

## CHAPTER 3: MANAGEMENT AND ACCOUNTABILITY FOR COMMONWEALTH GRANTS AND FUNDS

### Key findings of the Committee:

- 3.1 The 2009-10 Budget Papers indicate that, based on information available as at 29 April 2009, Commonwealth grants to Victoria, other than GST grants, in 2009-10 are expected to total \$11.9 billion, which is \$2.8 billion or 30.3 per cent higher than 2008-09.
- 3.2 Because of the global financial crisis, the government revised downwards by \$5.7 billion its GST grant estimates over the four year period 2008-09 to 2011-12. The reduction in estimates comprises \$933 million in 2008-09 and an average of \$1.6 billion a year between 2009-10 and 2011-12.
- 3.3 Funding to Victoria in 2009-10 under the Commonwealth's Nation Building - Economic Stimulus Plan is expected to exceed \$3 billion and is the major source of additional Commonwealth grants to the state compared with 2008-09.
- 3.4 National Agreements associated with five new broadbanded categories of Special Purpose Payments to the states and National Partnerships with the states created to deliver nationally significant reforms are key elements of the Commonwealth's new financial relations framework.
- 3.5 The Commonwealth has established a reporting mechanism which emphasises outcomes-based public accountability for federally funded projects and programs delivered by the State.
- 3.6 There could be benefit for the government using the Commonwealth's reforms as the catalyst for introducing a state-wide management and reporting framework for its own programs and services, built on an outcomes-based public accountability foundation. Common outcomes-based performance reporting principles could then be used to meet both Commonwealth and state accountability obligations.
- 3.7 The government should consider presenting an annual consolidated report to Parliament identifying Victoria's performance against objectives, outcomes, output targets and milestones formulated under the Commonwealth's funding framework.

### 3.1 Introduction

The 2009-10 Budget introduced a new theme, *Partnering with the Commonwealth*, in recognition of the partnership formed with the Commonwealth Government to stimulate the economy, fast track investment in public infrastructure and secure jobs. Commonwealth funding to the State under this partnership covers a wide range of areas, and extends beyond 2009-10. It represents a significant funding boost when added to more traditional Commonwealth grants including Goods and Services Tax (GST) income.

The 2009-10 Budget Papers include references in several places to the nature and estimated level of Commonwealth funding earmarked for Victoria. The main point of reference to the quantification of expected Commonwealth funding is given in the section dealing with the analysis of State Revenue.<sup>71</sup> That section includes a table which indicates that Commonwealth grants, other than GST grants, are estimated to total at least \$11.9 billion in 2009-10, which constitutes an increase of around \$2.8 billion when compared with the latest estimate of equivalent grants for 2008-09.

The Budget Papers describe some of the features of the new Commonwealth/State funding arrangements which mainly fall into three categories, namely:<sup>72</sup>

- funding under the Commonwealth's *Nation Building – Economic Stimulus Plan* for timely economic stimulus aimed at improved nation building and supporting economic growth and jobs;
- funding under National Agreements associated with five new broadbanded specific purpose payments (SPPs) pertaining to health, schools, skills and workplace development, affordable housing and disabilities, following a rationalisation of the number of SPPs; and
- a new stream of funding under reform-oriented National Partnerships to drive national economic and social reforms.

According to the Budget Papers, projections of Commonwealth funding represent estimates based on information available as at 29 April 2009.<sup>73</sup> The estimates therefore do not reflect final funding decisions announced by the Commonwealth Government in its 2009-10 Budget.

The Budget Papers also state the Government is engaging with the Commonwealth in seeking access to the Building Australia, Health and Hospitals and Education Investment Funds as a means of complementing its own record infrastructure investment.<sup>74</sup> The Treasurer made some references to potential future funding from these three sources in his budget speech, including that:<sup>75</sup>

- the budget makes provision for further funding of hospitals, '*which will follow the announcement of the Commonwealth's Health and Hospitals Fund later in the year*'; and
- the government is seeking support from the Commonwealth's Building Australia Fund '*to deliver some major rail projects over the coming years.*'

During the Budget Estimates Hearing, the Minister for Public Transport advised the Committee that the Commonwealth Government announced in its 2009-10 Budget a contribution of \$3.225 billion for the Regional Rail Link project. The Minister stated the project will build up to 50 kilometres of stand-alone rail tracks from West Werribee to Melbourne's Southern Cross Station, and will separate regional and suburban trains across the west. It is the first major investment for Victoria under the Building Australia Fund.<sup>76</sup>

This chapter focuses on estimates of Commonwealth grants announced in the 2009-10 Budget. It addresses the management and accountability implications to Victoria arising from the major reforms that have occurred in the financial relationship between the Commonwealth and the states.

