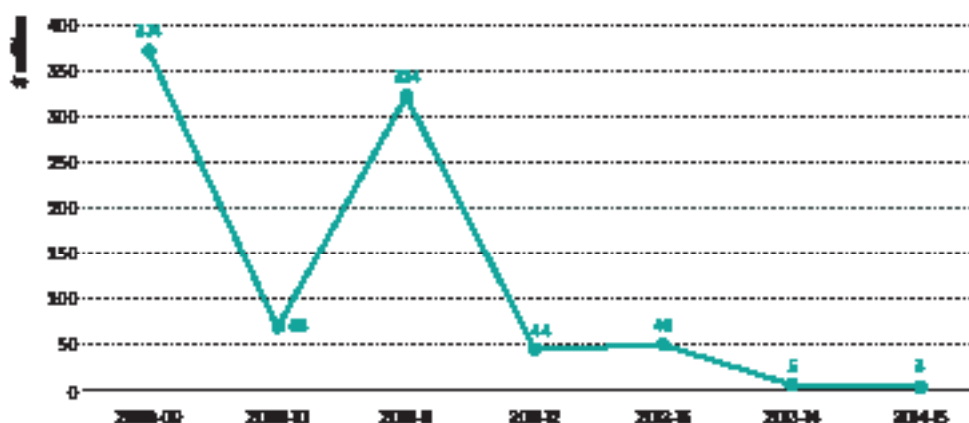
Commonwealth NP funding provided under the “Contingent” category tends to relate to unusual or extraordinary payments and instances where the Commonwealth Government has committed to provide compensation when an event occurs or otherwise guarantees a State or Territory’s financial position.¹⁶⁹

Since the commencement of the IGA FFR, NP funding provided to Victoria under this category has remained relatively moderate with exceptions occurring in 2008-09 and 2010-11 as shown in Figure 4.18.

In 2008-09, the Commonwealth Government provided a *National Disaster Relief Package* (\$270.5 million)¹⁷⁰ to assist Victoria in providing recovery support and activities to towns and regions impacted by the 2009 Victorian bushfires.¹⁷¹

Again, in 2010-11 the Commonwealth Government provided a *National Disaster Relief and Recovery Arrangement Package* (\$271 million)¹⁷² to provide assistance in response to the 2011 floods which caused extensive hardship and significant asset damage and losses to regional areas in Victoria.¹⁷³

Figure 4.18 National Partnership funding to Victoria categorised as ‘Contingent’ (2008-09 to 2014-15)



Source: Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2008-09 to 2014-15

The Committee notes that information provided by the Department of Treasury and Finance indicates that NP funding provided under the “Contingent” category have been applied only for ‘service delivery’ purposes.¹⁷⁴

¹⁶⁹ Commonwealth of Australia, *Budget 2015-16 Federal Financial Relations Budget Paper No. 3 2015-16* (2015), p.68

¹⁷⁰ Commonwealth of Australia, *Final Budget Outcome 2008-09* (2009), p.80

¹⁷¹ Department of Treasury and Finance, *2008-09 Financial Report (Incorporating Quarterly Financial Report No. 4)* (2009), p.4

¹⁷² Commonwealth of Australia, *Final Budget Outcome 2010-11* (2011), p.85

¹⁷³ Department of Treasury and Finance, *2010-11 Financial Report (Incorporating Quarterly Financial Report No. 4)* (2011), p.2

¹⁷⁴ Committee calculations based on Department of Treasury and Finance, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, pp.3-6

FINDING 34: National Partnership funding categorised as “Contingent” relates to Commonwealth Government payments for unusual or extraordinary circumstances or instances where the Commonwealth Government has committed to provide compensation when an event occurs. Significant payments were provided to Victoria to support disaster recovery programs following the 2009 Victorian Bushfires and the 2011 major flooding across western and central Victoria.

4.4.9 National Partnership funding categorised as ‘Other’

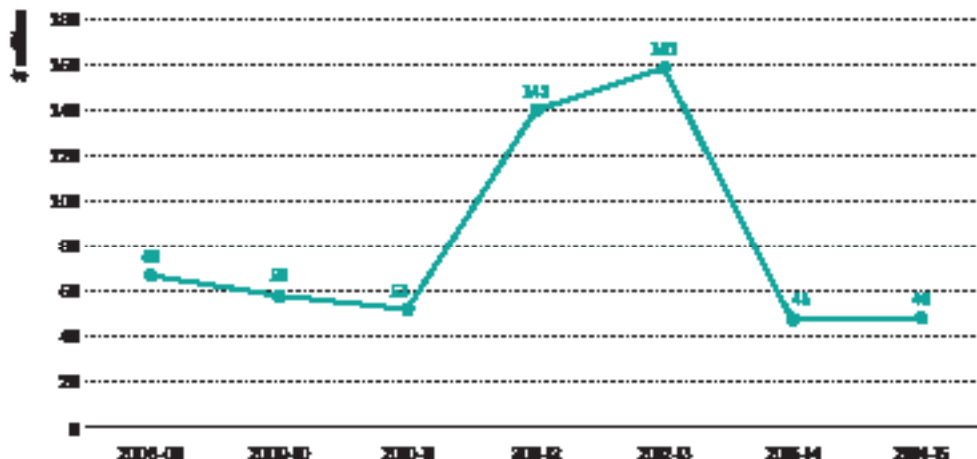
The final category under which the Commonwealth Government provides NP funding to Victoria is defined as “Other”. This category includes payments which do not fall into any of the other sectors/categories and can also include payments in respect of:¹⁷⁵

- Public order and safety;
- Recreation and culture; and
- Transport and communication.

The Committee notes that the Commonwealth Government includes the *NPA on Legal Assistance Services* in this funding category.

As indicated in Figure 4.19, the Committee notes that since the commencement of the IGA FFR in 2008-09, NP funding categorised as “Other” has remained relatively stable with the exception of two peak funding years in 2011-12 and 2012-13. These exceptions are explained below.

Figure 4.19 National Partnership funding to Victoria categorised as ‘Other’ (2008-09 to 2014-15)



Source: Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2008-09 to 2014-15

175 Commonwealth of Australia, *Budget 2015-16 Federal Financial Relations Budget Paper No.3 2015-16* (2015), p.70

In 2011-12, the Victorian Government received \$142 million in NP funding which was a significant increase on funding received in 2010-11. Analysis of this increase revealed that, as a proportion of the total NP funding for that year:¹⁷⁶

- Approximately 35 per cent (or \$49.6 million) related to the *NPA to Deliver a Seamless National Economy*;
- About 30 per cent (or \$43.6 million) related to the *NPA on Legal Assistance Services*;
- About 14 per cent (or \$20 million) related to funding for the protection and promotion of the Melbourne Royal Exhibition Building; and
- Around 18 per cent (or \$26.2 million) related to the *NPA (Project Agreement) for the Location-Based Mobile Telephone Emergency Warning Capability*. Victoria led the project procurement process on behalf of other jurisdictions to enable the delivery of warnings to mobile telephones based on the handset location at the time of an emergency.¹⁷⁷

In 2012-13, the Victorian Government received \$161 million in NP funding of which approximately 65 per cent (or \$106 million) related to a “once-off” additional payment for the Victorian Local Hospitals Network.¹⁷⁸ According to the Commonwealth Government’s Budget Papers, this payment was provided to assist Victorian hospitals in addressing funding shortfalls and to maintain health services and was noted as additional to the Commonwealth Government’s funding commitments under the *National Health Reform Agreement*.¹⁷⁹

Information provided to the Committee by the Department of Treasury and Finance indicates that the NP funding provided under the category of “Other” has been predominantly used for service delivery. Figure 4.20 shows that there was an exception when approximately \$57 million was directed towards ‘facilitating reforms’ as part of the *NPA to Deliver a Seamless National Economy* over the two financial years in 2011-12 and 2012-13.¹⁸⁰

¹⁷⁶ Committee calculations based on Commonwealth of Australia, *Final Budget Outcome 2011-12* (2012), p.88

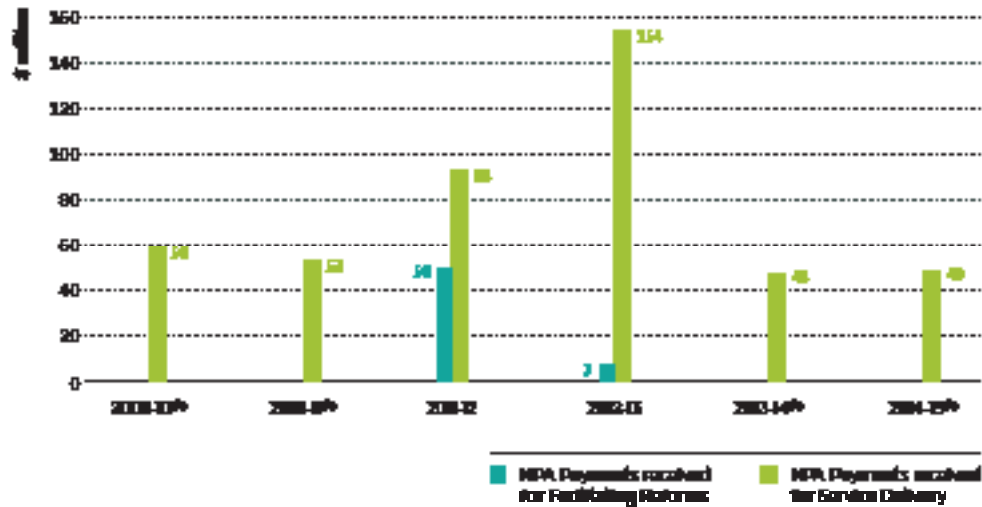
¹⁷⁷ Commonwealth of Australia, *Budget 2012-13 Federal Financial Relations Budget Paper No. 3 2012-13* (2013), p.116

¹⁷⁸ Committee calculations based on Commonwealth of Australia, *Final Budget Outcome 2012-13* (2013), p.91

¹⁷⁹ Commonwealth of Australia, *Budget 2013-14 Budget Measures Budget Paper No.2* (2014), p.187

¹⁸⁰ Committee calculations based on Commonwealth of Australia, *Final Budget Outcome 2011-12* (2012), p.88; Commonwealth of Australia, *Final Budget Outcome 2012-13* (2013), p.91; Department of Treasury and Finance, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, pp.3-6

Figure 4.20 Utilisation^(a) of National Partnership funding to Victoria categorised as “Other” (2009-10 to 2014-15)



- (a) Although delivered through a National Partnership funding mechanism, the Commonwealth Government's financial assistance grants to local governments do not have any NPAs designed around them and hence are not included.
- (b) The Department of Treasury and Finance highlighted that the data provided on utilisation of funding is indicative only and 'does not necessarily reflect or align with the treatment and presentation adopted for financial transfers included in Victorian estimates of grants'¹⁸¹ to Victoria.

Source: Committee calculations based on Department of Treasury and Finance, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/ Specific Questionnaire*, received 27 January 2016, pp.3-6

FINDING 35: National Partnership funding to Victoria categorised as “Other” has generally been applied for service delivery purposes with the majority of funding relating to the *National Partnership Agreement on Legal Assistance Services*. Funding in this category has been relatively stable over the period 2008-09 to 2014-15, with the exception of the two year period 2011-12 to 2012-13 when about \$106 million was provided by the Commonwealth Government as a “once-off” additional payment for Victorian health services and approximately \$57 million was provided for specific economic reforms under the *National Partnership Agreement to Deliver a Seamless National Economy*.

4.5 Victorian Government funding and support for National Partnership Agreements

This Chapter has presented a detailed analysis of Commonwealth Government funding to Victoria for National Partnership Agreements entered into between 2008-09 and 2014-15. The Chapter has also sought to provide an indication of how this funding has been utilised in terms either capital works and infrastructure projects, service delivery purposes, or for the facilitation of reforms in the State.

¹⁸¹ Department of Treasury and Finance, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Specific Questionnaire*, received 27 January 2016, p.1

The Inquiry's Terms of Reference also require the Committee to identify and report on funding levels and any additional services which the Victorian Government provides, or has provided, as a result of NPAs entered into since 2008. The Committee requested Victorian Government departments to provide details of any State contributions in terms of funding or additional services in relation to specific NPAs entered into between 2008-09 and 2014-15.

The information gathered is presented in the following sections. Details relating to five significant NPAs which are supported by significant financial contributions from the Victorian Government are discussed. Also provided, is a summary of other NPAs within the Health and Education sectors which have been supported by contributions made by the Victorian Government.

4.5.1 ***National Partnership Agreement on Home and Community Care***

The *NPA on Home and Community Care (NPA on HACC)* has provided Commonwealth and State Government funding for a suite of home and community care (HACC) services in Victoria. This NPA commenced in 2008-09 however the Commonwealth Government had been providing financial support to the State for similar services before the commencement of the 2008 IGA FFR.

This funding helps support services to a significant number of people in the Victorian community. The Victorian Government advised that in 2014-15, the HACC program in Victoria provided services to approximately 300,000 Victorians in which around 72 per cent were aged over 65 years old and around 28 per cent were aged below 65 years of age.¹⁸²

Figure 4.21 illustrates the funding levels provided by the Commonwealth and Victorian Governments in respect of the *NPA on HACC* over the seven year period 2008-09 to 2015-16. The Committee notes that the Victorian Government has committed to contribute total State funding of \$2.22 billion over the eight year period.¹⁸³

As shown in Figure 4.21, the Commonwealth Government's expected contribution to the HACC program has increased slightly from 53 per cent in 2008-09 (approximately \$264 million) to about 59 per cent (approximately \$415 million) in 2015-16. Simultaneously, the Victorian Government's funding contribution has decreased slightly from 47 per cent (approximately \$236 million) in 2008-09 to about 41 per cent (approximately \$291 million) in 2015-16.¹⁸⁴

182 Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.23

183 Committee calculations based on Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.20

184 *ibid.*

Figure 4.21 *NPA on Home and Community Care – Commonwealth and State funding contributions (2008-09 to 2015-16)*



Notes: Percentage figures are referenced from the Commonwealth Government's Letters of Offer and the Victorian Government's Programme Budget.

Excludes capital assets, depreciation and funding carried forward.

Source: Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.20

The Victorian Government advised that the *Bilateral Agreement between the Commonwealth and Victoria on Transitioning Responsibilities for Aged Care and Disability Services* was signed in September 2015 and from 1 July 2016 the current NPA on HACC will come to an end.¹⁸⁵ From 1 July 2016, funding and management of the HACC programme will be split as follows:¹⁸⁶

- The Commonwealth Government will directly fund and manage the services for HACC clients aged 65 years and over and 50 and over for Aboriginal people, with further changes to the funding model expected after 1 July 2018.
- The Victorian Government will directly fund and manage the services for HACC clients aged below 65 years of age with an estimated 25 per cent from this group expected to transition over to the Commonwealth Government's National Disability Insurance Scheme.

As a result of the new Bilateral Agreement, 71 per cent of the HACC Program's \$700 million budget will transfer to the Commonwealth.¹⁸⁷ The Commonwealth Government's Home Support Program will largely replace the HACC Program in Victoria.¹⁸⁸

The Victorian Government expects the Commonwealth Government to make further changes to the funding arrangements for the community aged care sector after 1 July 2018.¹⁸⁹

¹⁸⁵ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.23

¹⁸⁶ *ibid.*, pp.23-4

¹⁸⁷ *ibid.*, p.23

¹⁸⁸ *ibid.*

¹⁸⁹ *ibid.*, p.24

FINDING 36: The Commonwealth Government has provided funding to support home and community care services in Victoria over a long period predating the *Intergovernmental Agreement on Federal Financial Relations*. From 2008-09 this support was provided under a National Partnership Agreement. Between 2008-09 and 2015-16, the Victorian Government contributed approximately \$2.22 billion in State funding as part of this Agreement. From 1 July 2016, the *National Partnership Agreement on Home and Community Care* will be replaced by a new Bilateral Agreement between the Commonwealth and Victoria aimed at transitioning responsibilities for aged care and disability services.

4.5.2 ***National Partnership Agreement on Aged Care Assessment Program***

While classified as an NPA, the Committee was advised that the *NPA on Aged Care Assessment Program* is more a contract between the Department of Health and Human Services and the Commonwealth Department of Social Services.¹⁹⁰ The overall objective of the Agreement is to ensure that older Australians receive equitable access to high quality Aged Care Assessment Teams or ACAT assessment services that can determine their eligibility for subsidised aged care to meet their care needs.¹⁹¹

The Aged Care Assessment Program is supported by funding from both the Commonwealth and Victorian Governments. As shown in Figure 4.22, the Commonwealth Government's expected contribution to the Program was estimated at 61.3 per cent (about \$16.6 million) in 2008-09 and increased to approximately 64.6 per cent (about \$28 million) in 2015-16. Over the same period the Victorian Government's expected contribution to the Aged Care Assessment Program declined slightly from approximately 38.7 per cent (about \$10.5 million) to 35 per cent (about \$15 million). The Committee notes that successive Victorian Governments have committed to contributing total State funding of approximately \$99.1 million over the eight year period.¹⁹²

The Department of Health and Human Services, along with other States and Territories, negotiated an extension to the "contract" which will end 30 June 2016, after which Victoria will continue to administer the Program until 30 June 2018.¹⁹³

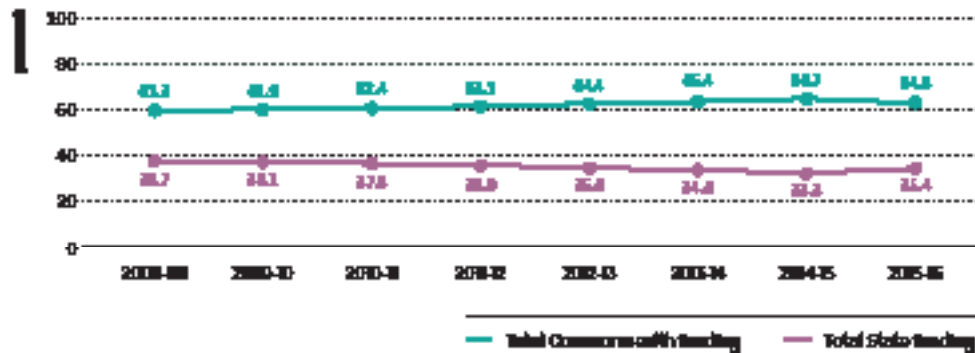
¹⁹⁰ *ibid.*, p.19 and p.24

¹⁹¹ Commonwealth of Australia, Council on Federal Financial Relations, *Implementation Plan for the Aged Care Assessment Program (Victoria)*, p.3, <www.federalfinancialrelations.gov.au/content/npa/community_services/aged_care/VIC_IP.pdf> viewed 21 March 2016

¹⁹² Committee calculations based on Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.19

¹⁹³ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.24

Figure 4.22 *NPA on Aged Care Assessment Program — Commonwealth and State funding contributions (2008-09 to 2015-16)*



Note: Percentage figures are referenced from the Commonwealth Government Budget papers and the Government Budget Papers.

Excludes capital assets, depreciation and carry forward.

Source: Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.19

FINDING 37: The *Aged Care Assessment Program* has been jointly funded by successive Commonwealth and Victorian Governments since 2008-09. Successive Commonwealth Governments have committed to contributing approximately 63 per cent of Program funding over the period 2008-09 to 2015-16, with Victoria providing the balance. Over the same period successive Victorian Governments have committed to providing approximately \$99.1 million in State funding to this Program. The Agreement with the Commonwealth Government is contracted to cease on 30 June 2016, after which Victoria will continue to fund the Program until 30 June 2018.

4.5.3 *National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders*

Under the *NPA on Certain Concessions for Pensioner Concession Card and Seniors Card Holders*, the Commonwealth Government provided a financial contribution to Victoria in support of certain concessions. The Committee was advised that the NPA comprised two components:¹⁹⁴

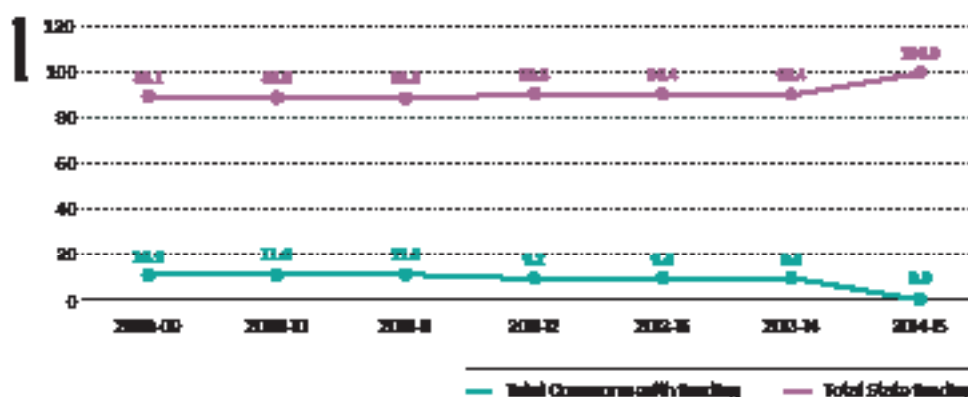
- The first component related to certain concessions to all *Pensioner Concession Card* holders in return for indexed Commonwealth Government funding. Funding for this had been provided by the Commonwealth Government since 1993 (pre-dating the first NPA in 2008-09).
- The second component related to the Commonwealth Government's contribution to the provision of 'Designated Public Transport Concessions' to all *Australian Seniors Card* holders using public transport, irrespective of the State of residence. This component commenced in 2008-09 as a Commonwealth Government initiative.

¹⁹⁴ Department of Premier and Cabinet, *Submission to the Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.25

Figure 4.23 shows the contributions made by the Commonwealth and Victorian Governments to providing these concessions from 2008-09 to 2014-15. The Commonwealth Government’s committed contribution over the period was between 9 to 11 per cent (\$54.6 to \$71.2 million) while the Victorian Government’s committed contribution was between 89 to 100 per cent (\$446.7 to \$718.1 million).¹⁹⁵

The Victorian Government met the total cost of providing these concessions in 2014-15 after the Commonwealth Government terminated the NPA as part of its’ 2014-15 *Commonwealth Budget*. The impact of this termination is discussed in further detail in Chapters 5 and 6 of this report.

Figure 4.23 *NPA on Certain Concessions for Pensioner Concession Card and Seniors Card Holders – Commonwealth and State funding contributions (2008-09 to 2014-15)*



Notes: State funding figures are referenced from the Government’s Budget Papers. Commonwealth funding figures are referenced from the Commonwealth Government’s Final Budget Outcome papers. Victorian figures are from Output Summary Table of Budget Paper 3 (from 2008-09 to 2015-16 Budgets) and include concessions administered by the Department of Economic Development, Jobs, Transport and Resources.

Source: Department of Premier and Cabinet, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.19; Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2008-09 to 2014-15

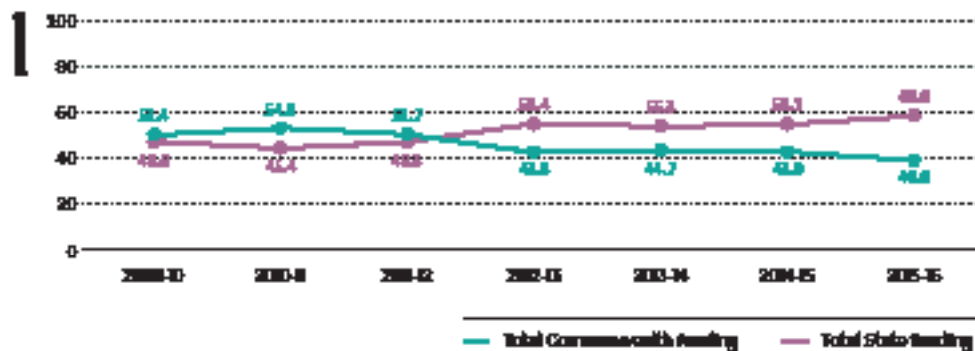
FINDING 38: In 2008-09 the *National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders* replaced long standing indexed Commonwealth Government funding which had been provided in support of concessions since 1993. Victoria has committed to providing approximately 90 per cent of the funding or \$4.08 billion for these concessions since 2008-09. In 2014-15, the Victorian Government assumed full policy and funding responsibility for the concessions program when the Commonwealth Government unexpectedly terminated the *National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders*.

195 Committee calculations based on Department of Premier and Cabinet, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.19; Commonwealth of Australia, *Final Budget Outcome*, 2008-09 to 2014-15

4.5.4 National Partnership Agreement on Homelessness

The *NPA on Homelessness* (NPAH) commenced in 2009 with almost equal contributions from the Commonwealth and Victorian Governments as shown in Figure 4.24. The data indicates that the percentage of funding contribution from the Commonwealth and Victorian Governments have shifted over the seven year period 2009-10 to 2015-16. Figure 4.24 shows that the Victorian Government has provided a greater share of the funding in relation to the NPAH since 2012-13.

Figure 4.24 *NPA on Homelessness* — Commonwealth and State funding contributions (2009-10 to 2015-16)



Source: Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.23

The Committee was advised that in addition to the contributions shown in Figure 4.24, additional funding for capital works and support of social housing in Victoria was provided as follows:¹⁹⁶

- Under the 2009-13 NPAH, the Commonwealth Government provided \$29.54 million in capital funding for public housing. The Victorian Government also invested \$25.5 million in capital and support funding over five years under its' *A Place to Call Home* initiative.
- In 2013-14, the Commonwealth Government provided an additional \$8 million capital funding under the NPAH. The Victorian Government matched this \$8 million contribution in-kind.

FINDING 39: The *National Partnership Agreement on Homelessness* commenced in 2009-10 with almost equal contributions from the Commonwealth and Victorian Governments. Since 2012-13 the Victorian Government has provided a greater share of the funding in relation to this Agreement. The Victorian Government has also contributed approximately \$33.5 million in capital and support funding for social housing between 2009-10 and 2013-14.

¹⁹⁶ Department of Premier and Cabinet, *Submission to the Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.23

4.5.5 National Partnership Agreement on Legal Assistance Services

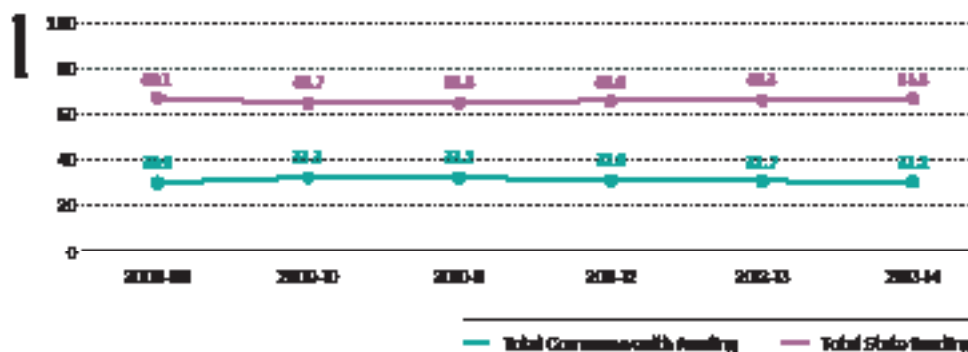
Commonwealth Government contributions for legal assistance services in Victoria commenced as an NPA in July 2010 however the funding has been provided over a long period of time, pre-dating the IGA FFR.¹⁹⁷

The Victorian Government’s submission to the Inquiry indicated that since the mid-1990s, successive Commonwealth Governments have reduced the total funding pool and indexation rate applied to funding the states and territories for the provision of legal assistance services.¹⁹⁸

Figure 4.25 indicates that Victoria’s contribution to the provision of these services ranges between 66 and 69 per cent over the period 2008-09 to 2013-14. The Victorian Government highlighted in its submission to this Inquiry that in 1999-2000, the Commonwealth Government contributed about 46.6 per cent of Victoria Legal Aid (VLA) total government income but had decreased its contribution to 31.2 per cent by 2013-14.¹⁹⁹

Since the first *NPA on Legal Assistance Services* (NPALAS) in 2010-11, the contributions by successive Commonwealth and Victorian Governments have been fairly steady, varying around 2 per cent between 2010-11 and 2013-14 with the Victorian Government contributing between \$142 million to \$158 million and the Commonwealth Government contributing between \$46 million to \$49 million.²⁰⁰

Figure 4.25 *NPA on Legal Assistance Services – Commonwealth and State funding contributions (2008-09 to 2013-14)*



Note: NPALAS first commenced in 2010-11 even though funding has been provided prior to this period.
 Source: Department of Premier and Cabinet, *Submission to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.31

197 *ibid.*, p.30
 198 *ibid.*
 199 *ibid.*, p.31
 200 Reproduced from dataset provided, Department of Premier and Cabinet, *Submission to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.31

The Victorian Government's submission to the Inquiry also indicated that successive Victorian Governments have provided additional funding to the legal assistance sector to address the widening deficits due to declining Commonwealth Government funding and increased local demand as follows:²⁰¹

- \$25 million provided in the *2009-10 State Budget* for the VLA for essential duty lawyer services and legal representation services.
- \$50 million in the *2010-11 State Budget* over two years to meet demand growth for services offered by VLA, including legal representation and duty lawyer services for disadvantaged Victorians who could not afford legal assistance.
- More than \$9 million in the *2011-12 State Budget* over four years to support Victoria's Community Legal Centre (CLC) sector to help Victorians, particularly those with difficulty accessing legal assistance.
- An additional \$107 million in the Victorian Government's *2012-13 State Budget* over four years for VLA to help Victorians obtain legal advice/ assistance and enable VLA to plan for the future with a more secure funding base.
- The Victorian Government also advised that it has allocated an additional \$24.4 million over four years to the legal assistance sector in the *2015-16 State Budget*, for the following additional service initiatives:²⁰²
- \$2 million over two years to a CLC Assistance Fund to support vital programs and services.
- \$1.2 million in 2015-16 to enable family violence duty lawyers of CLCs to assist more victims at the Magistrates' Court.
- \$2.1 million in 2015-16 to provide free Family Violence legal advice.
- \$200,000 over four years to the Fitzroy Legal Service to ensure the Law Handbook remains free online.
- \$371,000 in 2015-16 to continue funding for *JobWatch* which provides free employment law advice in Victoria.
- \$2.09 million over four years to continue funding of legal assistance for the *Assessment and Referral Court (ARC) List* in the Magistrates' Court.
- \$16.46 million over four years for the Social and Community Services (SACS) equal remuneration order for legal assistance service providers, of which about \$2.8 million will be assigned to the legal assistance sector in 2015-16.

FINDING 40: Marginal increases in Commonwealth Government funding under the *National Partnership Agreement on Legal Assistance Services* have not kept pace with increasing demand for these services or with the cost of providing the services. As such, successive Victorian Governments have had to contribute additional and increasing amounts of State funding to address the gap.

²⁰¹ Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.33

²⁰² *ibid.*, pp.33-4

4.5.6 Other National Partnership Agreements in the Health and Education sectors

The Committee has gathered evidence from Victorian Government departments, the VHA and the MAV highlighting contributions which have been provided by the Victorian Government in relation to a number of NPAs in the Health and Education sectors. Table 4.3 provides details of these contributions which comprise financial contributions and in-kind arrangements, and also additional service initiatives or programs which have been established by the Victorian Government in association with the specific NPA.

The information gathered also identified instances where the Victorian Government has had to contribute additional funding to support a program or service when the NPA lapsed or in some cases when the NPA was terminated by the Commonwealth Government.

Further discussion in relation to the management of these NPAs by the Commonwealth Government and the impacts of changes in Commonwealth Government funding for these Agreements are detailed in Chapter 5 of this report.

Table 4.3 Contributions by Victoria to National Partnership Agreements — Health and Education

Health National Partnership Agreements	Victorian State Government contribution to National Partnership Agreements
<i>NPA on Hospital and Health Workforce Reform</i> (October 2008 to June 2013)	Victorian Government funding contribution of \$133.65 million provided over four years to establish the National Health Workforce Agency.
<i>NPA on Closing the Gap in Indigenous Health Outcomes</i> (October 2008 to June 2013)	Victorian Government funding contribution of \$58 million over the period of the NPA.
<i>Project Agreement for the National Perinatal Depression Initiative</i> (2008-09 to 2014-15)	50:50 cash and in-kind funding arrangement between the Commonwealth and Victorian Governments.
<i>NPA on Preventive Health</i> (January 2009 to June 2014)	<p><i>Healthy Together Victoria</i> initiative launched, which uses a complex whole of systems approach to tackle overweight and obesity and related chronic preventable disease.</p> <p>The initiative delivers multiple policies, strategies and programs across Victoria including a concentrated, community led prevention effort in 12 Healthy Together Communities (14 Local Government Authorities) to improve health and wellbeing.</p> <p>When this NPA ceased unexpectedly in 2013-14, the Victorian Government re-prioritised 2015-16 State funding to continue two elements of the <i>Healthy Together Initiative</i>:</p> <ul style="list-style-type: none"> • <i>Healthy Together Achievement Program</i>; and • <i>Healthy Together Eating Advisory Service</i> <p>The cost of continuing these two programs for 12 months is \$1.85 million.</p>

Health National Partnership Agreements	Victorian State Government contribution to National Partnership Agreements
<i>Project Agreement for Indigenous Teenage Sexual and Reproductive Health and Young Parent Support</i> (2008-09 to 2014-15)	<p>Under this NPA, the Victorian Government successfully implemented:</p> <ul style="list-style-type: none"> • The expansion of four existing Koori Maternity Services sites at Aboriginal community controlled health organisations; • The establishment of three new Koori Maternity Services sites at Victorian public hospital sites; and • The establishment of the Victorian Indigenous Young Person's Sexual Health Unit (<i>Wulumperi</i>) at the Melbourne Sexual Health Centre. <p>When funding lapsed under this NPA, the Victorian Government allocated \$1.1 million in 2015-16 State funding to continue the Koori Maternity Services.</p>
<i>NPA on Universal Access to Early Childhood Education</i> (January 2009 to December 2017)	<p>The Victorian Government funds 10 out of the total 15 hours of Kindergarten/pre-school hours per week at a cost of approximately \$204 million per annum.</p> <p>The community and local governments provide a further 35 per cent (or approximately \$110 million) per annum through parent fees, fundraising and local government resources.</p> <p>Between 2009 and 2012, local government invested \$216 million of their own funds to meet the capital costs associated with the 15 hour per week of kindergarten/pre-school reforms under the NPA.</p>
<i>NPA on Youth Attainment and Transitions</i> (2009-11 to 2013-14)	<p>The <i>Local Learning and Employment Networks</i> were jointly funded by the Commonwealth and Victorian Governments with Victoria contributing around \$8 million each year. In the <i>2015-16 State Budget</i> the Victorian Government committed \$32 million to continue the work of these Networks.</p> <p>When funding lapsed under this NPA, the Victorian Government determined to continue the following initiatives:</p> <ul style="list-style-type: none"> • Workplace Learning Coordinators were funded by Victoria in 2014 (\$5.1 million) and 2015 (\$5.1 million) at the same level as was provided under the NPA. • Apprenticeship Support Officers were funded by Victoria from January 2015 to June 2016 at a cost of \$5 million. • Youth Connections initiative has been replaced by a State funded initiative aimed at disengaged Youth. The Victorian Government has allocated \$8.6 million over two years (2015 to 2017) to support the initiative.
<i>NPA on Digital Education Revolution</i> (January 2010 to June 2013)	<p>The Victorian Government contributed funding to complement the Commonwealth Government's <i>Building the Education Revolution</i> (BER) and <i>Digital Education Revolution</i> (DER) National Secondary Schools Computer Fund (NSSCF) that facilitate the deployment of the enterprise wireless network (eduSTAR.net):</p>
<i>NPA on Building the Education Revolution</i> (2008-09 to 2011-12)	<ul style="list-style-type: none"> • \$11.62 million in Victorian Government funding was used for new secondary schools or secondary schools with an increase in enrolments. • \$46.69 million in Victorian Government funding complemented the Commonwealth Government's BER and DER funding to establish the enterprise wireless network across Victorian government schools. • Ongoing state appropriation funding was provided to support the base provision of broadband (VicSmart), internet (eduSTAR.ISP) and technical support (eduSTAR.TSS) to Victorian government schools.
<i>NPA on Indigenous Early Childhood Development</i> (July 2008 to June 2014)	<p>Establishment of Children and Family Centres to integrate child and maternal health, and parent and family support services (Bubup Wilam and Dala Yooro). Since this NPA expired the Victorian Government has contributed approximately \$260,000 to support the operation of the two centres.</p> <p>The Victorian Government also provided funding for kindergarten programs in these Centres in 2015.</p>

Source: Compiled by the Committee with reference to material provided on Commonwealth of Australia, Council on Federal Financial Relations, *National Partnership Agreement on Nation Building and Jobs Plan - Building the Education Revolution (BER)*, <www.federalfinancialrelations.gov.au/content/npa/education.aspx> viewed 20 April 2016; and in Submissions and Responses made to the Committee *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received July 2015; August 2015; November 2015; and January 2016

4.5.7 Conclusion

The examples presented highlight the contributions made by the Victorian Government to some of the NPAs entered into with the Commonwealth Government and also provide information about additional funding and resources contributed by the Victorian Government to maintain specific services and programs in a number of areas important to the wellbeing of Victorians.

Although NP funding levels to Victoria continue to decline, the Committee also notes that:

- Overall, Commonwealth Government payments to Victoria continue to increase.
- Changes in the composition of Commonwealth Government payment categories reflect the policy objectives and funding priorities of different successive Commonwealth and Victorian Governments.
- It is the responsibility of any incumbent Victorian Government, signing up to an NPA with the Commonwealth Government, to manage the expectations and output expenditure of these time-limited Agreements.

Many of these services and programs relate to key areas of government service provision such as homelessness services, home and community care services, legal assistance services, the provision of concessions to Pensioners and Seniors, Indigenous health, early childhood education provision and preventive health initiatives.

As was noted in Chapter 3, NPAs are intended to be short-term funding arrangements for the delivery of a specific project or reform and not for services of an ongoing nature. As such, the use of NPAs by the Commonwealth Government to fund these types of public services does not align with purpose for NPAs as outlined in the IGA FFR. The use of NPAs to support ongoing service delivery is discussed further in Chapter 6 of this report.

FINDING 41: Successive Victorian Governments have contributed significant levels of State funding to support a number of National Partnership Agreements entered into with the Commonwealth Government since 2008. In addition, a number of services and programs established through National Partnership funding have received continued support from the Victorian Government after an Agreement has expired or been terminated. Any incumbent Victorian Government, signing up to a National Partnership Agreement with the Commonwealth Government, is responsible for managing the expectations and output expenditure of these time-limited Agreements.

5

Impact of changes to National Partnership Agreements

5.1 Introduction

The previous Chapter presented details of Commonwealth National Partnership (NP) funding provided to Victoria from 2008-09 to 2014-15 across a number of government sectors, such as health, education, housing and infrastructure. The data demonstrated the fluctuations in NP funding over that seven year period. These fluctuations in funding occur as a result of decisions made by the Commonwealth Government in relation to:

- amendments to agreed funding part way through the term of a National Partnership Agreement (NPA);
- the funding models applied to an NPA on renewal or renegotiation;
- the length of NP funding agreements;
- whether or not an NPA is renewed or renegotiated after it expires or lapses; and
- the early termination of an NPA.

Sudden and unexpected changes in funding can have serious financial impacts on the Victorian State Budget and also operational impacts in terms of the quantity and quality of services which the Victorian Government is able to deliver to Victorians.

Fluctuations in NP funding have created uncertainty for Victorian Government departments and service providers which has made planning, resourcing and achieving effective outcomes more difficult. This is especially the case in areas where services are well established and there is increasing demand and expectation from the community about their ongoing provision (e.g. early childhood education provision, homelessness services, legal assistance services and concessions to concession card holders).

The Victorian Government's submission to the Inquiry states:²⁰³

Commonwealth funding reductions impact on the ability of Victorian departments to deliver services. It is difficult to manage the risks associated with ongoing uncertainty without impacts being felt by service users. It is challenging for Victoria to absorb the impact of Commonwealth NP funding reductions in critical program areas, particularly as they are often announced with limited notice.

²⁰³ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.9

The Terms of Reference for this Inquiry require the Committee to examine expiring, lapsing or amended NPAs and the resulting changes to service delivery that have occurred or that will occur. The Terms of Reference also require the Committee to identify any risks associated with these changes to service delivery.

In addressing these issues, the Committee requested Victorian Government departments to identify the changes which have been made to NPAs in their portfolios and to describe the actual and potential impacts of these changes on the delivery of services and programs.

A number of public submissions were also received which highlighted the impacts of changes made to NPAs from the perspective of local government and of organisations outside the public sector, representing employees and/or service providers working in service delivery areas such as preventative health and homelessness services.

The impacts of changes made to NPAs highlighted in this Chapter include actual impacts and/or potential impacts or risks which may be related to financial, operational, service performance, and/or service quality.

The Chapter examines individual NPAs managed by the Department of Health and Human Services; the Department of Education and Training; and the Department of Justice. These Victorian Government departments are responsible for managing the majority of NPAs in Victoria.

5.2 Amendments to National Partnership Agreements

Information provided to the Committee highlighted a number of NPAs where the Commonwealth Government had:

- amended the funding and/or the term of the Agreement either part way through the Agreement or during the renegotiation of an Agreement at its expiry; and
- deferred funding under an Agreement.

These amendments have resulted in:

- additional financial support being required from the Victorian Government to continue to provide a service or program at a particular level for a specific period; and/or
- changes to particular aspects of service delivery such as quantity, access and/or the breadth of services available.

A number of examples are presented below which illustrate how certain amendments to NPAs by the Commonwealth Government have impacted government service delivery in Victoria.

The Committee notes that successive Commonwealth Governments have different policy objectives which may result in changes to Commonwealth funding priorities to the States and Territories. This is evidenced in the funding decisions taken at the Commonwealth and State levels with regards to the prioritisation of government projects and programs.

5.2.1 Changes to National Partnership funding periods and deferral of funding

The Victorian Government's submission to the Inquiry highlighted dental agreements as an area where the Commonwealth Government has made constant policy and funding changes which have had a negative impact on the ability of the Victorian Government and service providers to plan services effectively.

At the hearing, the Secretary of the Department of Health and Human Services advised the Committee that the NPA relating to public dental health services was one of the areas where short-term NPAs has become an inappropriate method of funding what is, in fact, a long-term challenge both nationally and at the State level.²⁰⁴

National Partnership Agreement on Adult Public Dental Services

The Victorian Government's submission to this Inquiry noted that in 2012, the Commonwealth Government announced national funding under the *NPA for Adult Public Dental Services* of \$1.3 billion to commence 1 July 2014. Victoria was advised it would receive funding under the NPA of \$219.4 million over three years.²⁰⁵

However, in the *Commonwealth 2014-15 Mid-Year Economic and Fiscal Outlook*, the commencement of this NPA was deferred for 12 months to 1 July 2015. Again, in the *2015-16 Commonwealth Budget*, it was announced that national funding for this NPA would be scaled back to \$155 million for a revised one year Agreement which would expire 30 June 2016. The Victorian Government submission to this Inquiry notes that Victoria's share of this funding is still being negotiated.²⁰⁶

204 Ms Kym Peake, Secretary, Department of Health and Human Services, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements, Transcript of evidence*, Melbourne, 17 November, 2015, p.3

205 Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.3

206 *ibid.*

At the hearings, the Secretary of the Department of Health and Human Services, Ms Kym Peake outlined to the Committee the amendments which had been made to Commonwealth NP funding for dental services over the past three years. The Secretary stated:²⁰⁷

Changes to the duration and funding level of the agreement and failure to finalise the NPA are posing challenges for the management of Victoria's public dental services, causing longer waiting times and resulting in fewer clients treated.

The Victorian Healthcare Association's (VHA) submission to the Inquiry also noted the impact of the deferral of funding under the *NPA on Adult Public Dental Services*:²⁰⁸

Victoria saw dental patients waiting over 12 months for general dental care in the January to March 2015 quarter, a 25 per cent increase when compared to the same period last year.

Regarding the Victorian context, the revised NPA represented an approximate \$11 million reduction in Commonwealth dental funding to Victoria. No further commitments have been made by the Commonwealth resulting in a significant degree of forward uncertainty.

National Partnership Agreement on Treating More Public Dental Patients

In addition to the *NPA on Adult Public Dental Services*, another *NPA on Treating More Public Dental Patients* commenced in December 2012 for a three year period. The Committee was advised that this Agreement aimed to relieve pressure on public dental waiting lists with a focus on targeted patient groups.

Under this NPA, Victoria received \$85.4 million in Commonwealth Government funding up until 30 June 2015, providing treatment to approximately 110,000 Victorians. The VHA submission to the Inquiry noted that as a result of this funding, access to public dental services had improved with waiting lists reduced by 32 per cent for general dental care and waiting times reduced to 8.8 months as at March 2014.²⁰⁹

The *NPA on Treating More Public Dental Patients* expired on 30 June 2015 and this coupled with the Commonwealth Government's decision in December 2014 to defer the commencement of the *NPA on Adult Public Dental Services* created additional challenges for the management of Victoria's public dental health services. Specifically, the Department of Health and Human Services, via the Victoria Government's submission to the Inquiry, advised the Committee that amendments to these NPAs have impacted both the number of public dental

²⁰⁷ Ms Kym Peake, Secretary, Department of Health and Human Services, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, Transcript of evidence, Melbourne, 17 November, 2015, p.3

²⁰⁸ Victorian Healthcare Association, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 28 July 2015, p.4

²⁰⁹ *ibid.*, p.3

clients treated and dental care waiting times in Victoria. In addition, funding uncertainty going forward has adverse impacts for both the dental care workforce and dental health care planning in the State.²¹⁰

The Committee notes the VHA submission stated its general view that NPAs should not be changed unilaterally during their agreement term and where possible, successful agreements should be extended in a way which allows health services to plan ahead for any changes to their workforce and service provision arrangements.²¹¹

FINDING 42: The Committee notes that National Partnership funding can be deferred before the commencement of an agreed funding period and varied without prior notice and without any further commitment from the Commonwealth Government to continue funding. These funding amendments have a direct and immediate impact on eligible clients and create uncertainty for the Victorian Government and service providers in planning future service delivery.

The Committee considers that the Commonwealth Government should commit in good faith not to make random and unforeseen amendments to previously agreed funding periods, and funding levels, as initially advised in NPAs. The Committee also considers that the examples provided are further evidence that short-term funding through an NPA is inappropriate Commonwealth Government financial support for essential and ongoing services such as the provision of public dental health care in Victoria.

RECOMMENDATION 7: The Victorian Government should actively encourage the Commonwealth Government to commit to maintaining the initial length of agreement and funding terms specified in National Partnership Agreements and avoid amendments and deferrals.

5.3 Funding models and indexation applied to National Partnership Agreements

The Committee noted evidence that funding models and indexation applied to NPAs by the Commonwealth Government are often unclear and/or do not fully reflect the factors related to the provision of services.

The Committee heard that funding changes between Agreement periods (i.e. when an Agreement is renewed or renegotiated at its expiry) have not adequately accounted for statistics related to population growth and price

²¹⁰ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.26

²¹¹ Victorian Healthcare Association, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 28 July 2015, p.1

indexation.²¹² This has an obvious and sometimes significant impact on the “real” value of funding provided under a renegotiated Agreement and effectively means that funding may be diminishing in real terms over time albeit nominal amounts of funding are increasing slightly.

The *NPA on Legal Assistance Services* and the *NPA on Homelessness* were provided as two examples where inadequate indexation is applied to Commonwealth Government funding from year to year. The Committee also heard that the funding indexation model applied to the *NPA on Legal Assistance Services* was not completely clear.

The Committee considers it critical that, in the case of National Partnership Agreements, a more robust process and mechanism for developing suitable indexation models is needed rather than a non-transparent and ad-hoc approach between the Commonwealth and State and Territory Governments. This would assist in ensuring more sustainable Commonwealth financial support for State delivered government services and programs.

5.3.1 Lack of transparency in funding models

National Partnership Agreement on Legal Assistance Services

The Committee notes that in 2014, the Commonwealth Government’s Attorney-General’s Department commissioned a *Review of the NPA on Legal Assistance Services*. As part of this Review, the indexation used to determine NPALAS funding to the States and Territories was compared to other cost and demand indexes. The Review found that the indexation used was not keeping pace with unit cost or growth in service demand.²¹³

Information provided in the Victorian Government’s submission to this Inquiry indicated that in 2014-15, Victoria received the lowest *NPA on Legal Assistance Services* (NPALAS) funding per capita of all States and Territories. Also, funding amounts under the new NPALAS for the period 2015 to 2020 indicate that this situation will continue.²¹⁴

As noted in Chapter 4, Commonwealth Government funding for legal assistance services has been provided over many years. The NPALAS commenced as an NPA in July 2010 and was built on a long standing arrangement for the delivery of legal services for disadvantaged Victorians. The original NPALAS was for four years and was extended in 2014 for an additional year.²¹⁵

212 According to the Australian Bureau of Statistics, Price Indexation refers to adjustments of payments and/or charges to take into account of changes like inflations in categories of price indexes such as Consumer Price Index, Wage Price Index, Producer Price Index, International Trade Price Index, Residential Property Price Index, Selected Living Cost Index etc. <www.abs.gov.au/websitedbs/c311215.nsf/web/Inflation+and+Price+Indexes+-+Use+of+Price+Indexes+in+Contracts> viewed 11 February 2016

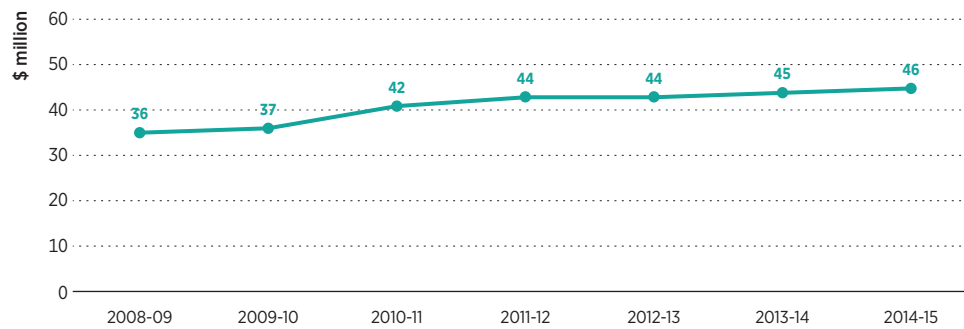
213 ACIL Allen Consulting, *Review of the National Partnership Agreement on Legal Assistance Services- Final Report* (2014), prepared for the Commonwealth of Australia Attorney-General’s Department, p.19

214 Department of Premier and Cabinet, *Submission to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, pp.31-2

215 *ibid.*, p.30

Figure 5.1 shows funding levels provided for legal assistance services since 2008-09 when the IGA FFR commenced operation. The figures indicate that funding provided under the NPALAS has increased only marginally (i.e. an average annual increase of 2.3 per cent) from 2010-11 to 2014-15, following a more significant increase in 2010-11 when the NPALAS was established.

Figure 5.1 Commonwealth funding to Victoria for Legal Assistance Services (2008-09 to 2014-15)



Note: NPA on Legal Assistance Services commenced in 2010-11.

Source: Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2008-09 to 2014-15

After taking into consideration the increasing costs associated with providing legal aid services and the increasing demand for these services over the past five years, these minimal increases in funding become even more diminished. The Committee was advised that this has resulted in the Victorian Government having to meet the widening gap between Commonwealth Government funding and legal assistance service demand.²¹⁶

The Victorian Government advised that it expects Commonwealth Government funding for legal assistance services to decline further in the future under the new five year NPALAS which commenced July 2015.²¹⁷

FINDING 43: Commonwealth National Partnership funding provided to support legal assistance services in Victoria remained relatively stable over the period 2010-11 to 2014-15. Limited indexation of legal assistance funding has meant that the Victorian Government has chosen to provide additional funding to meet increasing service demand. The funding set out in the renegotiated five-year *National Partnership Agreement on Legal Assistance Services*, suggests that this funding gap will worsen between 2015 and 2020.

At the hearing, the Secretary of the Department of Justice and Regulation, Mr Greg Wilson indicated that there was limited understanding around how Commonwealth Government funding for legal assistance services was determined. The Secretary advised that the Commonwealth Government applied a funding model to legal assistance services which took into account not only population growth but also measures of disadvantage, cost structures and some analysis of legal need, however how these factors were then weighted

²¹⁶ *ibid.*, p.33

²¹⁷ *ibid.*, pp.32-3

and considered by the Commonwealth Government in allocating funding under the NPALAS was unknown.²¹⁸ The Secretary advocated the need for greater transparency around funding formulas, stating:²¹⁹

In terms of a partnership, each state understanding the weights that have been attached to those different factors and how these things were calculated, more transparency would be a good thing I would have thought. Of course we would also want more weight on the things that would advantage a greater allocation. I guess that would help us understand how these numbers were derived...

FINDING 44: There is a lack of transparency in relation to the funding formulas applied by the Commonwealth Government in determining funding provided through National Partnership Agreements for specific service delivery areas such as legal assistance services.

The Committee considers a formalised open and transparent funding model with indexation that considers appropriate factors in the specific areas of service delivery applied in determining NP funding would be helpful to Victoria in the negotiation of Agreements and would also assist the State's understanding of the Commonwealth Government's funding priorities in specific areas of service delivery and would inform and assist Victoria's negotiation of NPAs.

RECOMMENDATION 8: The Victorian Government should seek to negotiate and work with the Commonwealth Government to achieve a formalised and transparent funding model with indexation that considers appropriate factors relevant to specific areas of service delivery when negotiating and agreeing funding for each National Partnership Agreement. This would provide for fairer and more productive negotiation and discussion between the Commonwealth and Victoria about needs and priorities within specific service delivery areas.

5.3.2 Inadequate indexation

National Partnership Agreement on Homelessness

The Committee examined the funding contributions by the Commonwealth Government under the *NPA on Homelessness* (NPAH) over the seven year period 2008-09 to 2104-15 compared with Victorian Government nominal expenditure²²⁰ on homelessness services over the same period.

²¹⁸ Mr Greg Wilson, Secretary, Department of Justice and Regulation, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, Transcript of evidence, Melbourne, 19 November, 2015, pp.3-4

²¹⁹ *ibid.*, p.4

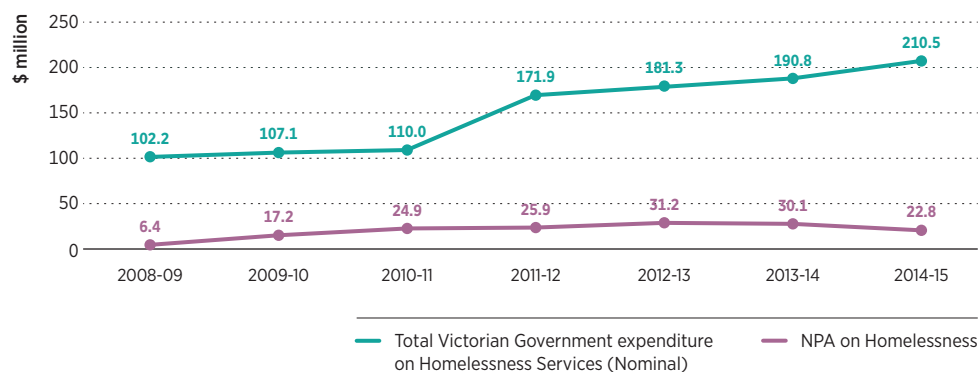
²²⁰ Nominal expenditure is an unadjusted value which does not make adjustments to reflect factors such as consumer price index or other inflation rates and provides a more accurate measure in real terms.

The Committee notes that the Commonwealth Government has met its commitments and funding obligations to provide financial support to Victoria for each of the NPAs on Homelessness negotiated with Victoria over the past seven years.²²¹

As indicated in Figure 5.2, Commonwealth Government funding to Victoria provided under the NPAH increased between 2008-09 and 2012-13 but fell in 2013-14.

Figure 5.2 also indicates that Victorian Government nominal expenditure on homelessness services over the period 2008-09 to 2014-15 has increased significantly especially since 2010-11. The Compound Annual Growth Rate of nominal expenditure on homelessness services between 2008-09 and 2014-15 was 13 per cent. This increased expenditure has been necessary to meet the increasing demand for homelessness services in the State which are impacted by a number of factors including, a shortage of affordable housing, family and relationship breakdowns, long-term unemployment, mental health issues and substance abuse.

Figure 5.2 Commonwealth funding for NPA on Homelessness and Total Victorian Government nominal expenditure on Homelessness services (2008-09 to 2014-15)



Note: Separate to this NPA, Victoria receives funding from the Commonwealth Government under the *National Affordable Housing Agreement* (National Specific Purpose Payments) with the broad aim to improve both housing affordability and homelessness outcomes for Australians.²²²

Source: Committee calculations based on: Commonwealth of Australia, *Final Budget Outcome*, 2008-09 to 2014-15; Commonwealth of Australia, Productivity Commission, *Report on Government Services 2016 Volume G (Housing and Homelessness) Chapter 18 Homelessness Services* (2016), <www.pc.gov.au/research/ongoing/report-on-government-services/2016/housing-and-homelessness/homelessness-services/rogs-2016-volume-g-chapter18-attachment.xlsx>, viewed 29 January 2016.; Commonwealth of Australia, Productivity Commission, *Report on Government Services 2012 Part G (Housing and Homelessness) Chapter 17: Homelessness Services* (2012), <www.pc.gov.au/research/ongoing/report-on-government-services/2012/2012/63-government-services-2012-chapter17-attachment.xls>, viewed 29 January 2016

²²¹ Committee calculations based on Commonwealth of Australia, *Final Budget Outcome*, 2009-10 to 2014-15; Commonwealth of Australia, Council on Federal Financial Relations, *National Partnership Agreement on Homelessness – 2014-15*, <www.federalfinancialrelations.gov.au/content/npa/housing/homelessness_2014/national_partnership_2014d.pdf> viewed on 3 June 2016, p.8; Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.23; Victorian Government, Implementation Plan for the National Partnership Agreement on Homelessness – Victoria, <www.federalfinancialrelations.gov.au/content/npa/housing.aspx> viewed on 3 June 2016, pp. 2, 11, 36

²²² Commonwealth of Australia, Council on Federal Financial Relations, *National Affordable Housing Agreement*, <www.federalfinancialrelations.gov.au/content/national_agreements.aspx> viewed 21 January 2016

The data provided in Figure 5.2 clearly shows the increasing funding gap between Commonwealth NP funding for homelessness services and nominal expenditure on homelessness services in Victoria over the period 2009 to 2015. This funding gap has been met through Victorian Government funding.

FINDING 45: The Victorian Government’s total nominal expenditure on homelessness services has been on an increasing trend since 2010-11 while Commonwealth Government funding provided under the *National Partnership Agreement on Homelessness* is diminishing in real terms. As a result the funding gap between Commonwealth financial support for homelessness services and expenditure needs is widening.

The Department of Health and Human Services, via the Victorian Government’s response to this Inquiry, advised that Commonwealth funding under the recently renegotiated *NPA on Homelessness* for 2015-17 has not accounted for population growth or wage indexation (i.e. the Equal Remuneration Order which increased rates of pay to people in the Community Services sector) effectively reducing Commonwealth Government funding support in “real terms” by \$2 million since 2014-15.²²³ In addition, despite the increasing demand for housing services the ‘service delivery targets’ specified in the NPAH for 2015-17 have not been adjusted by the Commonwealth Government.

While noting that it is the responsibility of any incumbent Victorian Government to renegotiate NPAs and also manage the expectations and output expenditure of NPAs, the Committee was advised that the Victorian Government have had to use part of the homelessness funding to cover wage growth and could provide only a minimal indexation of one per cent per annum to service providers. These providers have subsequently been forced to make changes to their resourcing arrangements. The Department of Premier and Cabinet, in its response to this Inquiry, claimed that this is unsustainable into the future and could lead to:²²⁴

- less people in housing crisis who are able to get assistance;
- an increase in the “turn-away” rate at homelessness service providers; and
- an increase in the number of people who become homeless and/or remain homeless.

FINDING 46: The renegotiated *National Partnership Agreement on Homelessness* for 2015-17 does not fully fund increases in wage indexation for salaries in the community services sector or for increasing demand for homelessness services. As a result, the value of funding provided by the Commonwealth Government has been effectively eroded over time.

Issues around indexation of funding were reiterated by the Chief Executive Officer of VCOSS who commented on the lack of consideration of demand factors in the indexing of NP funding for homelessness services.

²²³ Department of Premier and Cabinet, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.21

²²⁴ *ibid.*

At the hearing, the Chief Executive Officer of VCOSS, Ms Emma King stated:²²⁵

Demand for many services is growing, but funding through national partnership agreements has either stagnated or it has actually declined in real terms, which has had a significant impact on our members. Indexation of funding has been lower than the growing cost of service provision, which has resulted in a decline in the real value of funding, and this results in fewer services to vulnerable community members and greater pressure on already well-overstretched community sector organisations as well.

Inadequate consideration of realistic data on population growth, service demand and cost/price factors in the indexation of NP funding by the Commonwealth Government ultimately impacts the effectiveness of Victorian government service delivery in terms of the access, quality and outcomes of those services and programs for Victorians.

FINDING 47: Funding provided for some National Partnership Agreements, particularly those supporting the provision of ongoing services such as homelessness, and legal assistance, does not fully fund population growth, demand factors, and cost/price indexation. This inadequate indexation of funding for renegotiated National Partnership Agreements has a direct impact on the Victorian State Budget and has the potential to impact the effectiveness of important services to the Victorian community.

RECOMMENDATION 9: The Victorian Government should negotiate and work with the Commonwealth Government to develop a robust process and mechanism to take appropriate account of population growth, service demand, and cost/price factors, in funding indexation formulas. This is critically important to maintain the relevance and effectiveness of National Partnerships as a realistic method of support for ongoing services, such as legal assistance and homelessness services, to vulnerable members of the Victorian community.

5.4 Renegotiation of National Partnership Agreements

While some NPAs have been established for a specific “one-off” project or reform initiative, other NPAs have been renegotiated and replaced with a “new” Agreement at their expiry. The Committee understands that most NPAs include a standard review clause which provides for an assessment of progress made in achieving the agreed objectives and outcomes and/or outputs prior to the expiry of the Agreement. However, the Committee was advised by the Victorian Government that these “end-of-term” reviews may not always influence future or continued Commonwealth Government funding.²²⁶

²²⁵ Ms Emma King, Chief Executive Officer, Victorian Council of Social Service, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, Transcript of evidence, Melbourne, 17 November, 2015, p.3

²²⁶ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.4

In some cases the ability for Victorian Government departments to engage with front-line service providers can be frustrated by the Commonwealth Government presenting draft NPAs with very short negotiating timeframes and the Commonwealth Government sometimes adopting a “take it or leave it” approach to negotiation. Also a number of recent short-term NPAs did not include formal review processes and some others had been terminated without any review taking place.²²⁷

As noted in the previous section, the Commonwealth Government has not fully indexed funding provided under renegotiated NPAs for factors relevant to service provision. The Committee noted earlier in this Chapter, that a formalised, open and transparent funding model with indexation that considers appropriate factors in the specific areas of service delivery is needed. The Committee also noted the following examples of NPAs involving important service provision being renegotiated by the Commonwealth Government over shorter funding terms.

5.4.1 Short-term funding periods and late negotiation of expiring National Partnership Agreements

The Victorian Government’s submission to this Inquiry notes recent practices of the Commonwealth Government offering only short funding terms (i.e. one to two year) for NPAs being renewed or renegotiated and for expiring agreements not to be renegotiated until the final months prior to their expiry.²²⁸

The Committee was advised that one to two year NPAs have prevented the long-term design and efficacy of some services and programs. In addition, shorter term agreements have impacted current and future workforce planning requirements for Victorian Government departments, local government, and service providers.

VCOSS explained that short-term funding requires service providers such as community organisations, who are highly dependent on Commonwealth Government funding, to spend extensive time and resources seeking funding renewal or alternative sources of funding instead of utilising their time more effectively by focussing ‘on the needs of people experiencing disadvantage and improving the quality and accessibility of services’.²²⁹

²²⁷ *ibid.*, pp.3-4

²²⁸ Department of Premier and Cabinet, *Submission to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, pp.3, 23

²²⁹ Victorian Council of Social Service, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 20 January 2016, p.6

The Secretary of the Department of Health and Human Services, Ms Kym Peake explained at the hearings that:²³⁰

Such short-term [NPAs] pose significant challenges to service delivery, particularly for those required to staff up and deliver the services, as they are not provided with adequate funding certainty to allow them to forward plan or support the development of their workforce. In areas such as dental health and homelessness, short-term NPAs are not an appropriate mechanism for funding what are long-term challenges for both levels of government.

Similarly, the Secretary of the Department of Education and Training, Ms Gill Callister advised that short-term, last minute renegotiation and agreement on NPAs impacted effective service planning and employment continuity:²³¹

So people are wondering about their employment, parents are thinking, 'We'll go to other services because this one might not continue', or in the case of homelessness staff, they are looking for other jobs because they do not know if the [National Partnership Agreements are] going to be rolled over or renegotiated. Those are things that could definitely be improved.

The Committee identified the following examples of NPAs which illustrate the impact of the uncertainties created through short-term funding arrangements established by the Commonwealth Government.

National Partnership Agreement on Universal Access to Early Childhood Education

The *NPA on Universal Access to Early Childhood Education* (UAECE) commenced in 2008-09 as a five year agreement (totalling \$210.6 million) aimed at providing access to preschool education for all children by 2013.

In April 2013, a new three year NPA on UAECE was agreed to by COAG commencing July 2013 to June 2014.²³² In Victoria, this Agreement comprised \$158 million in Commonwealth Government funding to support an increase in the hours of kindergarten provision from 10 to 15 hours per child, per week. The Victorian Government provides funding for 10 hours per child, per week for service provision and Local Government also invests significant funds into supporting the provision of preschool and kindergarten services.²³³

In 2015, the Commonwealth and the States and Territories reaffirmed their commitment to providing "Universal Access" to quality early childhood education programs, with a focus on improving the participation of vulnerable

²³⁰ Ms Kym Peake, Secretary, Department of Health and Human Services, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, Transcript of evidence, 17 November 2015, p.3

²³¹ Ms Gill Callister, Secretary, Department of Education and Training, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, Transcript of evidence, 17 November 2015, p.17

²³² Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.6

²³³ Municipal Association of Victoria, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 28 July 2015, p.2

and disadvantaged children and in a manner which ensures that cost is not a barrier to participation.²³⁴ This Agreement was offered over a two year period and comprised funding of \$97.4 million for Victoria.²³⁵

Table 5.1 shows the Commonwealth Government's contributions to Victoria under the three iterations of the NPA on UAECE between 2008-09 and 2014-15

Table 5.1 Commonwealth funding to Victoria for the *NPA on Universal Access to Early Childhood Education (2008-09 to 2015-16)*

NPA	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	Total
	(\$million)	(\$million)	(\$million)	(\$million)	(\$million)	(\$million)	(\$million)	(\$million)	(million)
ECE 2008-13	7.4	15.3	19.3	59.1	109.5	-	-	-	210.6
UAECE 2013-15	-	-	-	-	3.5	97.9	56.6	-	158.0
UAECE 2015-16	-	-	-	-	-	-	29.2	68.2	97.4

Source: Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.6

As noted above, in 2015 the *NPA on UAECE* was extended for a one year period, after having previously been funded as a five year Agreement (from 2009-2013) and a three year Agreement (from 2013-2015). The Committee was advised by the Victorian Government that a new Agreement for 2016-17 is currently under negotiation.²³⁶

The Victorian Government's submission to this Inquiry notes the impact of these short-term funding agreements on kindergarten and early childhood education providers:²³⁷

This has placed service providers in a near permanent state of uncertainty in terms of both funding and their service delivery minimum obligations.

In addition, the MAV identified the following impacts of short-term funding of Early Childhood Education services by the Commonwealth Government on local government councils planning and resource management:²³⁸

- Councils are unable to incorporate pre-school planning into their four year corporate planning cycles or their infrastructure and asset management planning cycles without fully understanding future funding for pre-school provision. Modifications and refurbishments of existing facilities and/or new facilities cannot be planned for in advance.

²³⁴ Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.6

²³⁵ *ibid.*

²³⁶ *ibid.*

²³⁷ *ibid.*, pp.3, 6

²³⁸ Municipal Association of Victoria, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 22 January 2016, p.5

- Councils delivering pre-school programs (i.e. 40 of the 79 local councils) are unable to develop robust and equitable workforce plans of service delivery models without knowing whether funding for the provision of 15 hours pre-school education will continue.
- Council financial planning is impacted by the difficulties which councils face in preparing annual budgets and determining annual council rates with uncertainty around ongoing Commonwealth funding support.

FINDING 48: Short-term funding of the *National Partnership Agreement on Universal Access to Early Childhood Education* and late notice of renewal or renegotiated Agreements have posed significant challenges for the Victorian Government, Local Government, kindergartens and other service providers, endeavouring to plan their current and future workforce requirements and program delivery.

National Partnership Agreement on Homelessness

The *NPA on Homelessness* (NPAH) commenced in 2009-10 as a four year Agreement. Since then it has been renegotiated for one year in 2013-14 and 2014-15 and the current Agreement has been renegotiated for a two year period 2015-17.²³⁹ Table 5.2 shows the Commonwealth Government contributions under the various renegotiated NPAs for homelessness services since 2009-10.

Table 5.2 Commonwealth funding to Victoria for the *NPA on Homelessness* (2009-10 to 2015-17)

NPA	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
NPAH 2009-13	13.9	20.1	21.1	21.1	-	-	-	-
NPAH 2013-14	-	-	-	-	22.1	-	-	-
NPAH 2014-15	-	-	-	-	-	22.8	-	-
NPAH 2015-17							22.8	22.8

Source: Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.23

The Victorian Government's submission to this Inquiry noted that short-term, last minute funding decisions have created an environment of uncertainty for the homelessness services sector, impacting staffing and operations. With inadequate funding and uncertainty about future funding, service providers are unable to effectively forward plan their services or support the development of their workforce.²⁴⁰

²³⁹ Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.23

²⁴⁰ *ibid.*

In its submission to the Inquiry, the Victorian Government claimed anecdotal evidence of the impact on clients of inadequate, uncertain and last minute funding negotiations for NPAs:²⁴¹

Anecdotal evidence suggests this has implications for clients, as referrals to a service may need to be halted in the months preceding an agreement's expiry if funding certainty hasn't been provided, and for staff, who may be employed on a contract that aligns with the funding period.

The Victorian Government provided details of the support which Victoria is able to provide with NPAH funding for homelessness activities in the State, advising that this funding has contributed to:²⁴²

- over 15,000 “episodes” of support services to Victorians annually, directed at preventing and addressing homelessness;
- the operation of two purpose built Indigenous family violence refuges and two youth foyers located in regional Victoria;
- support to over 1,300 women and children each year who would otherwise need to access crisis/refuge accommodation to live safely in their family home;
- providing case management service for perpetrators of family violence for 275 people each year;
- providing support services for over 380 people each year to maintain their current tenancies;
- housing assistance and support services for 150 young people leaving State care each year;
- assistance with family reconciliation services to help over 300 young people each year reconnect with significant family members and address their homelessness;
- housing assistance services for over 100 prisoners prior to their exit from a correctional facility; and
- providing support services to address the drug, alcohol and mental health needs of over 500 young people at youth refuges.

The Victorian Government claimed that these government funded services are all at risk if the NPAH expires in July 2017 and is not renegotiated. The lack of certainty around funding beyond 2017 makes it very difficult for service providers to forward plan, make necessary staffing and resourcing decisions, and develop longer-term projects which focus on reform and innovation in service delivery.²⁴³

241 *ibid.*, p.24

242 Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, pp.16-17

243 *ibid.*, p.21

The Victorian Government also highlighted that any withdrawal of funding under the NPAH would result in job losses in homelessness agencies, a loss in worker expertise and has a serious impact on service delivery and service continuity. The Victorian Government advised:²⁴⁴

Beyond 2017, when the existing NPA on Homelessness expires, any Commonwealth funding withdrawal would have a significant detrimental impact on people experiencing or at risk of homelessness and would exacerbate the impact and duration of homelessness for those unable to access assistance.

Some services would be at imminent risk of closure. These services provide critical support to vulnerable Victorians including young people, women and children experiencing family violence, Aboriginal people, people with a mental illness and people with a disability.

In terms of risks to Victorians in need of homelessness services, the Department of Health and Human Services, via the Victorian Government's submission to this Inquiry, advised that changes to future funding under the NPAH could result in:²⁴⁵

- a reduction in the number of people in housing crisis who receive assistance;
- an increase in the turn-away rate at homelessness services; and
- an increase in the number of people who become homeless or remain homeless.

FINDING 49: Short-term, last minute funding decisions have created an environment of uncertainty for the homelessness services sector, impacting staffing and operations. With inadequate funding and uncertainty about future funding, service providers are unable to effectively forward plan their services or support the development of their workforce. While noting that the right funding arrangement should be considered and that the Commonwealth Government's budgetary position has limited capacity, it is still the responsibility of any incumbent Victorian Government to manage the output expenditure and expectations of any time-limited National Partnership Agreements.

²⁴⁴ *ibid.*, pp.21-22

²⁴⁵ *ibid.*, p.21

5.4.2 *Project Agreement (NPA) for the National Perinatal Depression Initiative*

The *Project Agreement for the National Perinatal Depression Initiative* commenced in 2008-09 and was aimed at improving the prevention and early detection of antenatal and postnatal depression and to provide improved support and treatment for expectant and new mothers experiencing depression. The Agreement was underpinned by a 50:50 cash and in-kind funding arrangement between the Commonwealth and Victorian Governments.²⁴⁶

The Committee was advised by the Victorian Government that this Agreement had been subject to frequent changes which disrupted service delivery and put at risk the overall effectiveness of the Initiative. Table 5.3 indicates the funding provided under various iterations of this NPA since 2008-09.

Table 5.3 Commonwealth funding for the *Project Agreement for the National Perinatal Depression Initiative (2008-09 to 2014-15)*

Year	NPA Progression	Funding Offer	Funding Received (\$ million)
2008-09	Development of Investment Plans	Incremental	0.39
2009-10	Agreement in draft only	March 2010	0.84
2010-11		May 2011	1.45
2011-12	Three year agreement	-	2.25
2012-13		-	2.06
2013-14	One year agreement	December 2013	1.96
2014-15	One year agreement	December 2014	1.96

Source: Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.18

The Department of Health and Human Services, via the Victorian Government's submission to this Inquiry, provided information about the disruptions and difficulties associated with this Project Agreement:²⁴⁷

- Between 2008 and 2010, funding was uncertain and erratic due to negotiations related to the establishment of the Project Agreement.
- From 2010-11 to 2012-13, a three year funding schedule was established which provided predictable Commonwealth Government payments of approximately \$5.8 million.
- In December 2013, the Commonwealth Government made a late offer of a one-year Agreement for 2013-14 of \$1.96 million. This late notification, almost six months into the Agreement period, created uncertainty around the programs offered through the Initiative and in respect to the continued employment of staff providing services.

²⁴⁶ Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.18

²⁴⁷ *ibid.*

- In 2014-15, Commonwealth Government funding under a further one year Agreement was disrupted following advice from the Commonwealth Government in December 2014 that the Agreement would lapse until all jurisdictions accepted an offer of variation effective from June 2014.

The Department advised that these changes to the Agreement by the Commonwealth Government over the past seven years and in particular since July 2013 had impacted the planning and resourcing of service delivery. These difficulties had been further compounded by delays in the transfer of funds by the Commonwealth Government, pending approval of output and performance reports.²⁴⁸

The Department further noted that the cessation of this NPA would make it more difficult for women and their families affected by mental illness in the perinatal period to access affordable assistance. Based on service performance over the six months October 2014 to March 2015, the Department anticipates the following potential impacts on services over the next 12 months:²⁴⁹

- 14,000 service contacts in rural areas for identifying and responding to perinatal mental health issues through maternity and specialist mental health services at risk.
- 4,400 calls and 368 families potentially unassisted via telephone information and counselling for women and their families experiencing mental health issues in the perinatal period.
- Almost 140 health professionals missing workforce development through online training in perinatal mental health.
- Four medical practitioners missing training in perinatal and infant mental health.
- 1,280 families with complex issues not receiving enhanced treatment options from Early Parenting Centres.
- 230 telephone medication inquiries and 12,000 hits to online medication profiles and consumer fact sheets promoting safe prescription of psychotropic medication in the perinatal period at risk.

FINDING 50: Changes made by the Commonwealth Government over the past seven years, and in particular since July 2013, to the Project Agreement for the National Perinatal Depression Initiative have impacted the planning and resourcing of service delivery. Cessation of this Project Agreement will likely make it more difficult for women and their families affected by mental illness in the perinatal period to access affordable assistance without Victorian Government support.

²⁴⁸ *ibid.*

²⁴⁹ *ibid.*

5.4.3 Uncertainty over renegotiation of National Partnership Agreements

The Committee notes that in addition to the NPAs discussed above, there are a number of other NPAs where there is some uncertainty about whether funding will continue. These are:

- *NPA on Skills Reform* which is due to expire on 30 June 2017.
- *NPA on Supporting Mental Health Reform* which is due to expire on 30 June 2016.
- *NPA on Adult Public Dental Services* which is due to expire on 30 June 2016.

FINDING 51: Uncertain future Commonwealth Government funding and reductions in funding creates job insecurity and job losses and ultimately disadvantages client outcomes. The uncertainty around whether a National Partnership Agreement will be renegotiated presents risks that more Victorians in disadvantaged groups may not receive the necessary assistance.

5.4.4 Committee conclusion

The Committee considers there is a need for the Victorian Government to reinforce to the Commonwealth Government the importance of securing longer term funding for NPAs which provide some guarantees around future funding levels. Such guarantees would assist Victorian Government departments and service providers in the design and implementation of programs and services aimed at providing more effective, longer term outcomes rather than being forced to adopt a time limited or restricted approach to meeting needs and addressing disadvantage.

FINDING 52: Short-term funding of National Partnership Agreements by the Commonwealth Government create uncertainty around the provision of services over the longer term and increase the risk of entrenched disadvantage, service inefficiencies and potentially less effective outcomes for vulnerable members of the Victorian community. While noting that the right funding arrangement should be considered, any incumbent Victorian Government still has the responsibility to manage the output expenditure and expectations of any National Partnership Agreements.

RECOMMENDATION 10: The Victorian Government should stress to the Commonwealth Government the critical importance of longer term National Partnership Agreements, which provide some certainty around both future funding levels and the timing of the renegotiation of expiring agreements, or transitioning to other suitable and sustainable funding arrangements. This would assist the efficient and effective delivery of important community services in Victoria and the achievement of effective outcomes for Victorians in receipt of those services.

5.5 Ongoing implications of National Partnership Agreements which are not renegotiated

The Committee found that in some cases there are ongoing implications for the Victorian Government when an NPA lapses and is not renegotiated. Whilst it is acknowledged that the IGA FFR intends NPAs to be time-limited instruments, many NPAs have increased service capacity and/or created an expectation in the community that a service or program will continue. When the NPA lapses, there is a lack of compensating adjustment by the Commonwealth Government to provide recurrent funding to assist the State in continuing to provide the service or program.

A number of examples were highlighted in the Victorian Government's submission to the Inquiry, of NPAs which have lapsed without any commitment of ongoing support from the Commonwealth Government. This has resulted in changes to service delivery and created other risks to community members in need of certain services. Examples are presented below.

5.5.1 *National Partnership Agreement on Youth Attainment and Transitions*

The *NPA on Youth Attainment and Transitions* operated over a five year period from 2009-10 to 2013-14 comprising total funding to Victoria over the period of \$164.58 million. The aims of the NPA were to:²⁵⁰

- achieve a national Year 12 or equivalent attainment rate of 90 per cent by 2015;
- provide an education or training entitlement to young people aged 15-24 years of age;
- improve engagement of young people in education and training;
- assist young people aged 15-24 years to make a successful transition from schooling into further education, training or employment; and
- better align Commonwealth, State and Territory programs and services related to youth, careers and transitions.

In Victoria, funding provided through this NPA established three important youth transition programs:²⁵¹

- *Maximising Engagement Attainment and Successful Transitions* program (known as MEAST) which included a number of initiatives targeting students and work placements; apprenticeship retention; and career services.
- *Local Learning and Employment Networks* which were funded through the School Business Community Partnership Brokers initiative and aimed at improving education and employment outcomes for young people.

²⁵⁰ *ibid.*, p.12

²⁵¹ *ibid.*

- *Youth Connections* initiative which provided outreach activities and case management for disengaged youth.

Table 5.4 shows the funding provided to Victoria under the *NPA on Youth Attainment and Transitions* from 2009-10 to 2013-14.

Table 5.4 Commonwealth funding provided for the *NPA on Youth Attainment and Transitions* (2009-10 to 2013-14)

Initiative	2009-10 (\$ million)	2010-11 (\$ million)	2011-12 (\$ million)	2012-13 (\$ million)	2013-14 (\$ million)	Total (\$ million)
MEAST						
<i>Workplace Learning Coordinators</i>	1.38	5.31	5.31	5.31	2.66	19.97
<i>Pastoral Care for Apprentices (Apprenticeship Support Officers)</i>	1.76	3.51	3.59	3.68	1.89	14.43
<i>Improving Career Development Services</i>	0.57	2.67	2.58	2.66	1.39	9.87
<i>Koorie Transitions Coordinators</i>	0.15	0.92	0.95	0.97	0.52	3.51
MEAST Totals	3.86	12.41	12.43	12.62	6.46	47.78
<i>Local Learning Employment Networks (LLENs)</i>	6.20	12.40	12.40	12.40	6.20	49.6
<i>Youth Connections</i>	8.40	16.80	16.80	16.80	8.40	67.2
NPA Totals	18.46	41.61	41.63	41.82	21.06	164.58

Source: Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.12

The Department of Education and Training, via the Victorian Government's response to this Inquiry, noted that each of these initiatives had achieved positive outcomes. Consequently, when the NP funding ceased after 2013-14, the Victorian Government decided to continue funding to support some of the initiatives for a limited period or at a reduced level of service as follows:²⁵²

- *Workplace Learning Coordinators* until the end of 2015. This program assisted students undertaking work placements. The cost to Victoria of continuing the program was \$10.2 million over the two years (2014 and 2015). In October 2015, the Victorian Government announced that the funding for structured workplace learning would be maintained in 2016 through *Local Learning and Employment Networks*.
- *Apprenticeship Support Officers* program for the period 1 January 2015 to 30 June 2016 at a cost of \$5 million. This program assisted with apprenticeship retention.

252 Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, pp.35-6

- *Local Learning and Employment Networks* after December 2014 but at a significantly reduced level of funding (down from \$13.26 million to \$8 million). As a result the scope of the program and services have been scaled back which in turn has resulted in less support to improve education and employment outcomes for young people. The *2015-16 State Budget*, included \$32 million to continue the work of the *Local Learning and Employment Networks*.

In addition to the impact on the Victorian State Budget of continuing to deliver the initiatives listed above, the Committee was advised that:²⁵³

- Victorian schools have not been able to improve their career development services for students and the professional development of Careers practitioners is also expected to have been negatively impacted.
- The *Koorie Transition Coordinators* program ceased which impacted key transition activities for Koorie students such as careers expos, assistance to parents and collaborative partnerships with the Koorie Education Workforce and other partnership brokers.
- In the absence of funding for this program, Koorie Education Coordinators and Koorie Engagement Support Officers in each Education Region have continued to offer some level of support to Koorie students, including education and training transition and pathways.
- 74,322 young Victorians have received individual support services through the *Youth Connections* program between 1 January 2010 and 31 December 2013. The immediate impact of the cessation of this Program in February 2015 was that 26 providers and 300 youth workers were no longer engaged to deliver outreach services to disengaged young people. In addition, the loss of services provided through the Program has put pressure on other Victorian Government programs and services.
- In addressing the loss of Commonwealth Government funding, the Victorian Government has committed \$8.6 million over two years to pilot a 'Navigator' service aimed at supporting disengaged youth aged 12-17 years of age.²⁵⁴

The Committee notes that many NPAs have provided funding to support valuable services and assistance programs to young and/or vulnerable Victorians. When this funding ceases, the Victorian Government is often forced to reprioritise funding to continue the service or in some cases reduce the number of Victorians who can access the service.

²⁵³ Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, pp.12-13

²⁵⁴ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.37

FINDING 53: When Commonwealth Government funding provided through the *National Partnership Agreement on Youth Attainment and Transitions* ceased in 2014-15, the Victorian Government provided State funding to support the continuation of some of these programs. This demonstrates that National Partnership Agreements are not the most suitable funding mechanism for services and programs which are ongoing in nature.

5.5.2 *National Partnership Agreement on Digital Education Revolution*

The *NPA on Digital Education Revolution (DER)* commenced in 2008-09 and expired on 15 September 2013 with no further funding commitments from the Commonwealth Government. Funding provided to Victoria under the *NPA on DER* totalled \$134.67 million.

Table 5.5 shows Commonwealth Government funding provided under this NPA for each year of the Agreement.²⁵⁵

Table 5.5 Commonwealth funding for *NPA on Digital Education Revolution* (2008-09 to 2012-13)

NPA	2008-09	2009-10	2010-11	2011-12	2012-13	Total
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
<i>Digital Education Revolution</i>	29.12	28.63	17.80	29.56	29.56	134.67

Source: Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.9

The *NPA on DER* was aimed at establishing a one-to-one (1:1) “computer to student ratio” for students in Years 9-12. Prior to this NPA, the Commonwealth Government had provided funding through the *National Secondary Schools Computer Fund* to establish an interim one-to-two (1:2) “computer to student ratio” plus fund on-costs to support the installation and maintenance of Information and Communications Technology (ICT) in schools.²⁵⁶

The Committee was advised that Commonwealth Government funding under the *National Secondary Schools Computer Fund* and the *NPA on DER* assisted with a rapid expansion of ICT in the Victorian government school sector, specifically in secondary schools with 67,208 curriculum computers reported in 2008 increasing to over 260,000 computers by 2014.²⁵⁷

255 Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.9

256 *ibid.*

257 *ibid.*

The Department of Education and Training, via the Victorian Government’s response to this Inquiry, also advised that the *NPA on DER* had achieved its objective noting that the “computer to student ratio” was generally evenly spread across Victorian government schools throughout the State.²⁵⁸

Two key risks noted with the expiry of this NPA are that the “computer to student ratio” of 1:1 becomes difficult to maintain and the quality and access of ICT infrastructure support in schools may deteriorate. The Department advised that “Bring-Your-Own-Device” schemes have been growing in recent years, which has assisted in maintaining the computer to student ratio. However, there is an obvious financial impact on families as a result of these schemes.²⁵⁹

In terms of ICT infrastructure in schools, the Committee was advised that current Commonwealth Government funding will sustain core ICT infrastructure in Victorian government schools until December 2016. However, there is no identified funding to support the additional technology delivered through the *NPA on DER* such as video conferencing systems, electronic whiteboards, multi-function devices and software programs which are either out of warranty or nearing their end-of-life operating cycles.²⁶⁰

The Committee noted that the Victorian Government provides funding through State appropriation to support the baseline provision of broadband, internet and technical support in Victorian government schools and had contributed State funding of \$58.3 million to complement the *NPA on DER*.²⁶¹

FINDING 54: Commonwealth Government funding provided through the *National Partnership Agreement on Digital Education Revolution* assisted a rapid expansion of Information and Communications Technology in the Victorian government school sector, specifically in secondary schools. The *National Partnership Agreement on Digital Education Revolution* expired in 2013.

²⁵⁸ Department of Premier and Cabinet, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.31

²⁵⁹ Department of Premier and Cabinet, *Submission to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.9

²⁶⁰ *ibid.*

²⁶¹ Department of Premier and Cabinet, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, pp.32-3

5.5.3 *Project Agreement (NPA) for Indigenous Teenage Sexual and Reproductive Health and Young Parent Support*

Between 2009-10 and 2013-14, the Commonwealth Government funded initiatives aimed at supporting pre-pregnancy, antenatal, sexual and reproductive health programs and services to Aboriginal Victorians. Funding for these programs was provided through two separate Agreements:²⁶²

- *NPA on Indigenous Early Childhood Development (IECD) (2009-10 to 2103-14)*
- *Project Agreement for Indigenous Teenage Sexual and Reproductive Health and Young Parent Support (2014-15)*

Victoria received total funding over six years of \$6.77 million under these two Agreements. The *NPA on IECD* operated for a four year term and was renewed for one year in 2013-14. The *Project Agreement for Indigenous Teenage Sexual and Reproductive Health and Young Parent Support* (Project Agreement) was provided for one year in 2014-15.

Table 5.6 indicates the Commonwealth Government funding provided to Victoria under these two Agreements since 2009-10.

Table 5.6 *Commonwealth funding for the NPA on IECD and Project Agreement for Indigenous Teenage Sexual and Reproductive Health and Young Parent Support (2009-10 to 2014-15)*

Agreement ^(a)	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	Total
	(\$million)	(\$million)	(\$million)	(\$million)	(\$million)	(\$million)	(million)
<i>NPA on Indigenous Early Childhood Development (IECD)</i>	0.37	1.1	1.1	1.3	1.4	-	5.27
<i>Project Agreement for Indigenous Teenage Sexual and Reproductive Health and Young Parent Support</i>	-	-	-	-	-	1.5	1.50
Total							6.77

- (a) Funding was provided under two separate agreements:
- National Partnership Agreement on Indigenous Early Childhood Development (Element 2 - Antenatal Care, Pre-pregnancy and Teenage Sexual and Reproductive Health) (2009-10 to 2013-14)
 - Project Agreement for Indigenous Teenage Sexual and Reproductive Health and Young Parent Support (PA) (1 year only 2014-15).

Source: Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.16

²⁶² Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.16

The Committee was advised that funding through the 2014-15 Project Agreement and previous NPA had enabled the following initiatives to be implemented:²⁶³

- The expansion of four existing Koori Maternity Services sites at Aboriginal community health organisations.
- The establishment of three new Koori Maternity Services sites at Victorian public hospitals.
- The establishment of the Victorian Indigenous Young Person's Sexual Health Unit (Wulumperi) at the Melbourne Sexual Health Centre. The Wulumperi Health Unit was able to develop a suite of programs over the six year funding period aimed at improved screening for chlamydia in Aboriginal health services, short courses in sexual health for Aboriginal health workers and innovative health promotion programs for the Aboriginal community.

The Committee was advised that the Commonwealth Government did not provide any indication that the Project Agreement would not be renewed until the release of its' *2015-16 Commonwealth Budget*. This created a high level of uncertainty for both the Department of Health and Human Services and service providers. Cessation of funding under this Project Agreement resulted in the termination of some employment contracts.²⁶⁴

The Committee was advised that as part of the 2015-16 State Budget the Victorian Government allocated \$1.1 million to ensure that the Koori Maternity Service was able to continue to contribute to better health outcomes for Aboriginal women and babies in Victoria.²⁶⁵

However, the Wulumperi Health Unit was closed and the Committee was advised that the closure of this Health Unit has resulted in the following impacts on service providers and on the health of Aboriginal Victorians:²⁶⁶

- The loss of employment of three full time equivalent staff including a nurse and two Aboriginal health and community development workers.
- The loss of two successful Sexual and Reproductive Health Education programs designed to increase young people's sexual health knowledge and also their knowledge about accessing testing and treatment. These programs were delivered in 20 secondary schools, to 344 young people and 84 health professionals across Victoria.
- The loss of capacity to deliver Sexual and Reproductive Health training programs to approximately 100 Aboriginal health workers aimed at increasing workforce capacity for opportunistic sexual health screening in Victorian Aboriginal Community Controlled Health Organisations. Commonwealth Government funding ceased before the program was fully implemented and sustainable.

²⁶³ *ibid.*, pp.16-17

²⁶⁴ *ibid.*, p.17

²⁶⁵ *ibid.*

²⁶⁶ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, pp.15-16

- Reduced access to culturally responsive sexual diseases early detection and prevention services for Victoria's Aboriginal & Torres Strait Islander young people.
- Continued increase in chlamydia infection in young Aboriginal Victorians.
- Increased prevalence of chronic conditions resulting from undiagnosed or poorly treated sexually transmissible infections such as HIV and viral hepatitis.

The Victorian Government advised that, the expiration in June 2013 of the *NPA on Closing the Gap in Indigenous Health*, in addition to the expiry of this Project Agreement means that there is currently no inter-governmental agreement in place which focuses on Aboriginal Health.²⁶⁷

FINDING 55: While noting that successive Commonwealth Governments tend to have differing policy objectives and hence different funding priorities, the Commonwealth Government did not provide any indication that the 2014-15 *Project Agreement for Indigenous Teenage Sexual and Reproductive Health and Young Parent Support* would not be renewed, until the release of the *2015-16 Commonwealth Budget*. The expiration in June 2013 of the *National Partnership Agreement on Closing the Gap in Indigenous Health*, in addition to the expiry of the *Project Agreement for Indigenous Teenage Sexual and Reproductive Health and Young Parent Support*, means that there is currently no inter-governmental agreement in place which focuses on Aboriginal Health.

FINDING 56: Commonwealth Government funding provided through National Partnership Agreements can create increased service capacity and/or additional programs to address ongoing demand/issues in the community. When these National Partnership Agreements lapse they leave a funding gap which directly impacts the provision of programs and services to vulnerable Victorians. While noting that any incumbent Victorian Government still has the responsibility of managing the output expenditure and expectations of time-limited National Partnership Agreements, the loss of these programs or reductions in their availability, puts increased pressure and risks on the physical and mental health outcomes and education and employment opportunities, of disadvantaged and vulnerable members of the Victorian community.

RECOMMENDATION 11: There is a need for the Commonwealth Government to recognise that National Partnership funding enables the establishment of increased service capacity in a number of important areas of State service provision in the education and health sectors. In its negotiation with the Commonwealth Government, the Victorian Government should stress the need for longer term financial support for programs and initiatives which have proven to be effective in terms of their outcomes, such as programs to assist disengaged youth transition to training and/or employment opportunities.

²⁶⁷ Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.17

5.6 Early termination of National Partnership Agreements

The Committee received evidence of a number of NPAs which had been terminated or cancelled by the Commonwealth Government without any prior notice to Victoria as part of savings measures implemented in its' *2014-15 Commonwealth Budget*. Table 5.7 provides a list of four NPAs that have been terminated or cancelled by the Commonwealth Government prior to the expiry of their agreed funding period.

The Committee found that in some cases, the Victorian Government had made adjustments to the State Budget in order to minimise the impacts of the loss of Commonwealth Government funding on the Victorian community (e.g. *NPA on Certain Concessions for Pensioner Concession Card and Seniors Card Holders* and the *NPA on Improving Public Hospital Services*).

In the case of the *NPA on Preventive Health*, the Victorian Government has been able to continue a couple of preventive health programs which had been established with Commonwealth financial support. However, the termination of this NPA means that the full benefits of Victoria's preventive health initiative, *Healthy Together Victoria*, aimed at addressing the increasing prevalence of chronic disease and the rise in associated health management costs will not be fully realised.

While noting that any incoming Commonwealth Governments will have different policy objectives and hence differing funding priorities, the Committee is of the view that a process or mechanism is required between the Commonwealth and Victorian Governments to examine and negotiate any potential early termination of NPAs.

Table 5.7 indicates the financial impacts on the State of the unexpected termination of four NPAs by the Commonwealth Government. Each of the NPAs is then discussed in detail the following sections.

Table 5.7 National Partnership Agreements prematurely terminated by the Commonwealth Government

NPA	Agreement Period	NPA Commonwealth funding commitments to Victoria	NPA funds received to date	Impacts of termination
<i>Certain Concessions for Pensioner Concession Card and Seniors Card Holders</i>	2008-09 to 2011-12 2012-13 to 2015-16	For 2009 to 2012 funding indexed and adjusted for Concessions to Pensioner and Seniors card holders committed was \$236.2m. Under Part 2 of the NPA (Public Transport Concessions) a total of \$3.6m was committed. For 2013 to 2016, funding indexed and adjusted for Concessions to Pensioner and Seniors card holders was \$136.7m. Under Part 2 of the NPA (Public Transport Concessions) a total of \$3.3m was committed.	\$379.8m	The Commonwealth Government had provided financial support of the Concessions Program since 1993. \$73.8m loss in Commonwealth Government funding for the Concessions Program for 2014-15. Estimated that the cessation of this NPA will cost Victoria \$230m over the period 2014-15 to 2016-17.
<i>Preventive Health</i>	Original NPA: 2009-10 to 2014-15 Varied NPA: 2011-12 to 2016-17	Total funding available to Victoria was \$119.2m in Facilitation payments and \$37.4m in Reward payments.	\$67.1m	Loss of funding under this NPA of \$52.1m in Facilitation payments, plus a potential \$37.4m in Reward payments. This represents a total loss of \$89.5m in funding to Victoria.
<i>Improving Public Hospital Services</i>	2009-10 to 2016-17	Total funding available to Victoria was \$822.3m. This included potential Reward funding of \$99.8m.	\$723.1m for Facilitation and Capital works funding \$5.1m in Reward funding	Payments for Reward funding ceased from 2015-16 onwards. Potential Reward funding to Victoria of \$49.6m will not be received.
<i>Training Places for Single and Teenage Parents</i>	2011-12 to 2014-15	Total commitment under the Agreement of \$23.8 m (comprising \$19m plus an additional payment of \$4.8m agreed via correspondence between Victoria and the Commonwealth Government).	\$17.4m	The 2014-15 Commonwealth Budget terminated the NPA a year early at the conclusion of 2013-14. As a result approximately \$6.3m of funding to Victoria will not be received in 2014-15.

Source: Department of Treasury and Finance, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, pp.7-8; Department of Health and Human Services, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 28 January 2016, pp.4-6; Department of Education and Training, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 15 January 2016, p.3

5.6.1 *National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders*

In 2008-09 the *NPA on Certain Concessions for Pensioner Concession Card and Seniors Card Holders* was established to provide ongoing funding support for the provision of certain concessions for Pensioner Concession Card and Seniors Card holders. The NPA comprised two components:²⁶⁸

- Certain concessions to Pensioners — The Commonwealth and States had agreed that States would provide certain concessions to all Pension Card Holders in return for indexed Commonwealth funding. Funding support from the Commonwealth had effectively been provided since 1993.
- Public Transport Concessions — The Commonwealth Government's contribution to the States provision of designated Public Transport Concessions to all Australian Senior Card holders.

Between 2008-09 and 2013-14, the Commonwealth Government provided around \$380 million under this NPA. The last iteration of the Agreement commenced in 2012-13 and was to expire in 2015-16. This NPA was prematurely terminated without advance notice as part of savings measures announced in the *2014-15 Commonwealth Budget*.²⁶⁹

Table 5.8 shows the Commonwealth Government funding provided to Victoria under this NPA between 2008-09 and 2013-14 prior to its termination.

Table 5.8 Commonwealth funding for *NPA on Certain Concessions for Pensioner Concession Card and Seniors Card Holders* (2008-09 to 2013-14)

NPA component	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
	(\$million)	(\$million)	(\$million)	(\$million)	(\$million)	(\$million)
<i>Certain concessions for Pensioner Concession Card and Seniors Card Holders</i>	54.83	57.33	60.79	63.29	67.25	69.53
National reciprocal Transport Concessions	-	-	1.73	1.83	1.64	1.64
Total	54.83	57.33	62.52	65.12	68.89	71.17

Source: Department of Premier and Cabinet, *Submission to the Committee Inquiry into the Impact of Changes to National Partnership Agreements*, received 21 August 2015, p.25

The Commonwealth Government's termination of this NPA led to a loss in funding of \$73.8 million in 2014-15 and an anticipated total loss of \$229.6 million over the three year period 2014-15 to 2016-17.²⁷⁰

²⁶⁸ *ibid.*, p.25

²⁶⁹ *ibid.*, pp.4, 25

²⁷⁰ *ibid.*, p.4

The Committee notes that the Victorian Government determined to maintain the full value of the concessions program and make up the loss in Commonwealth Government funding. The Victorian Government has referred to the termination of this NPA as a form of “cost-shifting” from the Commonwealth to the State.²⁷¹ This is despite the fact that eligibility for certain concessions funded by Victoria continue to be based on eligibility for Commonwealth concession cards. As such, any subsequent changes by the Commonwealth Government to eligibility, directly affects funding of the concessions program in Victoria.²⁷²

The main impact of the termination of this NPA has been the increased cost to the Victorian State Budget. The Committee notes that the Victorian Government’s decision to cover the loss in funding has meant that households receiving a concession have not experienced any adverse change to concession outcomes and any impact on the cost of living for concession card holders has also been avoided.²⁷³

Impacts of changes to NPAs on the cost of living are examined in Chapter 7 of this report.

FINDING 57: The *National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders* was terminated without advance notice as part of savings measures announced in the *2014-15 Commonwealth Budget*. The Commonwealth Government’s termination of this National Partnership Agreement led to a loss of \$73.8 million in Commonwealth funding in 2014-15 and an anticipated total loss of \$229.6 million over the three year period 2014-15 to 2016-17. The Victorian Government has continued to fund the Concessions program from State Budget resources.

5.6.2 *National Partnership Agreement on Preventive Health*

The *NPA on Preventive Health* (NPAPH) commenced in December 2008 and was scheduled to expire in 2014-15. The NPAPH was aimed at addressing the rising prevalence of lifestyle related chronic diseases and comprised both ‘facilitation’ and ‘reward payments’.²⁷⁴

In 2012, part way through the Agreement period, the NPAPH was amended to extend the funding period by three years to 2017-18. This amendment also involved converting half of the ‘reward payment’ of \$37.4 million into ‘facilitation payments’ with the remaining ‘reward payment’ of \$37.4 million available over the final two years of the “new” Agreement (i.e. 2016-17 and 2017-18).²⁷⁵

271 *ibid.*

272 Department of Premier and Cabinet, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.22

273 Department of Premier and Cabinet, *Submission to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.25

274 *ibid.*, p.20

275 *ibid.*

The Committee was advised that between 2010-11 and 2013-14, Victoria received \$67 million in Commonwealth Government funding under the NPAPH.

The NPAPH was terminated by the Commonwealth Government as part of cost savings measures introduced in the *2014-15 Commonwealth Budget*. Table 5.9 shows funding provided by the Commonwealth Government under the NPAH from 2010-11 until 2013-14.

Table 5.9 Commonwealth funding for the NPA on Preventive Health (2010-11 to 2013-14)

NPA	2010-11	2011-12	2012-13	2013-14	Total
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
<i>Preventive Health</i>	2.73	38.25	13.07	13.02 ^(a)	67.07

(a) The NP funding was cancelled in the '2014-15 Commonwealth Budget'. The cancellation of the NPA resulted in a loss of \$52.10 million in 'facilitation payments' and potential \$37.43 million in 'reward payments' (i.e. a total of \$89.54m).

Source: Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.20

Funding provided under the NPAH was used by the Victorian Government to establish the *Healthy Together Victoria* (HTV) initiative through the Department of Health and Human Services. This initiative involved a number of policies, programs and strategies across Victoria including 'a concentrated, community led prevention effort in 12 Healthy Together Communities (14 Local Government Authorities) to improve health and wellbeing.'²⁷⁶

The early termination of the NPAH equated to a loss of potential future funding for Victoria of \$89.5 million, comprising \$52.1 million in 'facilitation payments' and \$37.4 million in 'reward payments' over 2014-15 and 2016-17 for programs which were already underway.²⁷⁷

The loss of Commonwealth Government funding under the NPAH has impacted preventive health programs in Victoria and a range of stakeholders involved in both the delivery and receipt of these programs.

The Committee received public submissions from the Municipal Association of Victoria, Knox City Council, the Public Health Association of Australia, the Victorian Healthcare Association and Victorian Council of Social Service criticising the cessation of this NPA in particular.

The Committee notes from the evidence provided that the Department of Health and Human Services' budget has been impacted, local government involved in implementing the HTV programs have been impacted, and members of the community who had been participating in specific preventive health programs have also been, or will be, affected. In addition, the abrupt halt of the NPAPH will impact the longer term outcomes associated with the management of chronic diseases in Victoria.

²⁷⁶ *ibid.*

²⁷⁷ *ibid.*

Impacts on the Victorian Government's preventive health initiative

The Department of Health and Human Services, via the Victorian Government's submission to this Inquiry, identified the following implications resulting from the early termination of the NPAH on preventive health initiatives and programs in Victoria:²⁷⁸

- In 2014-15 the Department used residual NPAH funding to continue 24 service contracts which were not due to expire until 30 June 2015.
- In 2015-16, the Department re-prioritised \$1.85 million in departmental funding in order to continue two of the HTV components for 12 months.
- The Department decided to continue a social marketing campaign aimed at healthy living into its second year using residual NPAPH funding but with a 40 per cent reduction in the planned budget. The third year of the campaign, which included a component focussed on Aboriginal Victorians, will not run.
- Other HTV programs and initiatives have lapsed.
- Funding uncertainty has caused the New Zealand Government's Ministry of Health to request a reduction in a negotiated licence for its use of HTV materials from five years to one year. A non-extension of the licence will result in a loss of \$453,000 in revenue for the Department.²⁷⁹
- There is an overall reduced capacity to coordinate prevention efforts across the three tiers of government. The Department expects this to lead to a duplication of services, inefficient spending, increased service gaps and declining health outcomes.
- In 2016-17, the *Healthy Together Achievement Program* in schools and early childhood centres to cease. This is expected to impact approximately 28 per cent of children in pre-school centres, primary schools and secondary schools.
- In 2016-17, the Department expects the *Healthy Together Achievement Program* in workplaces to cease impacting approximately 300,000 employees (10 per cent of Victoria's workforce) in 800 workplaces.
- The *Healthy Together Eating Advisory Service* which had supported over 450 organisations in improving their food and beverage offerings will cease.
- The comparison trial of 12 *Healthy Together Communities* aimed at providing measurable evidence of the impact and effectiveness of a systems approach to prevention will not continue. This was noted as the only trial of its size and type in the world and its cessation could have a negative impact on Victoria as a leader in preventive health.

²⁷⁸ *ibid.*, pp.20-2

²⁷⁹ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.25

FINDING 58: The Commonwealth Government's termination of the *National Partnership Agreement on Preventive Health* in the 2014-15 Commonwealth Budget, has resulted in a loss of \$89.5 million to Victoria.

Impacts on Local Government and local communities

Submissions received from the Municipal Association of Victoria (MAV) and Knox City Council emphasised the impact of the termination of the NPAPH on local government and their communities. The MAV advised the Committee that funding from this NPA had been expected to continue until 2018 and support 120 local government workers across a range of target populations in early childhood services, schools and workplaces through the *Healthy Together Victoria* program.²⁸⁰

The MAV submission noted that the HTV initiative had been fully embraced by local government across Victoria who recognised that the trial would provide crucial evidence about the impact of preventive health activities on health outcomes. The MAV stated that the axing of the NPAPH compromised the leadership and commitment of councils to a whole of community approach to healthy eating and increased physical activity. In particular:²⁸¹

Without the skilled and experienced workforce and the focus that the program could bring, there is a major risk that the work of the past four years will not be sufficiently captured to have lasting impact in research evaluation terms but more importantly will not be sufficiently resonant in a population that most needs assistance in chronic disease prevention.

In its submission, Knox City Council (KCC) provided the Committee with specific insight into how the cessation of the NPAPH had impacted an individual community. KCC indicated the health challenges facing its community with:²⁸²

- 55.5 per cent overweight or obese (compared with State average of 49.8 per cent);
- 54.3 per cent not meeting the recommended intake of fruit and vegetables (51 per cent in Victoria); and
- 17.6 per cent smokers (15.7 per cent in Victoria).

KCC stated that the NPAPH funding had enabled them to deliver a three year implementation plan through various partnership activities with pre-schools, schools and workplaces, reaching around 50,000 residents (i.e. approximately 31 per cent of the Knox population).²⁸³

²⁸⁰ Municipal Association of Victoria, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 28 July 2015

²⁸¹ *ibid.*

²⁸² Knox City Council, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.1

²⁸³ *ibid.*, p.3

KCC's submission to this Inquiry also detailed how the termination of Commonwealth Government funding under the NPAH will impact the implementation of local preventive health programs in the municipality over the next three years:²⁸⁴

- Loss of support aimed at creating healthy environments to a large number of people (estimated at 23,900) across 47 businesses, 26 primary schools, 5 secondary schools and 63 childcare/early years' services.
- Disengagement, disenfranchisement and damaged relationship with a range of partners who had committed to leading health promotion initiatives.
- A halt to a range of programs targeted at smoking, nutrition, alcohol and physical activity.
- The inability to fully capitalise on the \$3.9 million invested in Knox behavioural change programs.
- The termination of employment contracts for 10.6 Equivalent Full Time staff (Council and Community Health), resulting in associated personal/ human resource impacts and the loss of skilled professionals and knowledge.
- Diminished capacity for the Council to act as a Health Promoting Organisation.
- A cessation of social marketing activities reaching over 10,000 people to raise awareness of healthy lifestyles.
- Discontinuation of *Jamie's Ministry of Food* program promoting skills around health cooking, impacting 500 of the most vulnerable people in the municipality.
- Creation of cynicism about government funded programs.

KCC impressed on the Committee the need for bipartisan, sustained and significant investment in preventive health. KCC stated the need for the Commonwealth Government to recommit funding to the NPAPH as a priority.²⁸⁵

FINDING 59: Early termination of the *National Partnership Agreement on Preventive Health* by the Commonwealth Government has resulted in a cessation of a range of programs targeted at smoking, nutrition, alcohol and physical activity in 14 local government areas across Victoria. The loss of Commonwealth Government funding for these preventive health initiatives has also resulted in job losses at the local government level and impacted many residents of local communities.

²⁸⁴ *ibid.*, pp.3-4

²⁸⁵ *ibid.*, p.4

Impacts on service providers and health outcomes for Victorians

Submissions from both the Victorian Healthcare Association (VHA) and the Victorian branch of the Public Health Association of Australia (PHA) emphasised the detrimental impact of Commonwealth Government funding cuts to NPAs on healthcare workforces and on public health outcomes.

The VHA's submission to this Inquiry noted the impact of the termination of the NPAPH on health service providers indicating that providers would be forced to reduce service delivery. The VHA states:²⁸⁶

In circumstances where the main funder reduces or halts its contribution in a manner that departs from the parameters set out in the relevant NPA, if State and Territory governments are not prepared to fill the funding gaps, health services are left with little option but to reduce capacity or service delivery.

The VHA also noted that the loss of Commonwealth Government funding for preventive health has meant that instead of being able to extend the successes of the HTV model to other communities, the Victorian Government is instead faced with having to manage and apply what is now a drastically reduced model.²⁸⁷

The Committee requested further details from the Victorian Government in relation to the impacts and risks to service delivery as a result of the termination of the NPAPH. The Victorian Government advised that in addition to the doubt created amongst numerous stakeholders within the community, local government and community health sector about the public sector's commitment to achieving real and sustained improvements in community health, the loss of funding will also result in:²⁸⁸

- a loss of approximately 110 positions in local government positions and community health organisations by the end of 2015-16; and
- a skill and resource deficit in 14 local government areas resulting in an inability to fully deliver on their legislated Council Plans and Municipal Health and Wellbeing Plans from 2013 to 2017. This is estimated to potentially impact 1.3 million community members, representing about 25 per cent of Victoria's population.

The Department of Health and Human Services also indicated that the termination of the NPAH would impact on health outcomes of Victorians. As part of the Victorian Government's submission to this Inquiry, the Department advised that the evaluation objectives of the *Healthy Together Victoria*

²⁸⁶ Victorian Healthcare Association, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 28 July 2015, p.1

²⁸⁷ *ibid.*, p.4

²⁸⁸ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.25

initiative were sequenced to allow for the measurement of change over time. The Committee was advised that it is unlikely that the 2016-17 evaluation will proceed as originally envisaged due to the downsizing of the HTV Initiative.²⁸⁹

The Committee considers that the funding provided under the NPAPH was significantly important to Victorian communities in helping people to change their lifestyles and for the Victorian Government to develop and implement programs aimed at addressing the increasing prevalence of preventable chronic diseases, estimated to be costing Australia billions of dollars in health costs.

FINDING 60: Commonwealth Government funding provided under the *National Partnership Agreement on Preventive Health* was significantly important to Victorian communities in helping people to change their lifestyles and for the Victorian Government to develop and implement programs aimed at addressing the increasing prevalence of preventable chronic diseases.

5.6.3 *National Partnership Agreement on Improving Public Hospital Services*

Funding under the *NPA on Improving Public Hospital Services* (IPHS) commenced in 2009-10 as part of the *National Health Reform Agreement* between the Commonwealth and the States and Territories. The NPA on IPHS aimed to improve efficiency and capacity in public hospitals and included funding for capital works. Funding under the NPA on IPHS was provided through six 'schedules' as follows:²⁹⁰

- *National Elective Surgery Target* (NEST) comprising facilitation and reward funding;
- *National Emergency Access Target* (NEAT) comprising facilitation and reward funding;
- *New Sub-acute Beds Guarantee Funding*;
- *Flexible Funding Pool*;
- *Elective Surgery Capital Funding*; and
- *Emergency Department Capital Funding*.

The total funding available to Victoria under the NPA on IPHS was \$822.3 million including \$99.8 million in potential reward funding.²⁹¹ The Commonwealth Government provided funding on the basis of approval of annual Implementation

²⁸⁹ *ibid.*

²⁹⁰ Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.27

²⁹¹ Department of Health and Human Services, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 28 January 2016, p.4

Plans and Bi-annual Progress Reports submitted by States and Territories to the Commonwealth.²⁹² Table 5.10 shows the amounts provided to Victoria in the form of ‘facilitation’ and ‘reward’ payments under the NPA on IPHS.

Table 5.10 Commonwealth funding for *NPA on Improving Public Hospital Services* (2009-10 to 2014-15)

NPA on Improving Public Hospital Services	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Facilitation and capital works	33.5	216.5	177.9	140.5	154.7	-
Potential Reward Payments	-	-	-	-	24.8 ^(a)	24.8

(a) Victoria received \$5.1m in reward payments in 2013-14.

Notes: 2009-10 to 2013-14 funding amounts sourced from relevant Commonwealth Government *Final Budget Outcome* documents.

The *2014-15 Commonwealth Budget* discontinued Reward funding for the final two years (2015-16 and 2016-17) of the NPA providing a saving to the Commonwealth Government of \$201.0 million nationally.

Source: Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.27

The Victorian Government’s submission to the Inquiry notes that 2013-14 was the final year in which Victoria received funding under the NPA on IPHS. Reward payments for the final two years of the NPA (2015-16 and 2016-17) were discontinued by the Commonwealth Government as part of its 2014-15 Budget cost savings measures. This amounted to a loss of potential funding to Victoria of \$49.6 million.²⁹³

The Department of Health and Human Services, via the Victorian Government’s submission to this Inquiry, indicated that the NPA on IPHS had assisted Victoria in improving access to public hospital services, including elective surgery, emergency department services and sub-acute care. However, the loss of future funding has resulted in a number of negative impacts on the provision of public hospital services in Victoria as follows:²⁹⁴

- *National Elective Surgery Target* (NEST) - a program of capital works across metropolitan and rural Victoria was completed to boost elective surgery capacity. The loss of continued funding amounts to approximately 23,000 elective surgery procedures. Whilst efforts have been made to reduce waiting times and deliver more services through different models of care, meeting the NEST targets requires significantly more capacity in the system than is currently available.
- *National Emergency Access Target* (NEAT) - facilitation funding was allocated to metropolitan, regional and rural health services to provide increased capacity for emergency care. Capital works funding was also used to boost and enhance Emergency Department (ED) capacity in an effort to

²⁹² Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.27

²⁹³ *ibid.*

²⁹⁴ *ibid.*, pp.27-9

achieve targets. The loss of ongoing emergency access funding under the NPA represents approximately 15,500 ED presentations. Victoria adjusted State funding through its annual budget processes to maintain ED service delivery levels.

- *New Sub-acute Beds Guarantee Funding* - Victoria met its target of delivering an additional 326 sub-acute beds by 30 June 2014 however, the loss of ongoing funding threatened the closure of 247 beds and 91 bed equivalents of subacute ambulatory care activity. Victoria made adjustments through the State Budget in order to maintain these essential sub-acute services.

The Committee requested clarification from the Victorian Government as to whether the Commonwealth Government had included any capacity building components through the *National Health Reform Agreement* (NHRA). The Committee was advised by the Victorian Government that the NHRA had specified that a review of the NPA would be undertaken by December 2013 assessing the impact on public hospital services as a result of the NP funding. However, the Committee was also advised that an “adequate” review had not taken place and that there was no decision by COAG about the treatment making an appropriate baseline adjustment to funding to reflect the State’s share of providing the additional emergency, elective surgery and sub-acute services on an ongoing basis.²⁹⁵

The Committee notes that in the absence of ongoing Commonwealth Government funding to support for the increased capacity in emergency, elective surgery and sub-acute services in Victorian public hospitals, the Victorian Government has made adjustments through its annual budget processes to maintain service delivery levels.²⁹⁶

FINDING 61: Commonwealth Government funding provided under the *National Partnership Agreement on Improving Public Hospital Services* ceased in 2013-14 with the loss of reward payments to Victoria totalling \$49.6 million. In the absence of ongoing Commonwealth funding to support the increased capacity in emergency, elective surgery and sub-acute services in Victorian public hospitals, the Victorian Government has made adjustments through its annual budget processes to maintain the increased service delivery levels.

5.6.4 ***National Partnership Agreement on Training Places for Single and Teenage Parents***

The *NPA on Training Places for Single and Teenage Parents* was agreed by COAG in March 2012 and was aimed at improving the job readiness of single and teenage parents who are in receipt of parenting payments. This NPA was directed at providing training opportunities with a view to enabling participation

²⁹⁵ Department of Premier and Cabinet, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.13

²⁹⁶ *ibid.*

in the workforce. The NPA also had a particular focus on identified areas of disadvantage. In Victoria, teenage parents in the Greater Shepparton and Hume region would be guaranteed training under the NPA.

Victoria's allocation of Commonwealth Government funding under this NPA is shown in Table 5.11. Whilst Table 5.11 shows that Victoria received a total of \$12.66 million between 2012 and 2013-14, the Committee was advised that Victoria had received an additional payment of \$4.7 million which was agreed through an 'exchange of letters'. As such, the total funding provided to Victoria under this NPA prior to its cancellation totalled \$17.36 million.²⁹⁷

Table 5.11 Commonwealth funding for the *NPA on Training Places for Single and Teenage Parents*

NPA funding	Jan-June 2012	2012-13	2013-14	2014-15	Total
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Received	1.58	4.75	6.33	^(a)	12.66 ^(b)
Cancelled	-	-	-	6.33	6.33
Total Initially allocated					18.99

(a) NPA cancelled in the 2014-15 Commonwealth Budget.

(b) Does not include an additional payment of \$4.7 million agreed between the Commonwealth and Victoria.

Source: Commonwealth of Australia, Council on Federal Financial Relations, *National Partnership Agreement on Training Places for Single and Teenage Parents*, Part 5, Financial Arrangements, p.D-9, <www.federalfinancialrelations.gov.au/content/npa/education/single_and_teen_parents/national_agreement2.pdf>.

This NPA was scheduled to expire on 31 December 2015. As part of the *2014-15 Commonwealth Budget*, the Commonwealth Government announced that the NPA would "formally close" on 31 December 2014 with no referrals to be made under the NPA after 1 July 2014.²⁹⁸

FINDING 62: The Commonwealth Government terminated the *National Partnership Agreement on Training Places for Single and Teenage Parents* in 2013-14, one year before funding was due to expire, resulting in a loss in funding to Victoria of \$6.3 million for programs aimed at providing training places for teenage parents.

²⁹⁷ Department of Education and Training, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 15 January 2016, p.3

²⁹⁸ Commonwealth of Australia, Department of Education and Training, *Training Places for Single and Teenage Parents*, <www.education.gov.au/training-places-single-and-teenage-parents>, viewed 18 April 2016

5.6.5 Committee conclusion

As part of savings measures announced in its' *2014-15 Commonwealth Budget*, the Commonwealth Government prematurely cancelled a number of NPAs which still had one to two years of their funding to run.

This amounted to a loss of Commonwealth Government funding of approximately \$420 million²⁹⁹ (including potential 'reward payments') to Victoria in the areas of Concessions for Pensioners and Seniors, preventive health programs, training places for young vulnerable Victorians and support for sub-acute beds, elective surgery and emergency department services in public hospitals.

FINDING 63: In 2014-15 the Commonwealth Government prematurely terminated a number of National Partnership Agreements amounting to a loss of future funding to Victoria under those Agreements totalling approximately \$420 million, as a result of a change in the Commonwealth Government's policy decisions and funding priorities. This loss of Commonwealth Government funding caused disruption to a number of important community service programs and initiatives and impacted Victoria's State Budget as the Victorian Government committed to support ongoing services and programs in a number of key areas of service delivery.

The Committee considers that the practice of terminating NPAs early represents an escalation of previous amendments made to the terms of NPAs part way through their operation or upon renegotiation. In most cases, the Victorian Government has made decisions and taken remedial action to support the continued delivery of the most critical services via reprioritised State budget allocations.

At the hearing, the Secretary of the Department of Health and Human Services, Ms Kym Peake, commented that:³⁰⁰

Although in some cases the Victorian Government has also made the decision to cover withdrawal in commonwealth funds, while we have done that, we cannot always absorb additional costs from continued withdrawal of funds by the commonwealth for key areas of service delivery.

²⁹⁹ Committee calculations based on Department of Education and Training, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 15 January 2016, p.3.; Department of Health and Human Services, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 28 January 2016, pp.4-6; Department of Treasury and Finance, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 28 January 2016, pp.7-8

³⁰⁰ Ms Kym Peake, Secretary, Department of Health and Human Services, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements, Transcript of evidence*, 17 November 2015, p.3

Whilst NPAs usually include a standard clause providing for their early termination (by agreement between the Parties) and another which states that the Parties do not intend for the provisions of an Agreement to be legally enforceable, they also state that this “lack of legality” ‘*does not lessen the Parties’ commitment to the Agreement*’.³⁰¹

The risk that the practice of terminating an NPA during its funding period becomes more frequent is a significant concern to the Committee as the loss of expected funding from the Commonwealth Government presents serious risks to the stability of service delivery and financial management in Victoria.

The Committee considers that the Victorian Government should seek to reach an agreement with the Commonwealth Government on a suitable process for renegotiating any NPAs in the event of a change in Commonwealth Governments which results in differing policy decisions and hence different funding priorities.

FINDING 64: Whilst not legally enforceable documents, National Partnership Agreements are intended to commit Parties to the Agreement to the provisions set out in those Agreements, including the tenure and funding to be provided. The early termination of National Partnership Agreements has had serious ramifications for programs and services underway in Victoria.

RECOMMENDATION 12: The Victorian Government should seek confirmation from the Commonwealth Government about its commitment to the clauses and provisions set out in National Partnership Agreements and seek to reach an agreement with the Commonwealth Government on a suitable process for renegotiating National Partnership Agreements, in the event of a change in Commonwealth Government policy and funding priorities.

³⁰¹ Commonwealth of Australia, Council on Federal Financial Relations, *National Partnership Agreement on Training Places for Single and Teenage Parents, Part 1-Formalities*, pp. D-2, D-3, <www.federalfinancialrelations.gov.au/content/npa/education/single_and_teen_parents/national_agreement2.pdf>; Commonwealth of Australia, Council on Federal Financial Relations, *Toolkit for Drafters of New Agreements, National Partnership agreement template*, <www.federalfinancialrelations.gov.au/content/guidelines_for_new_nps.asp>

6 Other issues related to the use of National Partnership Agreements

6.1 Introduction

This Inquiry has examined the funding provided to Victoria by the Commonwealth Government and contributions made by the Victorian Government for the implementation of National Partnership Agreements (NPAs) between 2008 and 2015. The Committee has also reviewed changes made to those Agreements by the Commonwealth Government over the past seven years and the impacts these changes have had on government service delivery in Victoria.

One of the critical issues identified from the review of NPAs between the Commonwealth and Victoria is the inappropriate use of NPAs by the Commonwealth Government to support ongoing or long-term service delivery in Victoria. The acceptance of this practice by the State is also questioned. This practice is discussed in further detail in this Chapter.

A further issue noted by the Committee in the evidence provided by Victorian Government departments and non-government organisations is the significant costs associated with the administration of NPAs in terms of their negotiation, data collection and reporting requirements. These matters are also highlighted in this Chapter.

6.2 National Partnership Agreements which support ongoing service delivery in Victoria

As noted earlier in this report, under the *Intergovernmental Agreement of Federal Financial Relations* (IGA FFR), National Partnership funding provided under NPAs or Project Agreements is provided to deliver specific projects and to facilitate major reforms and/or service improvement initiatives.³⁰² Further, NPAs and Project Agreements are typically intended to be time-limited instruments.³⁰³

302 Council of Australian Governments, *The Federal Financial Relations Framework*, <www.coag.gov.au/the_federal_financial_relations_framework> viewed 10 May 2016

303 Council on Federal Financial Relations, Agreements, <www.federalfinancialrelations.gov.au/content/npa/> viewed 10 May 2016

6.2.1 Nature and form of National Partnership Agreements

The Committee found that NPAs established between the Commonwealth and Victorian Governments since 2008 have taken a variety of forms. The particular characteristics of each Agreement vary depending upon the sectors in which they are initiated, the purposes for which they are initiated, and the relationship between the portfolio departments at the Commonwealth and State and Territory levels, involved in the negotiation.

The Committee notes that some NPAs included reward payments and others did not. Some NPAs provide flexibility to the State in terms of how it goes about achieving specified outcomes and others are less flexible and more prescriptive. In general, NPAs which have provided seeding funds from the Commonwealth Government to facilitate a reform in the State or funding in the form of reward payments to the State for delivering on national reforms or service delivery improvement have been considered to be successful.

The Commonwealth Government has issued guidance material (i.e. *Federal Finances Circulars*) in an effort to reinforce the principles set out in the IGA FFR and get some consistency around the structure and design of National Partnerships and the elements which should go into the Agreements, such as consideration of flexibility in design, performance reporting and accountability requirements, and review processes. Guidelines also exist which set out the processes for negotiating, finalising and varying Agreements.

FINDING 65: National Partnership Agreements established between successive Commonwealth and Victorian Governments since 2008 have taken a variety of forms. The particular characteristics of each Agreement vary depending upon the sectors in which they are initiated, the purposes for which they are initiated, and the relationship between the portfolio departments at the Commonwealth and State and Territory Government levels involved in the negotiation process.

FINDING 66: In an effort to provide greater consistency around National Partnership Agreements, the Commonwealth Government has issued guidelines for Commonwealth portfolio departments which set out processes for drafting, negotiating, finalising and varying Agreements.

6.2.2 National Partnerships for longer term service delivery

Despite the IGA FFR principles and the guidelines established for NPAs, the Committee notes that successive Commonwealth and State Governments have agreed to establish and continue to negotiate NPAs in the following areas of ongoing or longer term government service delivery:

- Homelessness services
- Home and community care services
- Adult public dental services
- Concessions to pensioners and seniors

- Legal assistance services
- Early childhood education programs

Each of these areas relate to well-established services and programs which have been meeting ongoing and increasing need in the community. The Committee also notes that the Commonwealth Government has been providing financial support for a number of these areas over a long-term, pre-dating the IGA FFR.

In questioning how some of these areas have come to be subject to National Partnership funding rather than an alternative recurrent Commonwealth Government funding arrangement, the Committee notes that *Federal Finances Circular* procedural guidance on *Developing National Partnerships under the Federal Financial Relations Framework* states:³⁰⁴

Agreements that pre-date the framework involving payments to the States (other than for those payments which were rationalised into National Specific Purpose Payments), have been deemed to be National Partnerships.

The guidance also states that for these “deemed agreements” a new National Partnership should be negotiated with the States before the current arrangement expires and Commonwealth portfolio departments should consult with the Commonwealth Department of Prime Minister and Cabinet and the Commonwealth Treasury on the appropriate form of agreement.

So in the case of Home and Community Care services, Concessions to Pensioners and Seniors, and Legal Assistance services, the Commonwealth Government “deemed” these to be National Partnerships because they were not prepared to fund them recurrently. In the case of the other areas listed, National Partnerships have been initiated by the Commonwealth and been negotiated and renegotiated from time to time with the State.

FINDING 67: Commonwealth Government guidelines state that funding agreements that pre-date the *Intergovernmental Agreement on Federal Financial Relations* framework involving payments to the States and Territories which are not rationalised into National Specific Purpose Payments, have been “deemed” to be National Partnerships.

6.2.3 Review processes for expiring Agreements

The Committee notes that a number of the NPAs which relate to areas of ongoing service delivery, have been renewed or renegotiated with the Commonwealth Government. Commonwealth guidelines indicate that ‘*to assist consideration of the appropriate treatment of expiring National Partnerships, provision for a review of the National Partnership should be incorporated in the agreement.*’³⁰⁵ The guidelines also suggest that these reviews should be scheduled to report

³⁰⁴ Commonwealth of Australia, Council on Federal Financial Relations, *Federal Finances Circular No.2015/01 Developing National Partnerships under the Federal Financial Relations Framework, Treatment of pre-Intergovernmental Agreement arrangements*, p.3

³⁰⁵ Commonwealth of Australia, Council on Federal Financial Relations, *Federal Finances Circular No.2015/01 Developing National Partnerships under the Federal Financial Relations Framework, Review Processes*, p.25

no later than six to 12 months prior to the Agreement's expiry date and should be supplemented by a mid-term review, where the Agreement is of sufficient duration.³⁰⁶

More importantly, where an NPA is expiring, the guidelines state that:³⁰⁷

The Intergovernmental Agreement (clause A4) outlines the functions of the Council on Federal Financial Relations, including assessing whether expiring National Partnerships should continue and if so, recommending the form of any ongoing funding to COAG.

The guidelines state that the recommendation of the Commonwealth Council on Federal Financial Relations should be informed by the evaluation of the success of the NPA in achieving the agreed outcomes and outputs and whether the *'related policy objectives remain appropriate'*.³⁰⁸

The guidelines also note that the Council does not have the authority to make funding decisions and a recommendation to COAG in respect of future funding arrangements or mechanisms for an expiring Agreement must incorporate funding decisions made as part of the Commonwealth budget process. Further:³⁰⁹

Any proposal to extend funding under an agreement beyond its expiry represents a New Policy Proposal under the Commonwealth's Budget Process and Operational Rules.

Commonwealth portfolio agencies should consult with the Commonwealth central agencies for further information on arrangements relating to expiring National Partnerships.

FINDING 68: Commonwealth Government guidelines state that all National Partnership Agreements should include a review process to be undertaken no later than six to 12 months prior to the expiry of an Agreement to assist the decision-making process around whether funding should continue.

FINDING 69: Under the *Intergovernmental Agreement on Federal Financial Relations*, the Council on Federal Financial Relations can make an assessment about whether expiring National Partnerships should continue and if so, make a recommendation to the Council of Australian Governments on the form of any ongoing funding. However, this recommendation must incorporate funding decisions made as part of the Commonwealth budget process.

6.2.4 Negotiation of National Partnership Agreements

The Committee noted in Chapter 5, that a number of NPAs in these important areas of service provision have been renegotiated for shorter funding periods by the Commonwealth Government. Short-term Commonwealth Government

³⁰⁶ *ibid.*

³⁰⁷ *ibid.*

³⁰⁸ *ibid.*

³⁰⁹ *ibid.*

funding support of areas on ongoing and long-term service provision presents the State with a number of difficulties in terms of service planning and efficient and effective service delivery.

The Committee considers that the continued negotiation and renegotiation of these NPAs as short-term funding arrangements with the Commonwealth Government in support of ongoing services is inappropriate and presents significant risks to the sustainable, efficient and effective management of the Victorian Government's State Budget and for the delivery of important services to members of the Victorian community.

National Partnerships are drafted by the Commonwealth portfolio departments with responsibility for the particular initiative, in consultation with Commonwealth central agencies. Commonwealth central agencies provide the policy and Budget approval for the proposal. It is after this that consultation on program and design issues takes place with the relevant State and Territory Government department and central agencies.

A number of witnesses provided evidence to the Committee in support of these NPAs being transitioned to an ongoing and more predictable funding arrangement with the Commonwealth Government. The Committee considers that the Victorian Government central agencies need to put a strong case to the Council on Federal Financial Relations that NPAs are inappropriate funding mechanism for these services and that there are significant benefits for both the Commonwealth and the State in moving the funding for these services to a more effective and appropriate recurrent funding arrangement.

The Committee was advised that while funding contributions for some NPAs are determined during negotiation by reference to the outputs that are to be delivered, *'many come with a pre-determined budget that is the product of the Commonwealth's internal prioritisation or budget process.'*³¹⁰

In addition, the Department of Premier and Cabinet advised that the ability to meaningfully engage with those personnel involved in front-line service delivery can be frustrated by the Commonwealth Government presenting draft NPAs to the States and Territories with very short negotiating time frames and with a "take it or leave it" negotiation position from the Commonwealth Government.³¹¹

The Committee was advised by the Secretary of the Department of Treasury and Finance that the issues relating to the uncertainty of funding under National Partnerships is a key point of discussion at Treasurers' meetings as there is a strong view amongst all States and Territories that this presents significant problems in financing service delivery.³¹²

310 Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.3

311 *ibid.*

312 Mr David Martine, Secretary, Department of Treasury and Finance, *Transcript of evidence*, 17 November, 2015, p.8

RECOMMENDATION 13: Victorian Government central agencies should present a strong case to the Council on Federal Financial Relations that National Partnership Agreements are an inappropriate funding mechanism for ongoing services and that there are significant benefits for both the Commonwealth and the State in moving the funding arrangements for these services to a more effective and appropriate recurrent funding arrangement.

6.2.5 Health and community services

The Department of Health and Human Services commented that NPAs were most effective when being used to implement or encourage reform in areas of shared interest between the Commonwealth and the State and had achieved some significant outcomes in the areas of health and human services. However, the Secretary advised that there were some examples where the use of an NPA as a vehicle for funding needs to be questioned.³¹³

At the hearing, the Secretary, Department of Health and Human Services, Ms Kym Peake stated that in areas such as home and community care services, homelessness services and dental health services, NPAs are not an appropriate funding mechanism for what are long-term challenges for both the Victorian and Commonwealth Governments. The Secretary stated:³¹⁴

NPAs pose risks to the state and the department that have the ability to impact on services, particularly if they are used by the commonwealth instead of national agreements to fund ongoing service delivery or if there is no provision in the agreement to transition to ongoing funding where required.

The Secretary also advised that shorter term NPAs and unexpected withdrawal or deferral of funding together with limited consultation and negotiation of NPAs has eroded the effectiveness of some of these Agreements.³¹⁵

Home and community care services

The Commonwealth Government has provided financial support for home and community care services in some form since 1985.³¹⁶

The *NPA on Home and Community Care Program* commenced in 2008-09 and will come to an end on 30 June 2016. The Commonwealth Government has contributed \$2.7 billion to Victoria to support the Home and Community Care (HACC) Program under this NPA since 2008-09.³¹⁷

³¹³ Ms Kym Peake, Secretary, Department of Health and Human Services, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, Transcript of evidence, 17 November, 2015, p.2

³¹⁴ *ibid.*, p.3

³¹⁵ *ibid.*

³¹⁶ *ibid.*, p.2

³¹⁷ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.20

The NPA will be replaced by the *Bilateral Agreement on Transitioning Responsibilities for Aged Care and Disability Services* which was signed by the Commonwealth and the States in September 2015. Under the Bilateral Agreement, funding and management of the HACC Program will be split between the Commonwealth and Victorian Governments along age lines.³¹⁸

The Commonwealth Home Support Program will provide a similar range of services in Victoria to people (65 years and over and 50 years and over for Indigenous Victorians) as were provided under the HACC Program. Services for people aged under 65 years and under 50 years for Indigenous Victorians, will be funded and managed solely by the Victorian Government, with some services transferring to the National Disability Insurance Scheme as it is rolled out in Victoria.

FINDING 70: The *Home and Community Care Program*, which has received Commonwealth Government funding under a National Partnership Agreement since 2008-09, is being transitioned to a different funding arrangement from 1 July 2016 as a result of the *Bilateral Agreement on Transitioning Responsibilities for Aged Care and Disability Services*.

Homelessness services

The *NPA on Homelessness* (NPAH) commenced in 2009-10 as a four year Agreement. Since then the NPAH has been renegotiated as a two year agreement in 2013-14 and once again in 2015 as a two year Agreement. The Commonwealth Government has provided approximately \$166.7 million in funding under these NPAs since 2009-10.³¹⁹

The Victorian Government's submission to this Inquiry called for funding for homelessness to be placed on a more sustainable long-term basis noting the negative impacts and inefficiencies created by funding under an NPA:³²⁰

Short-term funding of homelessness services limits system reform, creates uncertainty for service providers and impacts on operational planning. These challenges ultimately have an adverse impact on availability of appropriate and innovative services to clients.

FINDING 71: Whilst initial funding contributions from the Commonwealth Government to support the provision of homelessness services in Victoria through the *National Partnership Agreement on Homelessness* have been beneficial, there is a need for a longer term, more appropriate funding arrangement to be negotiated by the Department of Health and Human Services and Victorian Government central agencies with the Commonwealth Government.

³¹⁸ *ibid.*, p.23

³¹⁹ Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.23

³²⁰ *ibid.*, p.17

Dental services

As noted in Chapter 5, the *NPA on Treating More Public Dental Patients* expired on 30 June 2015 and this coupled with the Commonwealth Government's decision in December 2014 to defer the commencement of the *NPA on Adult Public Dental Services* has created additional challenges for the management of Victoria's public dental health services. The Department of Health and Human Services, via the Victorian Government's questionnaire response to this Inquiry, advised the Committee that amendments to these NPAs have impacted both the number of public dental clients treated and waiting times in Victoria. In addition, funding uncertainty going forward has adverse impacts for both the dental care workforce and dental health care planning in the State.³²¹

The Commonwealth Government has provided \$85.4 million to Victoria for public dental health services under the *NPA on Treating More Public Dental Patients*.³²²

FINDING 72: The constant changes made by the Commonwealth Government to funding support provided through National Partnership Agreements for public dental services have impacted the number of public dental clients treated and public dental waiting times in Victoria.

Concessions to Pensioners and Seniors

As noted in Chapter 5, the *NPA on Certain Concessions for Pensioner Concession Card and Seniors Card Holders* commenced in 2008-09 but the Commonwealth Government had provided indexed funding of concessions to all *Pension Concession Card* holders since 1993. The NPA also included a funding contribution to Victoria's provision of public transport concessions to all Australian *Seniors Card* holders. Since 2008-09, the Commonwealth Government had provided \$379.8 million in funding to support the provision of these concessions. As noted earlier in this report, the NPA was unexpectedly terminated by the Commonwealth Government in its' *2014-15 Commonwealth Budget*.³²³

Victoria has continued to fund these Concessions following the termination of this NPA at significant additional cost to the State and in spite of the fact that eligibility for certain concessions continues to be based on eligibility for Commonwealth concession cards.³²⁴

³²¹ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.26

³²² Victorian Healthcare Association, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 28 July 2015, p.3

³²³ Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.25

³²⁴ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.22

FINDING 73: The Commonwealth Government's termination of the *National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders* means that the Commonwealth Government no longer provides any contribution for concessions provided by the Victorian Government to Commonwealth concession card holders. This represents a loss of around \$70 million per annum in Commonwealth Government funding for this entitlement program.

6.2.6 Legal assistance services

The Commonwealth Government has historically provided funding for Commonwealth matters progressing through Victorian-based courts. The *NPA on Legal Assistance Services* (NPALAS) was established in July 2010 and built on long standing arrangements for the provision of legal assistance through the Victoria Legal Aid Commission for disadvantaged Victorians. The original NPALAS was for four years and was extended for one year in 2014. A renegotiated five-year NPALAS was signed in late June 2015 with effect 1 July 2015 until June 2020.³²⁵ The Commonwealth Government has contributed approximately \$278.8 million to support the provision of legal assistance services in Victoria under these NPAs since 2010-11.³²⁶

At the Committee hearing, the Secretary of the Department of Justice and Regulation, Mr Greg Wilson, commented on some of the more successful or effective NPAs within the Justice portfolio such as the *NPA on Delivery of a Seamless National Economy*, the *Emergency Management Project Agreement* and the *NPA on Native Title*. These were all related to funding provided to address specific issues such as the reform of specific business and consumer laws; the development of an emergency warning system; and the settlement of native title claims. Speaking about these NPAs, the Secretary contrasted their objectives and purpose with that of the *NPA on Legal Assistance Services* which relates to 'an ongoing service with ongoing and rising demand.' The Secretary stated:³²⁷

In my view if it is ongoing and it is clear it is going to be ongoing and growing, perhaps it is more suited to the specific purpose payment arrangements, or we have an adjacent agreement with rewards for reforms, but this one is kind of all bundled up together.

The Secretary added that the Commonwealth Government might view the NPALAS as containing reform aspects such as collaborative service arrangements however these could be specified as outcomes through another funding arrangement more suited to an area where there is constant demand for the service.³²⁸ The Committee notes data provided by the Department which indicates that Commonwealth Government funding under the NPALAS has not kept pace with the demand for legal assistance services and the Victorian Government has had to meet the increasing funding gap.

³²⁵ Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.30

³²⁶ *ibid.*, pp.31-32

³²⁷ Mr Greg Wilson, Secretary, Department of Justice and Regulation, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements, Transcript of evidence*, 19 November, 2015, pp.4-5

³²⁸ *ibid.*, p.5

FINDING 74: The Commonwealth Government has contributed to the provision of legal services to assist disadvantaged Victorians over a long period. Since 2010, the Commonwealth Government's contribution has been provided through a short-term National Partnership Agreement. This is despite the fact that service provision is well established and demand for the services continue to increase. There is a need for a more sustainable funding arrangement to be agreed with the Commonwealth Government to support this service provision into the future.

6.2.7 Early childhood education programs

There is general acceptance within the community that early childhood education is important for learning and development and also has some economic and social benefits by enabling parents to participate in the workforce.

The Committee notes the Commonwealth Productivity Commission report in October 2014 that early childhood education and child care play a critical role in the development of Australian children and in enabling parents to work. The Commission reported that *'the benefits from participation in preschool for children's development and transition to school are largely undisputed.'*³²⁹

The Commission's report noted that preschool participation can also provide early identification and intervention for children with developmental vulnerabilities. The report also notes that the quality and availability of affordable early childhood services and child care is most critical for rural and remote areas and for children who are developmentally vulnerable.³³⁰

The *NPA on Universal Access to Early Childhood Education (UAECE)* provides funding for five of the 15 hours per child, per week, early childhood education provision in the State. As noted in Chapter 5, the term of this NPA has been diminishing each time it has been renegotiated. The NPA commenced in 2009 as a five year Agreement and since then it has been renegotiated for three years, two years and is currently in the process of renegotiation. The Commonwealth Government has contributed \$466 million to the provision of early childhood education in Victoria through these NPAs since 2008-09.³³¹

However, the Committee considers that the renegotiation and agreement by the State of shorter term NPAs creates uncertainty for the ongoing provision of early childhood services and impacts the ability of service providers to plan ahead. The Committee was also advised that if funding under the NPA ceases, the Victorian Government *'would be required to cover the Commonwealth contribution or review the provision of 15 hours of kindergarten.'*³³²

³²⁹ Commonwealth of Australia, Productivity Commission, *Childcare and Early Childhood Learning, Productivity Commission Inquiry Report, Overview and Recommendations*, 31 October 2014, p.2

³³⁰ *ibid.*, p.4

³³¹ Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.6

³³² Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.31

The Committee notes that since this NPA was established in 2008-09, Victoria has been able to increase the minimum hours of kindergarten program delivery from 10 to 15 hours per week or 600 hours per year. Participation rates have also increased from around 92 per cent in 2009 to 96.2 per cent in 2014.³³³

At the hearings, the Secretary of the Department of Education and Training, Ms Gill Callister explained that the NPA on UAECE has been successful in increasing the provision of early childhood education services however, the funding is now about ongoing service delivery and needs to progress from an NPA to a more sustainable, core funding arrangement. The Secretary stated:³³⁴

...one of the things that becomes a problem is how you move it from being a national partnership to being something that is about core funding, and stop a lot of time, a lot of senior office time, both in DET and then in central agencies getting tied up in the renegotiation of something that I think most people would agree now has a solid evidence base, and we should continue.

The Secretary also noted that the provision of \$100 million in Commonwealth Government funding contribution through the NPA on UAECE is not insignificant to Victoria and whilst it would be difficult to reduce 15 hours of kindergarten provision now, if the Commonwealth Government decided not to renegotiate this NPA then the additional cost of providing the programs would flow to the State, or parents or a combination of both.

FINDING 75: Commonwealth Government funding provided under the *National Partnership Agreement on Universal Access to Early Childhood Education* since 2008-09 has assisted Victoria in increasing the provision of early childhood education services. However, as this level of service provision is now well established and expected within the community, there is a need for the Commonwealth and State Governments to negotiate transitioning this funding from a short-term National Partnership Agreement to a more sustainable, core funding arrangement.

6.2.8 Transitioning National Partnership funding to sustainable funding arrangements

As noted through the examples outlined above, processes are needed to enable the Victorian Government to work together with the Commonwealth Government to agree a sustainable approach to Commonwealth Government funding contributions for key areas of health and human services initiatives, early childhood education programs and legal assistance services provided in Victoria. The NPAs noted represent significant areas of cost to the Victorian Government's State Budget and comprise some of the more significant NPAs entered into between successive Commonwealth and Victorian Governments since the IGA FFR in 2008.

³³³ *ibid.*, pp.29-30

³³⁴ Ms Gill Callister, Secretary, Department of Education and Training, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, Transcript of evidence, 17 November 2015, p.10

The Committee notes that the IGA FFR guidelines on *National Policy and Reform Objectives* state that National Partnerships are generally expected to have limited time horizons and following delivery of the particular initiative which is funded through an NPA:³³⁵

- (a) funding would cease because the project, output or reform has been delivered; and
- (b) where on-going funding is required to maintain a new level of output, such funding may more appropriately be provided through the relevant National [Specific Purpose Payment funding] Agreement or general revenue assistance.

Commonwealth Government guidelines state that a review process must be included in all NPAs and that the Council on Federal Financial Relations may make a recommendation to COAG in relation to continued funding, and/or the form of any continued funding for expiring NPAs. However, what appears to be lacking is a detailed and formalised process which provides for an assessment or evaluation of these specific NPAs, contributing to long-term service delivery outcomes.

The Committee notes the following two NPAs in the Education sector where funding had been “rolled” into the *Students First Funding* agreement (i.e. the Commonwealth Specific Purpose Payment funding agreement):³³⁶

- *NPA on Empowering Local Schools* which was aimed at empowering participating schools to make decisions at a local level, supporting them to better respond to the needs of students and the local school community and provide services designed to assist their students to achieve their best educational outcomes;³³⁷ and
- *NPA on Low Socio-Economic Status School Communities* which was aimed to improve student engagement, educational outcomes and wellbeing in participating schools and make inroads into entrenched disadvantage.³³⁸

The Committee also notes examples provided by the Department of Health and Human Services at the hearings of NPA funding which has transitioned to “in-scope activity” under another form of funding Agreement with the Commonwealth Government.³³⁹ For example, the Committee heard that the Commonwealth Government’s contribution through the *NPA on Indigenous Early Childhood Development* had enabled the expansion of Koori maternity services in Victoria and these services are now “in-scope activity” for joint funding between

³³⁵ Commonwealth of Australia, Council on Federal Financial Relations, *Intergovernmental Agreement on Federal Financial Relations – National Policy and Reform Objectives (Schedule E)*, National Partnership principles, E23, p.E-4

³³⁶ Department of Education and Training, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 15 January 2016, p.3

³³⁷ Commonwealth of Australia, Council on Federal Financial Relations, *National Partnership Agreement on Empowering Local Schools*, p.4, <www.federalfinancialrelations.gov.au/content/npa/education/empowering_local_schools/national_partnership.pdf>

³³⁸ Department of Premier and Cabinet, *Submission to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.10

³³⁹ Mr Terry Symonds, Deputy Secretary, Portfolio Strategy and Reform, Department of Health and Human Services, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements, Transcript of evidence*, 17 November, 2015, p.9

the Commonwealth and the State.³⁴⁰ Another example given was the funding for sub-acute beds in public hospitals funded through the *NPA on Improving Public Hospitals*. The Committee was advised that sub-acute beds have now moved from being specifically prescribed under an NPA to being “in-scope activity” under the *National Health Reform Agreement*.³⁴¹

The transition of funding arrangements for other services and programs currently delivered through NPAs, such as legal assistance services, homelessness services and early childhood education, to a more stable and long-term funding arrangement with the Commonwealth Government would:

- assist with the management of ongoing and increasing demand for these services;
- enable more effective long-term service solutions and outcomes rather than short term, reactionary or erratic service provision; and
- enable innovation in service delivery.

As noted earlier, the Committee considers that NPAs are not an appropriate funding mechanism to support these areas of service delivery and should not be continued to be negotiated by the State of Victoria. There is a need for the State and Commonwealth Governments to work together to develop clear and formalised criteria to enable:

- a critical and impartial assessment of individual NPAs to determine whether funding for certain programs and services is best suited to a short-term funding arrangement such as an NPA; and
- a process whereby funding for established and ongoing delivery of key government services and programs can be transitioned to a *National Specific Purpose Payment* funding agreement.

This is especially pertinent to those NPAs where there is an expectation of, and need for, continued provision of a service or program within the community and the demand for the service or program is forecast to continue.

FINDING 76: National Partnership funding for ongoing service delivery does not align with the original intent and principles outlined in the *Intergovernmental Agreement on Federal Financial Relations*. Changes to National Partnership funding and continued negotiation of short-term funding arrangements, without transition to a more appropriate funding mechanism, has the potential to disrupt, as well as compromise, the quality of service delivery.

³⁴⁰ *ibid.*

³⁴¹ *ibid.*

RECOMMENDATION 14: The Victorian Government central agencies should actively advocate, through the Council on Federal Financial Relations, for the development and agreement of clear and objective criteria to assess the continued suitability of National Partnership funding arrangements for the delivery of certain programs and services in Victoria. Such criteria could be used to determine whether funding should be placed on a more suitable and sustainable funding basis. This is especially critical where services are well established and there is evidence of increasing demand within the community.

6.3 Administration of Commonwealth-State financial relations

The Committee notes that there are many processes associated with the negotiation, implementation, monitoring and reporting of NPAs which result in costs to the State and also to non-government service providers in receipt of Commonwealth Government funding through NPAs.

Recent reports and papers prepared by Parliamentary committees, the Commonwealth National Commission of Audit, the Commonwealth Department of Prime Minister and Cabinet and academia have commented on the administrative burden around Commonwealth-State financial relations.

The Committee notes that two of the underlying objectives of the IGA FFR are directed at:³⁴²

- enhanced public accountability through simpler, standardised and more transparent performance reporting by all jurisdictions, with a focus on the achievement of outcomes, efficient service delivery and timely public reporting.
- reduced administration and compliance costs.

The Committee's examination of NPAs throughout this Inquiry has tested the stated aims of the IGA FFR. The Committee notes evidence provided by Victorian Government departments which highlight some of the detractions in relation to the administrative aspects of NPAs. These are discussed in the following sections.

6.3.1 Negotiation and management of National Partnership Agreements

The Committee was informed that Victorian Government departments are responsible for NPAs within their portfolio including: managing the life-cycle of an NPA from inception through to implementation; considering the policy merits of NPAs; managing the expenditure of funding and delivery of outputs under the NPA; and managing any risks or issues throughout the period of the agreement.³⁴³

³⁴² Commonwealth of Australia, Council on Federal Financial Relations, *Intergovernmental Agreement on Federal Financial Relations, Part 2 – Objectives*, August 2011, p.5, <www.federalfinancialrelations.gov.au/content/>, viewed 6 May 2016

³⁴³ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.2

Victoria's devolved management system allocates responsibility for consultation with front line service providers to departments and agencies which already have established relationships with stakeholders. This is similar to arrangements in other States and Territories. Victorian Government departments engage in active and ongoing consultation with Commonwealth Government departments over the establishment of performance measures and with front line service delivery organisations and stakeholders over program delivery.³⁴⁴

The Committee requested information from the Department of Premier and Cabinet about action being taken at the state level to minimise the administrative costs associated with NPAs. The Department advised that a consistent approach is taken to the assessment of NPAs across the whole-of-government. When assessing the financial risks of an NPA, one of the key considerations for the State is the costs of administration and reporting against the agreement. The Department advised that it seeks to ensure that NPA reporting to the Commonwealth Government is meaningful, commensurate with the value and size of the NPA, and has clear and appropriate governance and accountability arrangements.³⁴⁵

FINDING 77: The Department of Premier and Cabinet undertakes monitoring and oversight during the negotiation of National Partnership Agreements to ensure that Victoria's reporting to the Commonwealth Government is meaningful, commensurate with the value and size of the Agreement, and includes clear and appropriate governance and accountability arrangements.

The Committee notes the awareness of the Victorian Government in regard to managing the costs associated with the administration of NPAs. The Committee considers it crucial that the Victorian Government continue to enhance its engagement processes with the Commonwealth Government and to highlight instances where negotiation and reporting costs are becoming excessive in relation to NPA funding provided.

RECOMMENDATION 15: The Victorian Government should continue to enhance its engagement activity and processes with the Commonwealth Government in an effort to minimise the negotiation and administrative costs associated with National Partnership Agreements.

³⁴⁴ *ibid.*, p.3

³⁴⁵ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 21 January 2016, p.3

6.3.2 Number and complexity of Commonwealth-State funding Agreements

The Department of Premier and Cabinet advised that the 2008 IGA FFR was intended to reduce the number and complexity of funding agreements between the Commonwealth and the States and Territories with a view to focusing on reforms of national significance and reducing administrative overheads and constraints on decision-making.³⁴⁶

The Committee received information from the Department of Premier and Cabinet about the increasing number of NPAs since 2008 and some overly prescriptive NPAs which have added to the administrative burden and costs associated with managing these Agreements. The Department of Premier and Cabinet advised that compliance with formal reporting requirements under both National Partnerships and Project Agreements was significant and that a large proportion of these agreements involve less than \$10 million in funding to Victoria.³⁴⁷

Number of Agreements has increased the reporting burden

The *Reform of the Federation White Paper Review* process reported a proliferation in the number of Agreements resulting in increased administrative burden and costs for States and Territories. An Issues Paper, released as part of the Review process, notes that by the end of 2010 there was a national catalogue of over 300 documents, including six National Agreements, 51 NPAs and 230 Implementation Plans.³⁴⁸

The Issues Paper states that the increased reporting burden for States and Territories has been linked to:³⁴⁹

- increases in the number of agreements;
- changes in the level of detail required in reports;
- reporting frequency; and
- new reporting requirements around Implementation Plans.

The Issues Paper concludes:³⁵⁰

On balance it is difficult to assess the extent to which the additional costs and administrative burden associated with the reporting requirements strengthened public accountability.

³⁴⁶ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, pp.6-7

³⁴⁷ *ibid.*, p.7

³⁴⁸ Commonwealth of Australia, Department of Prime Minister and Cabinet, *Reform of the Federation White Paper, COAG and Federal Financial Relations, Issues Paper 5*, February 2015, p.21

³⁴⁹ *ibid.*

³⁵⁰ *ibid.*

This issue was also highlighted by the Commonwealth National Commission of Audit (the Commission) in its 2014 report. The Commission reported that a key objective of the IGA FFR was a reduction in administration and compliance overheads associated with payments from the Commonwealth to the States. However, the Commission reported that the growth in the number of agreements has contributed to a significant growth in reporting and administrative expenses. In addition, the Commonwealth had reverted to more detailed reporting arrangements to provide assurance to Commonwealth Ministers and the Australian taxpayer that funds were being spent appropriately.³⁵¹

The Commission states in its report that:³⁵²

Steps should be taken to immediately review all National Partnership Agreements with a view to rationalising their number. This would reduce the administrative burden for both Commonwealth and State governments.

At the same time it would be useful to re-examine performance reporting requirements, along with broader data and transparency requirements.

The Commission reported that a more streamlined system, ‘*built around a single, integrated, national reporting system*’ would assist in reducing data collection costs and also help to reduce the confusion around the interpretation of performance.³⁵³

Prescriptive requirements in National Partnership Agreements

Some of the issues around constraints on the State and local decision-making have been discussed earlier in this report in relation to the impact of short-term funding arrangements for government services with longer term horizons. The Committee notes that constraints on local decision-making can also result from higher levels of prescription in some NPAs in terms of how specified outcomes should be achieved or how funds should be targeted.

The IGA FFR specifies that National Partnerships must focus on outcomes and outputs rather than inputs. Consequently, the IGA FFR provides for a reduction in Commonwealth prescription over service delivery by the States and Territories and notes that Agreements will not include financial or other input controls, giving the States more flexibility in how services are provided to achieve outcomes for which they are responsible.

The Committee heard evidence from the Department of Health and Human Services that overly prescriptive requirements attached to NPAs by the Commonwealth impact the ability of the Department to design services that are tailored to the Department’s client groups and service system.³⁵⁴

³⁵¹ Commonwealth of Australia, National Commission of Audit, *Towards Responsible Government*, Phase One, February 2014, Chapter 6 - Reforming the Federation, p.77

³⁵² *ibid.*, p.78

³⁵³ *ibid.*

³⁵⁴ Ms Kym Peake, Secretary, Department of Health and Human Services, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, Transcript of evidence, 17 November, 2015, p.3

For example, the Committee was advised that 25 per cent of the total Commonwealth funding provided for the *NPA on Homelessness* had to be allocated to priorities nominated by the Commonwealth Government. These specific conditions about how funding is to be applied can limit the ability of the State to achieve the best local outcomes and value for money.³⁵⁵

The Secretary of the Department of Health and Human Services, Ms Kym Peake advised that:³⁵⁶

...Victoria has had to work very hard to facilitate innovation in the homelessness sector and address systemic challenges, such as family violence and entrenched disadvantage, but the evidence base for how best to respond is constantly evolving, and therefore it is important that NPAs do not lock us in to a specific model of service delivery that might become outdated.

Where an NPA is specific about how funds are to be applied, the ability of Victorian Government departments to develop appropriate programs and initiatives to address “localised” or “State specific” issues to achieve the best outcome for Victorians accessing the services, is limited.

FINDING 78: Where prescriptive requirements and conditions are detailed by Commonwealth Government portfolio departments in National Partnership Agreements, this restricts Victoria’s flexibility over the use of funds and potentially inhibits the funding being used in the most effective way and to achieve the best outcomes for particular groups within the Victorian community.

The Committee agrees that it is critical that the terms and conditions set out in NPAs provide flexibility to allow for innovation and service delivery responses that reflect changing needs and evolving evidence of best practice within the State of Victoria. It is important that Victorian Government portfolio departments seek to minimise over prescription in National Partnership Agreements as part of their negotiation with their Commonwealth Government portfolio department counterparts.

RECOMMENDATION 16: In their negotiations with the Commonwealth Government, it is important that Victorian Government portfolio departments take action to ensure that National Partnership Agreements:

- provide flexibility to allow for innovation and service delivery responses that reflect changing needs and evolving evidence of best practice within the State of Victoria; and
- avoid over prescription by Commonwealth Government portfolio departments with regard to how funds provided by the Commonwealth are applied by the State.

³⁵⁵ Department of Premier and Cabinet, *Response to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.5

³⁵⁶ Ms Kym Peake, Secretary, Department of Health and Human Services, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements, Transcript of evidence*, 17 November, 2015, p.3

6.4 Accountability and reporting

As noted, NPAs come with specific accountability and compliance requirements aimed at assuring the Commonwealth Government that the funds provided to the State have been acquitted for their intended purpose. NPAs may contain specified outcomes or key performance indicators/targets which provide accountability and enable funding to continue and potential reward payments to be realised.

Some reporting requirements also seek to collect common national data in specific areas of government policy and service provision (particularly in health and education) which can assist policy makers and the future allocation of resources.

The Committee was advised that there are negative implications for performance reporting when NPA objectives are developed by the Commonwealth with limited consultation with the States or without any in-depth understanding of existing frameworks or service systems.³⁵⁷

The Committee acknowledges that the high degree of vertical fiscal imbalance provides the Commonwealth Government with a significant degree of influence and power in the negotiation of NPAs with the States and Territories and results in some situations where performance measures and data collection requirements are “imposed” purely by way of the States’ acceptance of the funding.

The Committee was advised that Victoria seeks to ensure that reporting on National Partnerships for accountability purposes is kept proportional to the amount of funding received and the objectives or outcomes which are being sought through the Partnership. However, the Committee was advised that this was not always possible.

Some evidence provided through this Inquiry suggested that there have been instances where Commonwealth Government portfolio departments have insisted on including more progress reporting as part of their monitoring and oversight. This was sometimes as a result of recommendations by National and State Auditors-General advocating for an increase in accountability and reporting by government departments over funding provided by the Commonwealth to the State, including through National Partnerships.

The Committee considers that it is critical that Victorian Government portfolio departments and central agencies collaborate and negotiate forcefully and productively with their Commonwealth Government counterparts to ensure that the principles and intent as prescribed in the IGA FFR in relation to accountability and reporting are reflected in all NPAs agreed with the Commonwealth Government.

³⁵⁷ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.5

6.4.1 Performance reporting

The Committee notes that the Commonwealth Parliament's Joint Committee of Public Accounts and Audit (JCPAA) *Inquiry into National Funding Agreements* highlighted the need for performance reporting on national agreements to be improved to ensure a more outcomes focussed approach. The JCPAA found that the lack of clarity around outcomes for various agreements '*is seriously undermining the principles of the IGA FFR.*'³⁵⁸

The JCPAA noted a number of issues which needed to be addressed to improve the accountability and reporting framework for national funding agreements under the IGA FFR such as:³⁵⁹

- Setting reporting objectives with clearly defined outcomes and key performance indicators; and
- Improved data quality including timeliness, comparability and generic data collection.

To address these issues the JCPAA recommended that more work be done to move towards a "single report to multiple agencies" ideal to streamline reporting requirements attached to Commonwealth Government funding and reduce the reporting burden.³⁶⁰ The Report recommended that:³⁶¹

The Department of the Prime Minister and Cabinet and central agencies report back to the Committee within six months on work undertaken to move towards the 'single report to multiple agencies' ideal and the potential to develop a set of standard data requirements for areas of national interest.

The Committee notes that the Commonwealth Government supported this recommendation stating:³⁶²

The [Commonwealth] Government supports streamlining reporting requirements and consolidating data collections wherever possible to reduce the reporting burden. This objective will always be balanced with the need to have data that are fit-for-purpose, timely and robust.

The Commonwealth Government also responded that progress had already been made to move towards a 'single report to multiple agencies' format for performance reporting noting that the Productivity Commission and the COAG Reform Council (since terminated) were already using secondary sources to obtain information rather than approaching States and service providers directly.³⁶³ Data collection is discussed in the following section.

³⁵⁸ The Parliament of the Commonwealth of Australia, Joint Committee of Public Accounts and Audit, *Report 427, Inquiry into National Funding Agreements*, November 2011, p.65

³⁵⁹ *ibid.*, p.46

³⁶⁰ *ibid.*, p.66

³⁶¹ *ibid.*, p.68

³⁶² Commonwealth of Australia, Australian Government, *Australian Government Response to the Joint Committee of Public Accounts and Audit Report No.427 Inquiry into National Funding Agreements*, August 2012, p.8

³⁶³ *ibid.*

FINDING 79: More work is required by the Coalition of Australian Governments and the Council on Federal Financial Relations to evaluate and seek to streamline reporting requirements attached to Commonwealth Government funding. This includes those related to the significant number of National Partnership Agreements in place between the Commonwealth and the States, and to reduce the reporting burden on State and Territory Governments.

6.4.2 Data collection

The collection of data and information about the effectiveness of programs and initiatives, assist governments to improve the design and development of public policy and to better target programs to address areas of highest need. The Committee asked Victorian Government departments to provide examples of NPAs which have enabled the collection of data in areas which may have been previously limited or non-existent.

The Victorian Government advised that in some cases, the focus on outcomes and performance measurement through the IGA FFR has meant that reporting on some NPAs has enabled the collection of useful data which previously may not have been available.³⁶⁴ The Victorian Government pointed to the *NPA on Preventive Health* through which Victoria has developed a large scale randomised trial of preventive health interventions in a number of local government areas. The Victorian Government advised that the trial is unique in terms of its size and type in the world and will contribute to knowledge worldwide and to the design of future preventive health initiatives.³⁶⁵

The Committee was informed that funding under this NPA has also enabled:³⁶⁶

...the development of Victoria's first behavioural segmentation model, mapping attitudes, beliefs, barriers and enablers of healthy eating and physical activity behaviours against behavioural theories and socio-economic predictors of body mass index. This is viewed as an innovative tool to help guide policy decisions as well as intervention design, implementation and evaluation.

The Committee notes that whilst NPAs can provide opportunities for data collection where the opportunity to capture performance outcomes was not previously available, the effectiveness and real value of these data collections can be weakened when NPA funding is discontinued.

For example, the early termination of the *NPA on Preventive Health* by the Commonwealth Government in 2014-15 is anticipated to impact the collection of key data required to make an informed report on the long-term population level health outcomes of initiatives implemented under this NPA. The Victorian Government advised that:³⁶⁷

³⁶⁴ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.7

³⁶⁵ *ibid.*, p.8

³⁶⁶ *ibid.*

³⁶⁷ *ibid.*, p.14

An interim evaluation in January 2015 found that there was evidence that changes were occurring in local communities that would establish the foundations for improved health outcomes. This evidence included the extensive reach of key initiatives across communities, significant partnerships across sectors to support better health, and the early signs of cultural change, improved health literacy, community acceptance and engagement and interest and engagement from the private sector.

The analysis of the population level data and assessment of long term impact is at risk as a result of the removal [of] NPA funding.

This was supported by evidence provided by Knox City Council (KCC), one of the local government communities involved in the trial of preventive health programs under this NPA.

KCC stated that the cessation of the *NPA on Preventive Health* resulted in a lost opportunity to capture the evidence of the impact of the *Healthy Together* initiative in the Knox area and to make a significant contribution to the global body of knowledge about effective health prevention of chronic disease.³⁶⁸

FINDING 80: National Partnership Agreements can provide opportunities for the collection of meaningful data to assist policy design, implementation and evaluation of the outcomes of government programs and initiatives. However, uncertainty around continued funding for some programs has meant that data collection and analysis has ceased well before the outcomes can be fully evaluated.

The Committee notes the 2011 JCPAA report which stated that, generic data collections could be developed to satisfy the requirements of various reporting frameworks and to assist in removing some of the data collection burden being placed on line departments and service delivery agencies.³⁶⁹

The Commonwealth Government's response, in August 2012, stated that several activities were underway to consolidate data collections, including:³⁷⁰

- the development of National Minimum datasets to improve performance reporting against National Agreements and NPAs;
- the National Centre for Vocational Education Research data collations;
- Australian Curriculum, Assessment and Reporting Authority and National Assessment Program – Literacy and Numeracy data collections; and
- The Australian Bureau of Statistics 'Measuring Wellbeing' framework.

³⁶⁸ Knox City Council, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, pp.3-4

³⁶⁹ The Parliament of the Commonwealth of Australia, Joint Committee of Public Accounts and Audit, *Report 427, Inquiry into National Funding Agreements*, November 2011, p.55

³⁷⁰ Commonwealth of Australia, Australian Government, *Australian Government Response to the Joint Committee of Public Accounts and Audit Report No.427 Inquiry into National Funding Agreements*, August 2012, p.8

In addition, the Commonwealth Government stated that the Australian Institute of Health and Welfare Metadata Online Registry provides a repository for metadata standards on health, housing and community services statistics and information.³⁷¹

FINDING 81: There is a need for the Coalition of Australian Governments to continue to review the implications of reporting requirements specified in National Partnership Agreements, on the cost of data collection for State and Territory Government departments and agencies and for local service providers, and to work towards more streamlined reporting processes wherever possible.

RECOMMENDATION 17: The Victorian Government continue to work with the Commonwealth Government, local government and service providers to streamline data collection processes in an effort to enable more economic reporting on the effectiveness of National Partnership Agreements.

6.4.3 Performance measures and indicators

The Committee notes that the IGA FFR states that ‘*the purpose of performance indicators is to inform the general public about government performance in making progress towards identified outcomes*’ and to provide clarity on public sector achievement in service delivery.³⁷²

The Secretary of the Department of Premier and Cabinet, Mr Chris Eccles stated at the hearing:³⁷³

I do not think we have sufficient clarity around our NPAs or our [Specific Purpose Payments] about the outcomes that we are seeking to achieve - that is the first thing. The second thing is I do not believe that we have data to support a reporting on those outcomes that we do identify for any given investment. I think we need to spend more time as public policy practitioners being clear about the outcomes, investing in the data systems to enable us to report on the outcome rather than just the activity or the input.

In terms of measuring the achievement of the desired outcomes of an NPA, the Committee notes the importance of developing relevant and suitable key performance indicators (KPIs). In February 2011, a *Conceptual Framework on Performance Reporting* was prepared by the Heads of Treasuries and endorsed by the Council of Australian Governments (COAG) to provide consistency and guidance on developing KPIs.³⁷⁴

³⁷¹ *ibid.*, p.9

³⁷² Commonwealth of Australia, Council on Federal Financial Relations, *Intergovernmental Agreement on Federal Financial Relations – Public Accountability and Performance Reporting (Schedule C)*, p.C-2

³⁷³ Mr Chris Eccles, Secretary, Department of Premier and Cabinet, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements, Transcript of evidence*, 19 November 2015, pp.7-8

³⁷⁴ Commonwealth of Australia, Council on Federal Financial Relations, *Conceptual Framework for Performance Reporting*, <www.federalfinancialrelations.gov.au/content/performance_reporting/conceptual_framework_performance_reporting_feb_11.pdf>, viewed 23 February 2016

The 2011 JCPAA *Inquiry into National Funding Arrangements* highlighted deficiencies and inadequacies in aligning KPIs with performance outcomes and objectives. The Inquiry also recommended that:³⁷⁵

The Department of the Prime Minister and Cabinet, in consultation with other central agencies, establish processes to ensure that there is clarity of the outcomes to be achieved and these are clearly reflected in national funding agreements. The committee asserts that to underpin the achievement of outcomes, mutual understanding of the end goal must drive the cultural change, the training and skill development, and the quality and timeliness of data collection and publication. At all times, outcomes should be the focus in the development of all national agreements.

In response, the Commonwealth Government stated that the Commonwealth Department of the Prime Minister and Cabinet and the Commonwealth Treasury would work with portfolio agencies to develop National Partnerships and Implementation Plans under the IGA FFR with a strong focus on specifying outcomes and identifying robust performance measures and data to assess progress in the achievement of outcomes over time.³⁷⁶

The Committee asked Victorian Government departments to provide examples of any NPAs with performance measures or indicators which were considered to be unfair, unclear or inappropriate.

Legal assistance services

The Committee was advised that the renegotiated *NPA on Legal Assistance Services* for 2015-20 not only continues to provide financial contributions to the Victorian Legal Aid Commission (VLA) but now also provides financial support to Community Legal Centres (CLC) for the delivery of Commonwealth legal assistance services in Victoria.³⁷⁷

The Commonwealth Government initially indicated that both the VLA and CLC sectors would be required to achieve specified KPIs and that individual six-monthly payments would be terminated if they failed to achieve the performance benchmark requirements set under the NPA.³⁷⁸

The Victorian Government highlighted the risks to service performance if KPIs were set for the VLA and CLC sector as whole and not as separate performance benchmarks:³⁷⁹

³⁷⁵ The Parliament of the Commonwealth of Australia, Joint Committee of Public Accounts and Audit, *Report 427 - Inquiry into National Funding Agreements* (2011), p.67

³⁷⁶ Commonwealth of Australia, Australian Government, *Australian Government Response to the Joint Committee of Public Accounts and Audit Report 427 Inquiry into National Funding Agreements* (2012), p.7

³⁷⁷ Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.32

³⁷⁸ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.47

³⁷⁹ *ibid.*

For VLA, this will jeopardise its ability to continue operations at current levels even in the short-term. For CLCs, without funding certainty services would need to be reduced significantly and many would have to cease operating.

The Department of Justice and Regulation advised the Committee that after providing strong feedback and renegotiating on the new 5-year *NPA on Legal Assistance Services (2015-20)*, the Commonwealth Government made policy concessions on KPIs which include:³⁸⁰

- uncoupling the performance of VLA from CLCs, so that the potential underperformance of one would not penalise the other;
- lowering the performance benchmark against which payments are tied from 95 per cent to 85 per cent (during 2015-16 and 2016-17) increasing to 90 per cent from 2017-18 onwards) for CLCs to deliver representation services; and
- agreement that pro-rata payments can be made to the State, depending on the proportion of the performance benchmark achieved.

Education

The Secretary of the Department of Education and Training, Ms Gill Callister explained to the Committee that a focus on input-based rather than outcomes-based performance indicators was still one of the reasons why implementing NPAs had not always fulfilled the promised potential of the IGA FFR.³⁸¹

The Committee was also advised that the Commonwealth Government sets the initial KPIs when designing the NPAs but does not always consider the practicalities of linking performance measures appropriately to funding. For example, in the 2015 *NPA on Universal Access to Early Childhood Education*, the Commonwealth Government shifted the balance of funding from the original NPA, which had facilitation funding only, to the renegotiated current NPA where 70 per cent of funding was contingent on meeting performance targets, and 40 per cent was “at risk” for States not meeting all performance indicators.³⁸² The Victorian Government also noted that the targets include some very high-threshold performance indicators and sub-indicators, and:³⁸³

This created an “all or nothing” high stakes funding environment where states stand to lose millions if a dozen children are not participating.

³⁸⁰ Department of Justice and Regulation, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 22 January 2016, p.3

³⁸¹ Ms Gill Callister, Secretary, Department of Education and Training, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements, Transcript of evidence*, 17 November 2015, p.3

³⁸² Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.4

³⁸³ *ibid.*, pp.4-5

At the hearings, the Department of Education and Training also highlighted that the specifications set down around performance indicators in the agreement are locked in at the start and there is a lack of flexibility available in NPAs to adapt over the period of the agreement:³⁸⁴

The key performance indicators and measures are set up-front and remove the ability to learn and adapt as quickly as we would like along the way. There is an external reporting accountability, so we have to keep delivering the particular things that were agreed on when we might have learnt that a bit more directed to one of the other priorities within the agreement would have a greater return, but we have got to keep delivering against the performance measures that are in the agreement in order for the funds to keep flowing.

Health

The Committee notes evidence provided by the Secretary of the Department of Health and Human Services, Ms Kym Peake, that variations to the performance measures included in an NPA have been possible on some occasions. The Secretary advised:³⁸⁵

I have been part of negotiations of agreements where once you have started it is clear that the performance measures are not practical or it is going to take a longer time, and that is agreed, or there is a change in policy by one level - the commonwealth makes a decision which makes a particular performance measure meaningless in an agreement - and there has been scope for renegotiation.

The Committee considers that it is important for KPIs included in NPAs to be negotiated between the Commonwealth and Victorian Governments in a manner consistent with the principles outlined in the IGA FFR and with guidance established by the Council on Federal Financial Relations. The Victorian Government should continue to strengthen its engagement processes and interactions with Commonwealth Government portfolio departments to periodically review the relevance, appropriateness and practicality of KPIs linked to objectives stated in NPAs.

FINDING 82: Performance indicators specified in National Partnerships do not always:

- align with the original objectives and principles as set out in the *Intergovernmental Agreement on Federal Financial Relations* to focus on performance outcomes;
- consider the relevance, appropriateness and practicality of linking performance to funding; and/or
- provide for flexibility and adaptation as a program or service is delivered.

³⁸⁴ Mr Simon Kent, Deputy Secretary, Strategy and Review Group, Department of Education and Training, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements, Transcript of evidence*, 17 November 2015, p.13

³⁸⁵ Ms Kym Peake, Secretary, Department of Health and Human Services, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements, Transcript of evidence*, 17 November 2015, p.7

RECOMMENDATION 18: In negotiating National Partnership Agreements, Victorian Government portfolio agencies should ensure that key performance indicators and measures set out in Agreements are practical, appropriate and align with the objectives, principles and guidelines established under the *Intergovernmental Agreement on Federal Financial Relations*.

6.5 Costs of compliance

As noted, administrative processes related to the negotiation, consultation, monitoring and reporting of NPAs takes time and costs money. The IGA FFR sought to reduce the administrative burden associated with Commonwealth Government funding agreements.

The Committee received advice from both Victorian Government departments and non-government organisations in regard to:

- estimated costs associated with NPA negotiation, coordination, data collection and performance reporting;
- the impact of these costs on service delivery; and
- the extent to which these costs are accounted for within funding provided under an Agreement.

The findings are presented in the following paragraphs.

Costs to the Victorian Government

The Department of Premier and Cabinet referred the Committee to a 2013 report, prepared by Price Waterhouse Coopers for the Victorian Government, on *Effective and Efficient Intergovernmental Accountability* which estimates that:³⁸⁶

...the Victorian Government incurs marginal costs of \$10-\$12 million to comply with formal reporting requirements under National Partnership and Project Agreements. This represented the costs incurred for over 920 individual reports delivered to the Commonwealth over the life of these agreements, of which 37 per cent were a form of progress reporting.

In addition to the costs directly associated with the Commonwealth Government's formal reporting requirements, the review also noted additional marginal costs incurred by Victorian Government departments associated with other management and administrative tasks related to Agreements as follows:³⁸⁷

- approximately \$2 to \$2.4 million associated with negotiation over proposed agreements;

³⁸⁶ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.7

³⁸⁷ *ibid.*

- approximately \$1.7 to \$2 million developing and agreeing implementation plans and project proposals; and
- approximately \$1.8 to \$2.2 million responding to ad hoc requests for information.

FINDING 83: A 2013 report on *Effective and Efficient Intergovernmental Accountability* found that the Victorian Government incurs marginal costs of \$10-\$12 million to comply with formal reporting requirements under National Partnership and Project Agreements.

The Committee requested information from Victorian Government departments about how much of the funding provided under an NPA is allowed for administrative overheads such as data collection, analysis and evaluation of performance.

The Victorian Government advised that NPA reporting requirements were generally formulated with no explicit recognition of the costs of data collection, although it was considered that States and Territories often negotiate an agreement on the basis of keeping reporting requirements proportionate to the NPA's significance.³⁸⁸

FINDING 84: Compliance and accountability for Commonwealth Government funding provided through National Partnership Agreements needs to be cost-effective and proportional to the nature, size and purpose of the funding activity.

The Committee notes that despite the Commonwealth Government's indication of support for streamlined reporting wherever possible, NPA reporting requirements remain a burden for the Victorian Government and funded service delivery organisations. An example of this is the recently renewed *NPA on Legal Assistance Services (NPALAS)* for 2015-20 which includes additional administrative burdens including collaborative service planning, revised data collection and half-yearly performance reporting obligations. The Committee was advised that the new NPALAS includes no consideration of any new technology platform to enable Victoria to facilitate the required data collection and collation for reporting purposes.³⁸⁹

Further, the Department of Justice and Regulation advised that the Commonwealth Government has provided only \$1 million over the period of the NPALAS for all States and Territories in recognition of this administrative role being transferred to the States. The Department also indicated that the additional administrative requirements could also lead to a loss of direct service delivery capacity across the sector which comprises Legal Aid Commissions and Community Legal Centres.³⁹⁰

³⁸⁸ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.7

³⁸⁹ Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.34

³⁹⁰ *ibid.*

FINDING 85: Despite the Commonwealth Government's indication of support for streamlined reporting wherever possible, National Partnership Agreement reporting requirements remain a burden for the Victorian Government and funded service providers.

Costs to service providers

The Secretary of the Department of Treasury and Finance, Mr David Martine stated at the hearings that reporting requirements which specify detailed information often means that relevant departments have to impose reporting burdens on community organisations receiving funds to deliver services.³⁹¹

This issue was also commented on at the hearings by the Chief Executive Officer of VCOSS, Ms Emma King, who emphasised the need for some simplification of reporting requirements for community sector organisations, noting that compliance is costing these organisations considerable amounts of money.³⁹²

...at the end of the day, red tape, for want of a better term, is costing a significant amount of money. It impacts on service delivery at the end of the day as well. So we would say that the administrative burden that is attached to meeting the reporting requirements of the national partnership agreements is generally onerous.

In a specific questionnaire response to a request for further details about these compliance costs for community sector organisations, VCOSS explained that it did not have collective data available to quantify these costs but that a number of organisations have reported that they are experiencing an increase in compliance costs. VCOSS advised that a major issue is that often organisations are required to meet a variety of reporting requirements when services are funded by different levels of government and also sometimes for different funding programs within the one agency. VCOSS states:³⁹³

Some community organisations may receive funding from dozens of programs, and must maintain complex systems of reporting to track different data items, reporting requirements and submission channels for each program for essentially the same services. This unnecessary complexity in reporting imposes significant staff costs in administration and for the maintenance of complex data systems for reporting, with many elements having unclear purposes.

In terms of addressing this issue, VCOSS advised that it has worked with the Department of Health and Human Services and the Department of Education and Training in an effort to reduce compliance costs associated with the *2012-15 Service Agreement*, under which community sector organisations are funded.³⁹⁴

³⁹¹ Mr David Martine, Secretary, Department of Treasury and Finance, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, Transcript of evidence, 17 November 2015, p.6

³⁹² Ms Emma King, Chief Executive Officer, Victorian Council of Social Service, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, Transcript of evidence, 17 November 2015, pp.4-5

³⁹³ Victorian Council of Social Service, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 20 January 2016, p.2

³⁹⁴ *ibid.*

VCOSS also noted that the establishment of the Australian Charities and Not-for-profit Commission (ACNC) may provide an avenue for reducing compliance costs of community sector organisations.³⁹⁵ The Committee was advised that the ACNC is in the process of negotiating with Commonwealth Government agencies and State and Territory governments to streamline reporting arrangements through a “Charity Passport”. VCOSS states that the Victorian Government could assist this process by becoming a “Charity Passport Partner”, enabling the ACNC to share information across Victorian Government agencies so that community sector organisations could report once to the ACNC knowing that other funding agencies could access any necessary information.³⁹⁶

Evidence provided by the Chief Executive Officer of the VHA, Mr Tom Symondson, also described the reporting process in the Health sector as being onerous and duplicated without adding value to the beneficiary service provider as the data required was often already available through another government department or agency:³⁹⁷

You tend to find that the state might ask for a piece of data for its own purposes, and then the commonwealth will come along and ask for the same piece of data in a slightly different format with a different form for a different purpose.

The VHA advised that service providers would have no significant issues on reporting requirements if there was better understanding and awareness of the extent of data collection efforts across Commonwealth and State jurisdictions:³⁹⁸

...if we were aware across each level of government and between levels of government what data was already being collected, I would say that a large proportion of the data requirements that are placed on services when an NPA comes into place were already being collected anyway or they might have been being collected in a slightly different way and we can change that so that they fit their needs.

The VHA also commented that, while not opposing reporting or compliance, both the Commonwealth and State and Territory Governments should have better intergovernmental reporting processes to reduce reporting duplication and minimise the burden placed on the beneficiary service providers. In response to a request from the Committee for further details in regard to compliance costs, the VHA advised:³⁹⁹

The VHA does not oppose reporting or compliance, however our concern is with duplication, and reporting which is of no consequence. We do not suggest that reporting against the NPAs themselves has specifically increased the burden; however we urge governments to consider the purpose of reporting and compliance requirements to ensure they are meaningful and beneficial to health

³⁹⁵ *ibid.*

³⁹⁶ *ibid.*, pp.2-3

³⁹⁷ Mr Tom Symondson, Chief Executive Officer, Victorian Health Association, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, Transcript of evidence, 19 November 2015, p.9

³⁹⁸ *ibid.*

³⁹⁹ Victorian Health Association, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 22 January 2016, p.1

and health service delivery. In particular, we recommend that any new reporting requirements are first audited against existing reporting and compliance requirements to avoid unnecessary duplication.

FINDING 86: Representatives of community service providers indicated that the administrative burden attached to meeting the reporting requirements of National Partnership Agreements can be onerous and can ultimately impact on service delivery. In addition, some reporting requirements were considered to be of little usefulness and others seemed to be duplicated by jurisdictions.

RECOMMENDATION 19: New reporting requirements prescribed in a National Partnership Agreement should be verified or audited against existing reporting and compliance requirements to minimise unnecessary duplication in data collection and reporting activity for Victorian Government departments and local service providers.

RECOMMENDATION 20: Lead Victorian Government portfolio agencies, such as the Department of Health and Human Services and the Department of Education and Training, responsible for funding community sector organisations, should liaise with peak organisations, such as the Victorian Council of Social Service, the Victorian Healthcare Association and the Australian Charities and Not-for-Profit Commission, in an effort to streamline reporting requirements for community service providers.

6.6 Committee conclusion

The Committee acknowledges that the Commonwealth Government and the State and Territory Governments are working on obtaining and developing better datasets for reporting on health and social welfare outcomes.

The Committee notes there is a need for refinement in NPA reporting requirements to ensure an appropriate balance and focus on outcomes being achieved as opposed to the volume or quantity of reporting.

The Committee notes that many Victorian Government departments and representatives of service sector organisations commented on the administrative burden created by some NPAs in terms of their performance reporting. In addition, Victorian Government departments commented on the overly prescriptive nature of some NPAs which at times focused on the inputs and processes associated with spending funding rather than outcomes achieved from the funds spent. This is at odds with the objectives of the IGA FFR.

The Committee considers that these accountability and compliance requirements can create layers of bureaucracy dedicated to the development, reporting, review and assessment of Commonwealth Government funding agreements which can ultimately divert scarce resources away from service delivery.

The Committee considers that simplification of the reporting and accountability processes for the use of Commonwealth Government funds would lead to improved economies and efficiencies in portfolio departments and service delivery organisations.

The Department of Premier and Cabinet and the Department of Treasury and Finance should advocate to the Commonwealth Government for simpler accountability and compliance reporting for funding in an effort to ensure, at least, that the degree of reporting is commensurate with the amount of funding provided under an Agreement.

FINDING 87: Reporting requirements prescribed in National Partnership Agreements are necessary for public accountability and effective performance assessment. However, the Committee was advised that the number of smaller National Partnership Agreements and the reporting requirements in Agreements can be excessive, prescriptive, onerous, and result in some duplication. This can contribute to an additional administrative burden for Victorian Government departments, local government and service providers.

RECOMMENDATION 21: The Victorian Government portfolio departments and central agencies continue to actively negotiate with their Commonwealth Government counterparts for improvements and simplifications to intergovernmental reporting processes related to funding provided by the Commonwealth Government through National Partnership Agreements.

7 Impact of changes to National Partnerships on the cost of living for Victorians

7.1 Introduction

This Chapter includes the Committee's assessment and findings in relation to *Term of Reference (d)* which asks the Committee to determine the impact of changes in funding levels and service delivery associated with National Partnership Agreements (NPAs) on the 'cost of living' for Victorians and, in particular, for concession card holders.

In undertaking this part of the Inquiry, the Committee has considered definitions of 'cost of living' and sought to identify evidence from Victorian Government departments about the impacts on the cost of living of changes to services and programs which have been funded through NPAs since 2008.

As a result of this examination, the Committee was unable to definitively determine the impact on the cost of living, including the impact on concession card holders, of changes in service delivery caused by changes in NPAs. All Victorian Government departments responding to the Committee's inquiries were asked to provide specific details relating to any impacts on, or changes in, the cost of living for Victorians and in particular those Victorians holding concession cards. Many of the specific impacts and risks associated with changes to funding levels under NPAs have been presented and discussed in Chapters 5 and 6 of this report.

The Committee notes that the impacts of changes in service delivery as a result of funding changes to NPAs affect various groups in the community differently, and these depend upon a variety of factors. This makes the measurement of specific changes on the cost of living very difficult to isolate and assess without extensive monitoring and recording of data within specific groups and changes in that data over a length of time. The Committee found that reliable, quality data of this type is not being maintained to this level of detail.

The Chapter provides:

- some general comments in relation to the definition of 'cost of living' and measuring changes in the cost of living; and
- details on the impact of changes to National Partnership Agreements on the cost of living for particular groups of Victorians and concession card holders.

7.2 Measuring changes in the ‘cost of living’

The Reserve Bank of Australia (RBA) broadly defines the ‘cost of living’ as the expense incurred by households to buy the goods and services that are necessary to maintain a certain standard of living.⁴⁰⁰

The Committee noted the *Live in Victoria* website, maintained by the Victorian Government, which provides a list of “Goods and Services” expenses relevant to estimating the cost of living in Victoria. This list is presented in Table 7.1 below.

Table 7.1 Cost of Living – Example Listing of Goods and Services expenses

Category	Goods and Services expenses
Household	<ul style="list-style-type: none"> • Rent or mortgage costs • Food and grocery expenses • Expenses involved in home ownership such as home and contents insurance, council rates and water rates • Utility costs such as electricity, gas and water • Telecommunications costs including telephone, mobile phone and internet access costs • Furniture and appliance costs
Transport	<ul style="list-style-type: none"> • The cost of buying, registering, servicing and running a vehicle • Car insurance expenses • Public transport expenses such as trains, buses and trams
Personal	<ul style="list-style-type: none"> • Clothing and footwear accessory expenses • Personal care and cosmetics expenses • Medical and health insurance costs
Family	<ul style="list-style-type: none"> • Childcare costs • Education costs including school fees, books, uniforms, camps and excursions
Other	<ul style="list-style-type: none"> • Debt expenses including repayments on personal loans, car loans, credit cards • Savings including superannuation contributions and regular investments • Pet food, maintenance and veterinary costs • Take-away food and restaurants • Sports and hobbies expenses • Entertainment expenses including films, theatre, newspapers, magazines, books and music • Holiday costs • Gift expenses • Donations to charity

Source: Victorian Government, *Cost of Living*, <www.liveinvictoria.vic.gov.au/living-in-victoria/cost-of-living#.VtZgYkAbgXG> viewed 2 March 2016.

400 David Jacobs, Dilhan Perera, Thomas Williams, *Inflation and the Cost of Living*, Reserve Bank of Australia, Bulletin March Quarter 2014 (2014), p.33

The list is extensive and the Committee notes that an individual's standard of living varies from person to person depending upon their level of income and life circumstances. The Committee also notes that the cost and availability of some of the items listed are relevant to government services and are dependent on the level of government funding available to provide those services (e.g. rental housing expenses; public transport; medical and health costs; childcare; and education costs).

Goods and services expenses tend to rise over time and this ultimately places increased pressure on the cost of living.⁴⁰¹ In order to determine how changes to NP funding has impacted the cost of living in Victoria, the Committee examined whether NP funding has impacted the Consumer Price Index and the Living Cost Indexes which are two commonly used measurement indicators for changes to household expenses incurred to buy goods and services to maintain a standard of living.

7.2.1 The Consumer Price Index (CPI)

Definition

The Consumer Price Index (CPI) is a well-known indicator compiled by the Australian Bureau of Statistics (ABS) that '*measures the change in the prices paid by households for goods and services to consume*'.⁴⁰²

The ABS also notes that there is currently no single, universally accepted definition of the CPI⁴⁰³ but acknowledges the following description taken from the *Resolution concerning CPIs* at the Seventeenth International Conference of Labour Statisticians:⁴⁰⁴

The CPI is a current social and economic indicator that is constructed to measure changes over time in the general level of prices of consumer goods and services that households acquire, use or pay for consumption. The index aims to measure the change in consumer prices over time. This may be done by measuring the cost of purchasing a fixed basket of consumer goods and services of constant quality and similar characteristics, with the products in the basket being selected to be representative of households' expenditure during a year or other specified period.

The ABS outlined the two most common uses for the CPI: firstly, as a macroeconomic indicator for governments and economists to monitor and evaluate levels of inflation in the Australian economy; and secondly, as a means

401 *ibid.*

402 Brian Pink, *Consumer Price Index: Concepts, Sources and Methods* (2011), Australian Bureau of Statistics, p.3

403 *ibid.*

404 International Labour Organization, International Monetary Fund, Organisation for Economic Co-operation and Development, Statistical Office of the European Communities, United Nations, The International Bank for Reconstruction and Development, The World Bank, *Consumer Price Index Manual: Theory and Practice* (2004) International Labour Organization, p.483

of adjusting dollar values for fixed payments (such as social welfare benefits, government excise duties and business contracts)⁴⁰⁵ to counter the effects of inflation.⁴⁰⁶

Limitations of the CPI

While examining increases in the cost of living for Australian households, the RBA explained that the CPI was often used to assess cost of living changes but cautioned that *'inflation as measured by changes in the [CPI] overstates "true" increases in the cost of living due to a number of inherent conceptual differences and measurement issues'*.⁴⁰⁷

The Committee also notes commentary from the University of Canberra's National Centre for Social and Economic Modelling (NATSEM) that the CPI is *'not a measure specifically designed to measure the cost of living'*.⁴⁰⁸ NATSEM expressed four major concerns on the use of the CPI for measuring changes in the cost of living. These are:⁴⁰⁹

- (1) The CPI focuses on price inflation of a fixed set basket of goods and services and does not consider changes in consumer/household behaviour;
- (2) The CPI naturally overstates price inflation compared to the true cost of living index;
- (3) The CPI does not include house prices or mortgage repayments which, from a cost of living perspective, is an important element of a family budget and should be included in any cost of living analysis; and
- (4) The CPI works on the basis of a set basket of goods and services which may not reflect the true expenditure patterns of lower income households⁴¹⁰ who typically spend a larger share of income on household necessities such as electricity, rent or petrol. These prices have risen sharply in recent years and, for low income households, will take on greater importance in the ABS' "basket of goods and services.

⁴⁰⁵ The Parliament of the Commonwealth of Australia, *Consumer Price Index*, <www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/MSB/feature/CPI> viewed 4 April 2016

⁴⁰⁶ Brian Pink, *A Guide to the Consumer Price Index: 16th Series* (2011), Australian Bureau of Statistics, p.4

⁴⁰⁷ David Jacobs, Dilhan Perera, Thomas Williams, *Inflation and the Cost of Living*, Reserve Bank of Australia, Bulletin March Quarter 2014 (2014), p.33

⁴⁰⁸ National Centre for Social and Economic Modelling/AMP, *Prices these days! The Cost of Living in Australia* (2012), AMP.NATSEM Income and Wealth Report, Issue 31, May 2012, p.4

⁴⁰⁹ *ibid.*

⁴¹⁰ South Australian Council of Social Service, *Cost of Living Update No. 9 February 2012* (2012), p.i

7.2.2 Living Cost Indexes

The ABS recognises that a CPI or any other index on its own would not adequately fulfil all measurement purposes.⁴¹¹ The ABS further acknowledges that the CPI was ‘*designed to measure price inflation for the household sector as a whole and [was] not the conceptually ideal measure for assessing the changes in the purchasing power of the disposable incomes of households*’.⁴¹²

As a result of this the ABS has introduced another indicator, the *Selected Living Cost Indexes* (SLCIs). The SLCI is comprised of the *Pensioner and Beneficiary Living Cost Index* (PBLCI) and the *Analytical Living Cost Indexes* (ALCIs)⁴¹³, and aims to:

- reflect changes over time in the purchasing power of the after-tax incomes of households; and
- measure the impact of changes in prices on the out-of-pocket expenses incurred by households to gain access to a fixed set basket of goods and services.

The PBLCI was introduced in June 2009 to measure the effect of price changes on the out-of-pocket living expenses experienced by ‘Age pensioner households’ and ‘Other government transfer recipient households’.⁴¹⁴

The ALCIs have been published since June 2000 due to widespread interest in the extent to which the impact of price change varies across different household groups in the Australian population.⁴¹⁵ ALCIs are prepared for four types of Australian households:⁴¹⁶

- (1) Employee households (i.e. households in which wages and salaries are listed as the principal source of income).
- (2) Age pensioner households (i.e. households in which age pension or veterans affairs pension is the principal source of income).
- (3) Other government transfer recipient households (i.e. households in which a government pension or benefit other than the age pension or veterans affairs pension is the principal source of income).
- (4) Self-funded retiree households (i.e. households in which superannuation or property income is the principal source of income and where the Household Expenditure Survey defined reference person is ‘retired’ (not in the labour force and over 55 years of age)).

⁴¹¹ Brian Pink, *A Guide to the Consumer Price Index: 16th Series* (2011) Australian Bureau of Statistics, p.4

⁴¹² Australian Bureau of Statistics, 64670 - *Selected Living Cost Indexes, Australia, Dec 2015*, <www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/64670.0Explanatory%20Notes1Dec%202015?OpenDocument> viewed 1 March 2016

⁴¹³ *ibid.*

⁴¹⁴ *ibid.*

⁴¹⁵ *ibid.*

⁴¹⁶ *ibid.*

7.2.3 Indexation arrangements

Indexation is generally defined as a procedure whereby the monetary values, such as payments or stocks, are periodically adjusted by increases or decreases in proportion to the changes in the value of a price index.⁴¹⁷

The Committee notes that indexation is most commonly applied to monetary flows such as wages, rents, interest or taxes and may also apply to the capital values of certain monetary assets and liabilities.⁴¹⁸ Indexation may be used during high inflation conditions and is often aimed at maintaining the purchasing power of household incomes for certain kinds of goods and services, or in order to preserve the standard of living or welfare of the recipients of the household incomes.⁴¹⁹

The ABS also indicates that price indexation is often used as an indexation clause in business and government contracts to adjust payments and/or charges to take account of price changes.⁴²⁰

The ABS provided a list of general matters for consideration when developing indexation clauses using a price index, as shown in Table 7.2.

Table 7.2 Developing Indexation Clauses - General Matters for Consideration

General Matters	Description
Establish the base payment, selling or purchase price subject to indexation	<ul style="list-style-type: none"> Specify the item subject to indexation as precisely as possible such as rent, wage rate, commodity, etc. Provide the effective date (such as quarter or year) of this base price, because it is the period from which the base payment, selling or purchase price will be indexed. Indicate the relationship between the effective date of the base payment, selling or purchase price subject to indexation, and the price index being used.
Select an appropriate index or indexes	<ul style="list-style-type: none"> The index or indexes selected will affect the price change recorded and should be chosen carefully to best represent the item subject to indexation and the intention of the parties.
Clearly identify the selected index and cite an appropriate source	<ul style="list-style-type: none"> The Indexation Clause of a contract should identify the selected index such as CPI, ACLIs and/or PBLCI.
State the frequency of price adjustment	<ul style="list-style-type: none"> The Indexation Clause should specify the frequency at which price adjustments are to be made, such as quarterly, half yearly, annually etc. It may be useful to set out the method to be used in calculating the indexation factor, particularly if the indexation is half-yearly or annually.

⁴¹⁷ Brian Pink, *Consumer Price Index: Concepts, Sources and Methods* (2011), Australian Bureau of Statistics, p.165; International Labour Organization, International Monetary Fund, Organisation for Economic Co-operation and Development, Statistical Office of the European Communities, United Nations, The International Bank for Reconstruction and Development, The World Bank, *Consumer Price Index Manual: Theory and Practice* (2004), International Labour Organization, p.33

⁴¹⁸ *ibid.*

⁴¹⁹ *ibid.*

⁴²⁰ Brian Pink, *Consumer Price Index: Concepts, Sources and Methods* (2011), Australian Bureau of Statistics, p.159

General Matters	Description
Provide for renamed, varied or discontinued price indexes	<ul style="list-style-type: none"> Occasionally price indexes can be reviewed or restructured, which may result in some component index series being renamed, discontinued or the timing of the publication of the index changed. Sometimes an index is permanently discontinued. Indexation Clauses should contain a default mechanism for determining an equivalent appropriate index or price adjustment mechanism, should this occur.
Provide for potential revisions to the price index data	<ul style="list-style-type: none"> Quarterly and annual movements recorded by the ABS price indexes are not often revised (apart from the seasonally adjusted wage price index and trend wage price index, which can be revised as extra terms are added to the end of the series). Generally, situations in which revisions do occur include correcting an error that has arisen in the data first published. It could be useful for parties to set out agreed procedures to deal with the possibility of revisions occurring.
Avoid locking indexes used for Indexation Clauses into any particular reference base period	<ul style="list-style-type: none"> Occasionally the reference base period of a price index (i.e. the period in which the index is set equal to 100.0) can be changed, resulting in a change in the index level from that which was previously available. Relative movements of any series over time, however, are not generally affected by a reference base change (except for rounding differences). Indexation Clauses should be drafted so that the parties to them are not adversely affected by a change to the reference base period of a price index.
Define the formula for the price adjustment calculation	<ul style="list-style-type: none"> Often the change in payments or price is directly proportional to the percentage change in the selected index between two specified time periods.
Allow for negative price movements	<ul style="list-style-type: none"> Any potential variations from the recorded price movements should be explicitly set out.

Notes: ABS disclaimer: Considerable care should be taken when considering and using Indexation Clauses. Appropriate professional advice should be obtained when considering the use of an Indexation Clause or any ABS published price indexes.

This is not an exhaustive list of general matters to consider when considering an ABS published price index in an Indexation Clause. These matters are provided subject to the disclaimer outlined above.

Source: Brian Pink, *Consumer Price Index: Concepts, Sources and Methods* (2011) Australian Bureau of Statistics, p.162

7.2.4 Price indexation and Commonwealth National Partnership funding

The Committee received advice from the Victorian Government that NPAs do not adequately account for price indexation over funding periods or on renegotiation of an NPA. This results in, a decline in funding support for service delivery in real terms (refer to Chapter 5, Section 5.3 of this report).

The Committee also notes that there was no consistent or transparent methodology applied to the indexation of NP funding. The Secretary of the Department of Premier and Cabinet, Mr Chris Eccles, stated at the Inquiry hearings that this was one of the single most vexing issues for Victoria which often occurred when NPAs were being renewed or renegotiated, as funding did not take account of either demographic changes or increased costs.⁴²¹

⁴²¹ Mr Chris Eccles, Secretary, Department of Premier and Cabinet, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements, Transcript of evidence*, 19 November 2015, p.11

In response to questions from the Committee about pursuing more consistent methodology from the Commonwealth Treasury in relation to the indexation of funding, the Department of Treasury and Finance advised that in negotiation:⁴²²

...the starting point is to try to actually ensure that the adjustment in funding is aligned with the growth of that particular expenditure area. We are always in those discussions pursuing indexation and growth changes consistent with what is happening in terms of the underlying parameters for a particular area, so looking at the population that that service will be provided to, or looking at whether CPI or another measure is appropriate.

The Secretary of the Department of Treasury and Finance, Mr David Martine advised that it was not unusual for the Commonwealth Government to start the process with a fixed amount which had likely come out of its internal budget processes. He also noted that it is difficult to nominate CPI as the best model across the board for indexation as in some areas service delivery costs are increasing more than the CPI, as well as increasing levels of demand.⁴²³ The Secretary stated:⁴²⁴

A fixed dollar amount, particularly for those that are delivering ongoing services, is just completely inadequate because I cannot think of any area of government service delivery where costs do not increase. Then you are into the debate of ‘Is CPI enough?’, and then you have the discussion around population growth and how does that impact on that particular area. So generally you will find in most areas that CPI on its own is not sufficient to cover the overall cost impact for the very reasons that CPI is very low at the moment. Costs in a lot of these areas are increasing more than CPI and then you have the population factor as well. So when you add all of that up it is not unusual to find costs in some of these areas growing by 3 per cent or 4 per cent.

In addition to indexation being related to the particular area of service delivery, the Secretary also advised that the nature and purpose of the individual NPA would be important in assessing the relevance of the model of indexation applied. For example, indexation may not be relevant to setting reward payments but are obviously more relevant to funding over a three year period.⁴²⁵

The Committee notes evidence provided that the application of a “one size fits all” model for indexation of NP funding, such as CPI, may not be relevant. It may be more appropriate to assess indexation on a case by case basis and in a way which best reflects factors relating to the service or program being delivered such as the population demographics of the client base, data related to demand for services and increases in the costs associated with service provision.

422 Ms Trudy Hart, Director, Revenue Group, Department of Treasury and Finance, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements, Transcript of evidence*, 17 November 2015, p.10

423 Mr David Martine, Secretary, Department of Treasury and Finance, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements, Transcript of evidence*, 17 November 2015, pp.10-11

424 *ibid.*, p.11

425 *ibid.*

FINDING 88: There is no consistent methodology in place for the indexation of Commonwealth National Partnership funding. Using the Consumer Price Index as a common method of indexing funding may not always be the most relevant index as in many cases the costs associated with service provision are higher than the increase in the Consumer Price Index. In addition, the Consumer Price Index does not take into account specific changes in the demographics of the client base and changes in demand for services.

RECOMMENDATION 22: The Victorian Government should negotiate with the Commonwealth Government to ensure that indexation reflects appropriate factors relevant to the nature of the services being funded through National Partnership Agreements. This would assist in ensuring that Commonwealth financial support for State delivered government services and programs is more sustainable.

7.3 Changes to National Partnership Agreements and the cost of living for Victorians

Information gathered through this Inquiry indicates that changes made to NPAs can result in changes to government policies and/or programs which then impact particular groups within the Victorian community. The Committee requested information from Victorian Government departments as well as non-government organisations in an effort to assess the impact of these changes on the cost of living for Victorians, and in particular concession card holders.

With regard to concession card holders, the Committee notes that concession programs are designed so that eligible cardholders are assured access to essential services.⁴²⁶ Concession card holders are entitled to:⁴²⁷

- access cheaper health care services and medicines;
- discounted rates for transportation, vehicle registrations, local government council rates, water, gas and electricity bills.

The Committee notes that there are a whole range of concession cards currently available to specific groups within the Victorian community (e.g. senior citizens, pensioners, war veterans/widows, low income households, and/or carers) as shown in Table 7.3. As a result, it is difficult to measure and assess the impact of NPA changes to the cost of living for concession card holders, as outlined in the Inquiry's Terms of Reference, since concession card holders cover a variety of community members.

⁴²⁶ Department of Health and Human Services, *Concessions* <www.dhs.vic.gov.au/for-individuals/financial-support/concessions> viewed 3 March 2016

⁴²⁷ Commonwealth of Australia, Department of Human Services, *Concession and Health Care Cards* <www.humanservices.gov.au/customer/subjects/concession-and-health-care-cards> viewed 3 March 2016; Department of Health and Human Services, *Concessions* <www.dhs.vic.gov.au/for-individuals/financial-support/concessions> viewed 3 March 2016; Commonwealth of Australia, Department of Veterans' Affairs, *Veterans' Health Cards* <www.dva.gov.au/health-and-wellbeing/veterans%E2%80%99-health-cards> viewed 3 March 2016; Public Transport Victoria, *Children and Concessions* <www.ptv.vic.gov.au/tickets/concessions> viewed 4 March 2016; VicRoads, *Concessions and Discounts* <www.vicroads.vic.gov.au/registration/registration-fees/concessions-and-discounts> viewed 3 March 2016

Table 7.3 Types of Concession cards

Concession Card	Purpose/Entitlements
Pensioner Concession Card	Provides holders with access to Australian Government health concessions and help with the cost of living by reducing the cost of certain goods and services.
Health Care Card	Helps the holder with the cost of prescription medicine under the Pharmaceutical Benefits Scheme, Australian Government funded medical services, and access to other government concessions.
Low Income Health Care Card	Gives low income earners access to cheaper prescription medicines and various concessions from government and private organisations.
Department of Veterans Affairs Card	Provides veterans, their war widows and widowers and dependents, convenient access to health treatments and services as well as other concessions.
Commonwealth Seniors Health Card	Provides Australians who are 65 years of age or older, access to cheaper prescription medicines, Australian government funded medical services, and other government concessions.
Ex-Carer Allowance (Child) Health Care Card	Entitles the holder, aged between 16 and 25 years of age and in full time study, access to cheaper medicines under the Pharmaceutical Benefits Scheme and possibly extra concessions from State and Local Government authorities and private organisations.
Foster Child Health Care Card	Holder has access to cheaper Pharmaceutical Benefit Scheme medications for foster children in his/her care and other concessions offered by state or territory organisations.

Note 'Victorian Public Transport Student/Tertiary Concession Cards' and 'Victorian Public Transport Asylum Seeker Concession Cards' are not included.

Source: Commonwealth of Australia, Department of Human Services, *Concession and Health Care Cards* <www.humanservices.gov.au/customer/subjects/concession-and-health-care-cards> viewed 3 March 2016; Department of Health and Human Services, *Concessions* <www.dhs.vic.gov.au/for-individuals/financial-support/concessions> viewed 3 March 2016; Commonwealth of Australia, Department of Veterans' Affairs, *Veterans' Health Cards* <www.dva.gov.au/health-and-wellbeing/veterans%E2%80%99-health-cards> viewed 3 March 2016.

FINDING 89: The Committee found a number of difficulties in measuring the impact of changes in National Partnership Agreements on the cost of living in Victoria due to:

- the inability to identify an appropriate index for measuring the impact of changes in the cost of living of various groups within the Victorian community;
- a variety of categories of concession card holders in the Victorian community; and
- a lack of appropriate data and analysis to demonstrate a direct causal link between, changes to National Partnership funding provided for government services and programs, and changes in the cost of living.

The Committee's review of NPAs entered into between successive Commonwealth and Victorian Governments since 2008 highlighted a number of government service delivery areas where expenses related to the cost of living in Victoria could be affected, if not monitored and addressed. These NPAs are detailed in Table 7.4.

Table 7.4 NPAs which have the possible potential to impact cost of living in Victoria

NPA	Status	Possible potential risks/impacts on expenses related to Cost of Living
<i>Certain Concessions for Pensioner Concession Card and Seniors Card Holders</i>	Terminated on 30 June 2014	<ul style="list-style-type: none"> • Public transport costs • Costs for utilities • Health costs — medicines/ pharmaceuticals
<i>Homelessness</i>	Short term. Due to expire on 30 June 2017	Rent / affordable housing
<i>Universal Access to Early Childhood Education</i>	Short term. Due to expire on 30 June 2016	Kindergarten/ pre-school education costs
<i>Digital Education Revolution</i>	Expired on September 2013	Education costs
<i>Adult Public Dental Services</i>	Short term. Due to expire on 30 June 2016	Dental health costs
<i>Youth Attainment and Transitions</i>	Expired on 30 June 2014	Training and Employment opportunities — Household incomes/ earnings
<i>Training Places for Single and Teenage and Parents</i>	Terminated on 30 June 2014	Training and Employment opportunities — Household incomes/ earnings

Source: Department of Education and Training, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 15 January 2016; Department of Health and Human Services, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 28 January 2016; Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 6 November 2015; Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015;

One of the more significant NPAs between the Commonwealth and Victorian Governments, which directly relates to the cost of living for concession card holders, was the *NPA on Certain Concessions for Pensioner Concession Card and Seniors Card Holders*. This NPA included two components:⁴²⁸

- (1) Certain concessions provided by States and Territories to all Pension Concession Card holders without discrimination between cardholders in return for indexed Commonwealth Government funding. This funding had been provided since 1993.
- (2) Designated Public Transport Concessions to all Australian Seniors Card holders using State public transport services, regardless of the cardholder's state of residence. This component was introduced as a Commonwealth Budget initiative in 2008-09 as part of its 'Making Ends Meet' for older Australians, people with disabilities and carers.

As discussed in Chapter 5, this NPA was prematurely cancelled in the *2014-15 Commonwealth Budget*. As noted, the Victorian Government has taken the decision to maintain the full value of the concessions program in spite of this NPA being terminated. As a result of this decision, the Committee was advised that there has been no impact on concession card holders.

⁴²⁸ Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.25

Whilst the Victorian Government has taken on policy and funding responsibility for the Victorian concessions program, eligibility for certain concessions continue to be based on eligibility for Commonwealth (Australian) concession cards. The Committee was advised that the Department of Health and Human Services will monitor changes in Commonwealth Government income support eligibility and assess any impacts on Victoria's concessions program. The Victorian Government advised:⁴²⁹

Where necessary, the department will advocate to the Commonwealth [Government] to ensure that any Victorians impacted by changes to income support are still able to maintain an adequate standard of living. The Victorian Government will continue to ensure that the concessions program helps ease the financial burden for Victorians by making essential goods and services more affordable.

The Committee noted information provided by the Victorian Council of Social Service (VCOSS) which indicated that concession card holders might be indirectly affected by changes made to other NPAs⁴³⁰ and cited the deferral of the *NPA on Public Dental Services*, which has resulted in increased waiting lists for these services, as ultimately affecting concession card holders and potentially impacting their cost of living as follows:⁴³¹

As public dental services generally require a concession card for eligibility, this group is likely to have experienced longer waits and the associated discomfort with untreated dental problems. Alternatively, it may have increased their cost of living if they sought alternative private treatment.

VCOSS also highlighted that NP funding changes in other areas of government service provision, such as health and legal assistance, could have indirect consequences for concession card holders:⁴³²

Similarly, reduction in funding to other health and legal services may have financial consequences for concession card holders, if they result in a greater burden of disease which increases healthcare cost or impedes earning income, or if legal issues with financial consequences remain unresolved or people must pay for private legal advice.

In examining the impact of changes to NPAs throughout this Inquiry, the Committee requested details from Victorian Government departments in an effort to quantify, or identify, any impacts which these changes had made to the cost of living for Victorians. Both the Department of Health and Human Services and the Department of Education and Training, which have been responsible for

⁴²⁹ Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.22

⁴³⁰ Victorian Council of Social Service, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 20 January 2016, p.3

⁴³¹ *ibid.*

⁴³² *ibid.*

a significant number of NPAs, advised that they had not undertaken any specific analysis of impacts on the cost of living, of services and programs provided through NPAs.⁴³³

VCOSS also informed the Committee that it was ‘*not aware of specific work being done measuring the impact of program changes as a result of NP funding cuts on the cost of living for Victorians*’.⁴³⁴

The Committee concluded that there is a lack of data available to indicate a direct causal link between a change in NP funding for service delivery and a change in the cost of living through any form of appropriate price index such as the CPI, PBLCI or ALCIs. However, the Committee extracted specific examples of changes made to NPAs which might have the possible potential to impact the cost of living for Victorians. These examples are presented in Table 7.5.

FINDING 90: The Committee was unable to obtain sufficient relevant evidence to definitively determine and quantify the impact of changes to National Partnership Agreements on the cost of living for Victorians and in particular, Concession Card holders. However, the Victorian Government determined to cover the loss in Commonwealth Government funding to support the Concessions program in Victoria.

433 Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, pp.16, 42

434 Victorian Council of Social Service, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 20 January 2016, p.3

Table 7.5 Examples of possible potential impacts of National Partnership funding changes on the cost of living for Victorians

NPA	Possible potential impact on the cost of living for Victorians	Possible potential impact on the cost of living for Concession Card Holders
<i>Universal Access to Early Childhood Education</i>	<p>Loss of Commonwealth funding may result in higher costs to parents/carers to access 15 hours of early childhood education programs per week.</p> <p>Parents/carers unwilling or unable to pay for the additional 5 hours per week would lead to a fall in Victoria's kindergarten/early childhood education participation rates.</p>	<p>Early childhood education service providers maintaining 15 hour programs at a greater cost would likely have a greater impact on low socio-economic and vulnerable families. A reduction in the number of funded kindergarten hours could create a two-tiered system where some services:</p> <ul style="list-style-type: none"> • continue to deliver 15 hours per week with an increase in parent fees, potentially making it only available to those who can afford it; and • offer only 10 hours per week in lower socio-economic areas where parents/guardians have limited financial capacity to pay for the “additional” five hours, despite children in those areas being potentially in greater need of the extended pre-school education program.
<i>Indigenous Early Childhood Development</i>	<p>Financial pressure has been placed on services and families as fees increase to support longer childcare and kindergarten programs.</p>	<p>An increase in fees for childcare and kindergarten centres will negatively impact concession card holders.</p>
<i>TAFE Fee Waivers for Child Care Qualifications</i>	<p>Students undertaking child care qualifications are required to pay fees at either the government subsidised or fee-for-service rate advertised by their chosen provider.</p>	<p>Concession card holders undertaking child care qualifications are required to pay fees at either the government subsidised or fee-for-service rate advertised by their chosen provider.</p>
<i>Digital Education Revolution</i>	<p>The expiry of this NPA means that IT devices co-contribution and/ or “Bring-Your-Own-Device” costs are increased for students and their families in an effort to sustain computer to student target ratios.</p>	<p>Not applicable.</p>

NPA	Possible potential impact on the cost of living for Victorians	Possible potential impact on the cost of living for Concession Card Holders
<i>Legal Assistance Services (NPALAS)</i>	<p>An estimated 30 per cent reduction in the Commonwealth Government’s financial contribution for Community Legal Centres from 2017-18 and beyond will potentially lead to:</p> <ul style="list-style-type: none"> • a decline in legal assistance services in Victoria; • forced amalgamations or closure of some of the smaller community legal services; • more unrepresented applicants/ respondents and defendants at court; • lengthier trials and greater costs and delays in the court system. <p>Further increases in demand and less financial support for legal assistance services means that less people in the Victorian community can access affordable assistance. This in turn has potential social costs such as: impacts on law and order costs; mental health services; family violence.</p>	<p>Reduced “real” funding for Legal Assistance services over the life of the new NPA on Legal Assistance Services (NPLAS) may further exacerbate service gaps and impact low-income Victorian households.</p> <p>While there are performance benchmarks under the NPALAS which provide for access to legal assistance for Victorians experiencing “financial disadvantage” (i.e. a person who is unable to pay for legal representation without serious difficulty, such as risks to their personal safety) a Concession Card Holder may not necessarily be eligible for legal assistance services provided through this NPA.</p>
<i>Project Agreement for the National Perinatal Depression Initiative</i>	<p>The expiry of this NPA means that women, and their families, affected by mental illness in the perinatal period are likely to have greater difficulty accessing an affordable service.</p>	<p>It is not anticipated that Concession Card Holders will be specifically disadvantaged. However, a fee-for-service arrangement will result in low income groups, such as concession card holders, paying a greater proportion of disposable income than other groups.</p>

Source: Department of Premier and Cabinet, *Submission to the Committee’s Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, pp.7, 9, 14, 19, 35

FINDING 91: The Committee identified a number of National Partnership Agreements which might have the potential, if not adequately addressed, to impact some of the householder expenses influencing the ‘cost of living’ in Victoria (such as expenses associated with public transport, rents, education and health) and also factors which enable individuals to increase their household income through increased opportunities to participate in the workforce.

Appendix 1

National Partnership Agreements directed at service delivery — health and community services

NPA	Agreement period	Purpose/Aims	Commonwealth funding committed to Victoria	Commonwealth funding received to date	Current status of NPA
<i>Home and Community Care Program</i>	In various forms since 1985. The current agreement is from 2008-09 to 30 June 2016.	The main purpose of this NPA has been to manage a comprehensive range of integrated home and community care services for frail aged people, younger people with disabilities, and their carers.	Total funding committed to Victoria was \$2,310.8m. (Based on letters of offer of Commonwealth funding 2008-09 to 2014-15, including the Bilateral Agreement between the Commonwealth and Victoria for transitioning responsibilities for the Victorian aged care and disability services).	Total funding received by Victoria from 2008-09 to 2014-15 was \$2,312.1m ^(a)	Current till June 2016
<i>Aged Care Assessment Program</i>	In various forms since 1984. The current contract between the Commonwealth and Victoria commenced July 2009 and expires on 30 June 2016. The Commonwealth is negotiating a new contract with all jurisdictions for 2016 to 2018.	The main purpose of this NPA has been to manage the Aged Care Assessment Program, which funds 18 Aged Care Assessment Teams (ACATs) in Victoria. The ACATs assess older people to determine eligibility for Commonwealth-funded residential aged care or community care packages.	Total funding committed to Victoria was \$175.6m.	Total funding received by Victoria from 2008-09 to 2014-15 was \$148.9m ^(b)	Current till June 2016.
<i>Homelessness</i>	<ul style="list-style-type: none"> • 2008-09 to 2012-13 • 2013-14 • 2014-15 • 2015-16 to 2016-17 	The objective of this NPA is to reduce homelessness through sustained effort and partnerships with business, the not-for-profit sector, and the community.	Total funding available to Victoria is \$166.7m and in addition approximately \$63.0m for capital and support.	Total funding received by Victoria from 2008-09 to 2014-15 was \$158.6m ^(c) plus approximately \$63.0m in capital and support.	Current till June 2017

NPA	Agreement period	Purpose/Aims	Commonwealth funding committed to Victoria	Commonwealth funding received to date	Current status of NPA
<p><i>Certain Concessions for Pensioner Concession Card and Seniors Card Holders</i></p>	<p>2008-09 to 2011-12 2013 to 2016 (Continuation of arrangements in place since 1993.)</p>	<p>The objective of this NPA was to improve the affordability of specific services for Pensioner Concession Card holders and "out-of-state" Seniors Card holders.</p>	<p>Total funding available to Victoria was \$379.7m.</p>	<p>Total funding received by Victoria from 2008-09 to 2013-14 was \$382.4m^(a)</p>	<p>Cancelled in 2014-15. Payments ceased on 1 July 2014.</p>
<p><i>Hospital and Health Workforce Reform</i></p>	<p>2008-09 to 2012-13</p>	<p>The purpose of this NPA was to improve efficiency and capacity in public hospitals through improvement of:</p> <ul style="list-style-type: none"> • the efficiency of public hospital services; • health workforce capability and supply; • the volume and quality of sub-acute services; and • the functioning of emergency departments; <p>thereby supporting an efficient and effective public hospital system that delivers high quality and safe services to patients.</p>	<p>Total funding available to Victoria was \$341.8m.</p>	<p>Total funding received by Victoria was \$341.8m^(b)</p>	<p>Lapsed/Expired</p>
<p><i>Improving Public Hospital Services</i></p>	<p>2009-10 to 2016-17</p>	<p>The NPA was signed by Victoria in 2011 together with the National Health Reform Agreement (NHRA). This NPA aimed to improve efficiency and capacity in public hospitals, encompassing public patient access to elective surgery, emergency department and the sub-acute care services elements of the NHRA, including through funding for capital works.</p>	<p>Total funding available to Victoria was \$822.3m which included \$99.8m in potential reward funding.</p>	<p>Funding received by Victoria via facilitation and capital payments totaled \$723.1m and in addition \$5.1m received via reward payments.^(b)</p>	<p>Cancelled on 30 June 2015 with reward funding ceased from 2015-16 onwards.</p>

NPA	Agreement period	Purpose/Aims	Commonwealth funding committed to Victoria	Commonwealth funding received to date	Current status of NPA
<i>Preventive Health</i>	Original agreement: 2009-10 to 2015-15 Varied agreement: June 2012 to June 2017	The purpose of this NPA was to address the rising prevalence of lifestyle related chronic diseases, by: <ul style="list-style-type: none"> • laying the foundations for healthy behaviours in the daily lives of Australians through social marketing efforts and the national roll-out of programs supporting healthy lifestyles; and • supporting these programs and the subsequent evolution of policy with the enabling infrastructure for evidence-based policy design and coordinated implementation. 	Total funding available to Victoria was \$119.2m for facilitation and \$37.4m in reward payments.	Total funding received by Victoria was \$67.1m ^(b) . The NPA was signed in 2008-09. Funding did not commence until 2009-10 and was received by Victoria in 2010-11.	Cancelled on 30 June 2014
<i>Essential Vaccines</i>	2009-10 – ongoing	The objective of this NPA is to improve the health and wellbeing of Victorians through the cost-effective delivery of immunisation programs under the National Immunisation Program.	Total funding provided from 2009-10 to 2014-15 was \$403.6m.	Total funding received to date by Victoria is \$403.6m ^(b)	Current
<i>Supporting National Mental Health Reform</i>	2011-12 to 2015-16	The objective of this NPA is to pilot four models of support for people who are mentally ill to reduce demand on emergency departments and improve outcomes for those with a mental illness.	Total funding available to Victoria is \$37.34m.	Total funding received to date by Victoria is \$29.73m ^(b)	Current till June 2016
<i>Treating More Public Dental Patients</i>	2012-13 to 2014-15	The objective of this NPA is to alleviate pressure on public dental waiting lists with a particular focus on Indigenous patients, patients at high risk of, or from, major oral health problems and those from rural areas.	Total funding available to Victoria was \$85.4m.	Total funding received by Victoria was \$85.4m ^(b)	Lapsed/Expired

NPA	Agreement period	Purpose/Aims	Commonwealth funding committed to Victoria	Commonwealth funding received to date	Current status of NPA
<i>Project Agreement for Indigenous Teenage Sexual and Reproductive Health and Young Parent Support</i>	2009-10 to 2014-15	The purpose of this Project Agreement is to support the delivery of pre-pregnancy, antenatal, sexual and reproductive health services and programs for Indigenous Victorians. Funding for these programs was provided under two separate agreements: <ul style="list-style-type: none"> <i>National Partnership Agreement on Indigenous Early Childhood Development (Element 2) — Antenatal Care, Pre-pregnancy and Teenage Sexual and Reproductive Health) (2009-10 to 2013-14)</i> <i>Project Agreement for Indigenous Teenage Sexual and Reproductive Health and Young Parent Support (2014-15)</i> 	Total funding available to Victoria was \$6.85m	Total funding received by Victoria was \$6.8m ^(a)	Lapsed/Expired
<i>Project Agreement for the National Perinatal Depression Initiative</i>	2008-09 to 2014-15	The purpose of this Project Agreement is to improve the prevention and early detection of postnatal antenatal and postnatal depression and provide better support and treatment for expectant and new mothers experiencing depression.	Total funding available to Victoria was \$10.96m	Total funding received by Victoria is \$11.2m ^(a)	Lapsed/Expired
<i>Adult Public Dental Services</i>	2015-16	To provide public dental services based on mutually agreed outcomes. The NPA was announced as a 3 year Agreements due to commence 1 July 2014. In April 2014 NPA was reduced to one year with funding deferred to 1 July 2015. Funding allocations to States and Territories are yet to be determined.	Three (3) year funding announced of \$219.4m to Victoria (July 2014 to June 2017). Changed to a one year Agreement to commence July 2015 to June 2016. Funding deferred. Allocation yet to be announced.	Nil	Yet to be finalised by the Commonwealth Government.

(a) Committee calculations based on Commonwealth of Australia, *Final Budget Outcome, 2008-09 to 2014-15*

(b) Committee calculations based on Department of Health and Human Services, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 28 January 2016, pp.4-6

Source: Commonwealth of Australia, *Federal Financial Relations Budget Paper No. 3 2016-17 (2016)*, p.26; Commonwealth of Australia, *Federal Financial Relations Budget Paper No. 3 2014-15 (2015)*, p.28; Department of Treasury and Finance, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, pp.7-8; Department of Health and Human Services, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 28 January 2016, pp.4-6; Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, pp.16, 18; Department of Premier and Cabinet, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questionnaire*, received 6 November 2015, p.21; Council on Federal Financial Relations, *Project Agreement for the National Perinatal Depression Initiative*, p.8

Appendix 2

National Partnership Agreements directed at service delivery — education and training

NPA	Agreement period	Purpose/Aim	Commonwealth funding committed to Victoria	Commonwealth funding received to date	Current status of NPA
<i>Universal Access to Early Childhood Education</i> (originally Early Childhood Education) (Several NPs on kindergarten funding)	January 2009 - December 2017	The objective of this NPA is to provide: universal access to quality early childhood programs for all children enrolled in the year before full-time school for 600 hours per year; delivered by a qualified early childhood teacher who meets National Quality Framework requirements; and with a focus on participation by vulnerable and disadvantaged children, regardless of the setting in which programs are delivered.	Total funding available to Victoria was \$660.0m.	Total funding received by Victoria was \$456.0m ^(a)	Current till end of 2017
<i>Indigenous Early Childhood Development (Element 1)</i>	2009-10 to 2013-14	This NPA aimed to establish children and family centres to integrate child and maternal health, and parent and family support services ("Bubup Wilam" and "Dala Yooro" Early Childhood Centres).	Total funding available to Victoria was \$16.65m.	Total funding received by Victoria was \$15.66m ^(a)	Lapsed/Expired
<i>National Quality Agenda (NQA) for Early Childhood Education and Care</i>	Ongoing	The objectives of this Agreement are to establish a jointly governed unified National Quality Framework (NQF) for early childhood education and care and Outside School Hours Care (OSHC) services, replacing existing separate licensing and quality assurance processes as part of its National Quality Agenda (NQA) for early childhood education and care. In particular, by ensuring high-quality early-childhood education and care, it will contribute to improving outcomes for all children and especially for those children from disadvantaged or at-risk backgrounds.	Total funding available to Victoria was \$18.89m to date.	Total funding received to date by Victoria is \$18.89m ^(a)	Current but NPA under re-negotiation.

NPA	Agreement period	Purpose/Aim	Commonwealth funding committed to Victoria	Commonwealth funding received to date	Current status of NPA
<i>Digital Education Revolution</i>	January 2010 to June 2013	The aim of this NPA was to contribute sustainable and meaningful change to teaching and learning in Australian schools to prepare students for further education, training and jobs of the future, and to live and work in a digital world.	Total funding available to Victoria was \$131.65m	Total funding received by Victoria was \$134.67m ^(a)	Lapsed/Expired
<i>Empowering Local Schools</i>	March 2012 to June 2014	The aim of this NPA was to strengthen the local decision-making capacity of approximately 714 government schools to enable them to better respond to local school community needs and provide services designed to assist their students to achieve their best educational outcomes.	Total funding available to Victoria was \$9.35m	Total funding received by Victoria was \$9.35m ^(a)	Rolled into schools Specific Purpose Payments from January 2014
<i>Helping our Kids Understand Finances</i>	July 2011 to June 2013	This NPA was aimed at supporting the delivery of face to face professional learning to teachers in primary and secondary schools and the trialing of teacher support materials with a commitment to improve financial literacy in Australian schools.	Total funding available to Victoria was \$0.40m	Total funding received by Victoria was \$0.40m ^(a)	Lapsed/Expired
<i>Improving Literacy and Numeracy</i>	February 2013 to June 2014	This NPA was aimed at supporting and expanding successful literacy and numeracy practices in selected participating schools, with a particular focus on students performing in the bottom two NAPLAN bands.	Total funding available to Victoria was \$41.1m	Total funding received by Victoria was \$41.1m ^(a)	Lapsed/Expired
<i>Investing in Focus Schools</i>	May 2012 to June 2014	The aim of this NPA was to support specially selected Focus Schools to complement and accelerate implementation of local level actions in the 'Engagement and Connections', 'Attendance' and 'Literacy and Numeracy' domains of the Aboriginal and Torres Strait Islander Education Action Plan 2010-2014.	Total funding available to Victoria was \$2.4m	Total funding received by Victoria was \$2.4m ^(a)	Lapsed/Expired

NPA	Agreement period	Purpose/Aim	Commonwealth funding committed to Victoria	Commonwealth funding received to date	Current status of NPA
<i>MoneySmart Teaching (Project Agreement)</i>	July 2013 to May 2017	This Project Agreement will support “MoneySmart” Teaching professional learning to a minimum of 24,000 teachers over four years in primary and secondary schools across Australia.	Total funding expected was \$0.7m	Total funding received to date by Victoria is \$0.48m ^(a)	Current till May 2017
<i>More Support for Students with Disabilities and MSSD Variation</i>	May 2012 to December 2014	This agreement aimed to ensure schools and teachers are better able to support students with disabilities, contributing to improved student learning experiences, education outcomes and transitions to further education or work.	Total funding available to Victoria was \$55.70m	Total funding received was \$72.14m ^(a)	Lapsed/Expired
<i>National School Chaplaincy Program</i>	April 2014 to June 2019	The aim of this Program is to provide chaplaincy services in Australian schools to support the emotional wellbeing of students by providing pastoral care services and strategies that support the emotional well-being of the broader school community.	Total funding expected up to \$50.47m	Total funding received to date by Victoria is \$25.2m ^(a) to date	Current till June 2019
<i>SSNP: Improving Teacher Quality</i>	January 2009 – December 2013	This NPA was designed to improve teacher and school leader quality to sustain a quality teaching workforce.	Total funding available to Victoria was \$122.40m	Total funding received by Victoria was \$118.35m ^(a)	Lapsed/Expired
<i>SSNP: Literacy and Numeracy</i>	January 2009 to December 2012	This NPA focussed on the key areas of teaching, leadership and the effective use of student performance information to deliver sustained improvement in literacy and numeracy outcomes for all students, especially those who are falling behind.	Total funding available to Victoria was \$89.43m	Total funding received by Victoria was \$86.04m ^(a)	Lapsed/Expired
<i>SSNP: Low Socio-Economic Status School Communities</i>	January 2009 to December 2013	This Agreement aimed to improve student engagement, educational outcomes and wellbeing in participating schools and make in-roads into entrenched disadvantage.	Total funding available to Victoria was \$239.16m	Total funding received by Victoria was \$221.52m ^(a)	Rolled into Students First Funding from January 2014

NPA	Agreement period	Purpose/Aim	Commonwealth funding committed to Victoria	Commonwealth funding received to date	Current status of NPA
<i>Project Agreements for the Commonwealth/State and Territory Joint Group Training Program</i>	July 2011 to June 2015	These NPAs involved the implementation of strategies and initiatives to improve commencements and completions in Australian Apprenticeships in nationally agreed priority areas.	Total funding available to Victoria was \$11.8m	Total funding received by Victoria was \$11.92m ^(a)	Lapsed/Expired
<i>Pre-Apprenticeship Training</i>	April 2010 to June 2011	This NPA was aimed at increasing the number of pre-apprenticeship training opportunities that are available, thereby resulting in an increased number of individuals taking up formal Australian Apprenticeship training in traditional trade occupations.	Total funding available to Victoria was \$0.90m	Total funding received by Victoria was \$0.90m ^(a)	Lapsed/Expired
<i>Productivity Places Program</i>	January 2009 to June 2012	This NPA aimed to reduce skills shortages and increase the productivity of industry and enterprises as well as commit all governments to increasing investment in training and ensuring this is targeted to address areas of skills shortages across the Australian economy.	Provided as a grant to support Victorian Training Guarantee (VTG)	Provided as a grant to support the VTG	Lapsed/Expired
<i>Skills Reform</i>	July 2012 to June 2017	The aim of this NPA is to contribute to reform of the Vocational Education and Training (VET) system to deliver a productive and highly skilled workforce and to enable all working age Australians to develop the skills and qualifications needed to participate effectively in the labour market.	Total funding expected by Victoria is \$434.8m	Total funding received to date by Victoria is \$212.5m ^(a)	Current till June 2017
<i>TAFE Fee Waivers for Child Care Qualifications</i>	January 2010 to December 2014	The objective of this NPA was to achieve a more highly qualified, skilled and capable early childhood education and care workforce, capable of providing a strong foundation for the health and education of Australian children.	Funding amounts to revenue foregone.	Total funding received by Victoria was \$33.55m ^(a)	Lapsed/Expired
<i>Training Places for Single and Teenage Parents</i>	July 2011 to July 2015	This NPA was aimed at helping to improve the work readiness of single and teenage parents by supporting training that responds to parents' caring and local workforce needs.	Total funding available to Victoria was \$23.7m	Total funding received by Victoria was \$17.41m ^(a)	Cancelled in July 2014

NPA	Agreement period	Purpose/Aim	Commonwealth funding committed to Victoria	Commonwealth funding received to date	Current status of NPA
Youth Attainment and Transitions	July 2009 to December 2013	<p>This NPA was established to:</p> <ul style="list-style-type: none"> • Achieve a national Year 12 or equivalent attainment rate of 90 per cent by 2015. • Provide an education/training entitlement to young people aged • 15-24 years. • Better engage young people in education and training. • Assist young people aged 15-24 years to make a successful transition from schooling into further education, training or employment. • Better align Commonwealth, State and Territory programs and services related to youth, careers and transitions. 	Total funding available to Victoria was \$135.4m	Total funding received by Victoria was \$71.16m ^(a)	Lapsed/Expired

(a) Department of Education and Training, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 28 January 2016, p.3

Source: Council on Federal Financial Relations, *National Partnership Agreement on Productivity Places Program*, p.3; Council on Federal Financial Relations, *National Partnership Agreement on Training Places for Single and Teenage Parents*, p.1; Council on Federal Financial Relations, *Project Agreement for the Commonwealth/State and Territory Joint Group Training Program*, p.1; Council on Federal Financial Relations, *National Partnership Agreement on Pre-Apprenticeship Training*, p.1; Council on Federal Financial Relations, *National Partnership Agreement on Literacy and Numeracy*, p.1; Council on Federal Financial Relations, *National Partnership Agreement on Improving Teacher Quality*, p.1; Council on Federal Financial Relations, *National Partnership Agreement on Improving Literacy and Numeracy*, p.A1; Council on Federal Financial Relations, *National Partnership Agreement on Indigenous Early Childhood Development*, p.13; Council on Federal Financial Relations, *Project Agreement for MoneySmart Teaching*, p.1; Council on Federal Financial Relations, *Project Agreement – Investing in Focus Schools*, p.2; Council on Federal Financial Relations, *National Partnership Agreement on Empowering Local Schools*, p.2; Council on Federal Financial Relations, *National Partnership Agreement on the Digital Education Revolution*, p.2; Council on Federal Financial Relations, *National Partnership Agreement on National Quality Agenda for Early Childhood Education and Care*, p.3; Council on Federal Financial Relations, *Project Agreement for Helping Our Kids Understand Finances – Professional Learning and MoneySmart Schools*, p.2.; Council on Federal Financial Relations, *Project Agreement for the National School Chaplaincy Programme*, p.3; Department of Treasury and Finance, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 27 January 2016, p.7; Department of Education and Training, *Response to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements Questions on Notice/Specific Questionnaire*, received 28 January 2016, p.3; Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, pp.6-15

Appendix 3

National Partnership Agreements directed at service delivery — legal assistance

NPA	NPA Agreement Period	Purpose/Aim	Commonwealth funding committed to Victoria	Commonwealth funding received to date	Current status of NPA
<i>Legal Assistance Services</i>	2010-11 to 2013-14 2014-15 2015-16 to 2019-20	This NPA aims to facilitate reform in the legal assistance sector and provide access to justice for disadvantaged Australians through the delivery of legal assistance services.	Total funding available to Victoria for 2010-11 to 2014-15 was \$221.42m	Total funding received by Victoria to date is \$221.19m	New NPA renegotiated for 2015-2020

Source: Council on Federal Financial Relations, *National Partnership Agreement on Legal Assistance Services (2010-11 to 2013-14)*, pp.1, 10; Committee calculations based on Department of Premier and Cabinet, *Submission to the Committee's Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*, received 21 August 2015, p.31

Appendix 4

Information gathering visit to Canberra — Committee itinerary

Organisation	Location of meeting
Thursday 27 August 2015	
Parliamentary Budget Office	Parliament House, Canberra , ACT 2600
Joint Committee of Public Accounts & Audit (JCPAA)	Parliament House, Canberra, ACT 2600
Australian Institute of Health and Welfare (AIHW)	1 Thynne Street, Fern Hill Park, Bruce ACT 2600
Friday 28 August 2015	
Australian National Audit Office (ANAO)	19 National Circuit, Barton ACT 2600
Joint Committee of Public Accounts & Audit (JCPAA)	Parliament House, Canberra, ACT 2600
Retired/Former Auditor-General of Australia	Hotel Realm, 18 National Circuit, Barton ACT 2600
Professor, Australian National University	Hotel Realm, 18 National Circuit, Barton ACT 2600

Appendix 5

List of submissions

Number	Submission author
1	Municipal Association of Victoria
2	Public Health Association Australia
3	Victorian Council of Social Service
4	Victorian Healthcare Association
5	Department of Premier and Cabinet (whole of Victorian Government)
6	Knox City Council

Appendix 6

List of persons and departments/organisations providing evidence at public hearings

Tuesday 17 November 2015

Witnesses	Department/Organisation
Mr David Martine, Secretary	Department of Treasury and Finance, Victorian Government
Ms Trudy Hart, Director, Revenue Group	
Ms Teresa Stewart, Assistant Director, Intergovernmental Financial Relations	
Ms Gill Callister, Secretary	Department of Education and Training, Victorian Government
Mr Simon Kent, Deputy Secretary, Strategy and Review Group	
Mr Craig Robertson, Deputy Secretary, Higher Education and Skills Group	
Mr Greg Norton, Executive Director, Intergovernmental Relations, Strategy and Review Group	Department of Health and Human Services, Victorian Government
Ms Kym Peake, Secretary	
Mr Terry Symonds, Deputy Secretary, Portfolio Strategy & Reform	
Ms Anne Congleton, Deputy Secretary, Mental Health, Wellbeing, Social Capital & Ageing	Victorian Council of Social Service
Ms Emma King, Chief Executive Officer	
Mr Llewellyn Reynders, Policy and Programs Manager	

Thursday 19 November 2015

Witnesses	Department/Organisation
Mr Tom Symondson, Chief Executive Officer	Victorian Healthcare Association
Ms Weif Yee, Policy Advisor	
Mr Rob Spence, Chief Executive Officer	Municipal Association of Victoria
Ms Clare Hargreaves, Manager Social Policy	
Ms Kathy Parton, Manager Community Wellbeing	Knox City Council
Ms Michele Hollingworth, Program Manager Health Together Knox	
Mr Greg Wilson, Secretary	Department of Justice and Regulation, Victorian Government
Ms Marisa De Cicco, Deputy Secretary, Criminal Justice	
Mr Donald Speagle, Deputy Secretary, Civil Justice	
Mr Simon Cohen, Deputy Secretary, Regulation	Department of Premier and Cabinet, Victorian Government
Mr Chris Eccles, Secretary	
Ms Rebecca Falkingham, Deputy Secretary, Social Policy and Service Delivery Reform	

Appendix 7

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