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<sup>71</sup> Department of Treasury and Finance, Budget Paper No. 4, *2009-10 Statement of Finances*, May 2009, pp.206-21

<sup>72</sup> *ibid.*, pp.208-9 and Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, p.80

<sup>73</sup> *ibid.*, p.211

<sup>74</sup> Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, p.13

<sup>75</sup> Department of Treasury and Finance, Budget Paper No. 1, *2009-10 Treasurer's Speech*, p.9

<sup>76</sup> Ms L Kosky, Minister for Public Transport, Letter to Committee dated 28 June 2009, p.1

The information presented in this chapter complements that contained in Chapter 5, which analyses in more detail the states' accountability framework endorsed by the Council of Australian Governments (COAG), and chapter 6, which identifies all of the revenue initiatives, including Commonwealth grants, outlined in the 2009-10 Budget.

### 3.2 Goods and Services Taxation (GST) grants

GST grants are general purpose grants received annually from the Commonwealth. The Budget Papers point out that the states and territories receive all GST revenue in accordance with the Intergovernmental Agreement on Federal Financial Relations.<sup>77</sup>

The Budget Papers indicate that GST grant distributions between the states and territories are determined by the GST relativities that are recommended by the Commonwealth Grants Commission to the Commonwealth Government.<sup>78</sup> The Commonwealth Grants Commission updates its relativities annually to reflect movements in state circumstances, while the methodologies underpinning annual updates are subject to detailed review by the Commission approximately every five years. A review is currently underway to determine the methodology to apply from 2010-11 and is expected to be completed by February 2010.<sup>79</sup>

In its 2009-10 Budget Papers, the government has estimated that Victoria's GST grant revenue in 2009-10 will total \$9.4 billion, which is \$67 million or 0.7 per cent higher than the 2008-09 revised estimate. It attributes this increase, against the background of a decline of around 0.1 per cent in the estimated total GST pool, to an improvement in Victoria's relativity which mainly reflects the increased relative capacity of other states, particularly Western Australia and Queensland, to raise revenue from mining and stamp duty on land transfers.<sup>80</sup>

Since its 2008-09 Budget, the government has revised downwards by \$5.7 billion its GST grant estimates over the four year period 2008-09 to 2011-12. The reduction in estimates comprises \$933 million in 2008-09 and an average of \$1.6 billion a year between 2009-10 and 2011-12.<sup>81</sup> The Budget Papers indicate that the global financial crisis has had a significant impact on Victoria's budget which has led to the considerably weaker forecast revenues from GST.<sup>82</sup>

### 3.3 Analysis of estimates of Commonwealth funding (other than GST grants) to Victoria announced in the 2009-10 Budget

As mentioned in the above introductory paragraph, the Budget Papers identify that Commonwealth grants other than GST grants (Other Commonwealth grants) are expected to total at least \$11.9 billion in 2009-10. Table 3.1 dissects this total according to the main revenue streams and compares the 2009-10 estimates with the latest revised equivalents for 2008-09.

<sup>77</sup> Department of Treasury and Finance, Budget Paper No. 4, *2009-10 Statement of Finances*, May 2009, p.207

<sup>78</sup> *ibid.*,

<sup>79</sup> *ibid.*, p.207-8

<sup>80</sup> *ibid.*, p.208

<sup>81</sup> Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, p.40 and Budget Paper No. 4, *2009-10 Statement of Finances*, p.316

<sup>82</sup> Department of Treasury and Finance, *Victorian Budget, 2009-10 Overview*, Building Jobs: Building Victoria, May 2009, p.14

**Table 3.1: Estimates of Other Commonwealth grants announced in 2009-10 Budget**

Revenue stream	2008-09 Revised (\$ million)	2009-10 Budget (\$ million)	Change (%)
Nation Building – Economic Stimulus Plan	320.5	3,059.5	854.6
National Agreements (5 agreements)	4,005.8	4,270.6	6.6
National Partnerships ((25 partnerships)	1,562.4	1,193.4	-23.6
Assistance to Non-Government Schools	1,690.8	1,792.5	6.0
Commonwealth Own Purpose Expenses	513.3	486.7	-5.2
Commonwealth grants to Local Government	444.2	446.0	0.4
Australian Synchrotron	10.0	10.0	0
All other specific purpose payments and grants	612.1	678.6	10.8
<b>Total</b>	<b>9,159.1</b>	<b>11,937.3</b>	<b>30.3</b>

*Note:* The Budget Papers state the estimates for 2009-10 are based on information available as at 29 April 2009. The papers indicate that funding in some cases is based on an estimate of the possible Victorian share of Commonwealth funding and, as such, the actual share may vary and is yet to be determined.

*Source:* Budget Paper No. 4, 2009-10 Statement of Finances, pp.209-11

### **3.3.1 Funding to Victoria under Nation Building – Economic Stimulus Plan**

It can be seen from Table 3.1 that funding earmarked for Victoria under the Commonwealth's *Nation Building – Economic Stimulus Plan* represents by far the major source of additional grants in 2009-10. The Budget Papers indicate that the majority of the projected increase of \$2.739 billion in 2009-10 under the Plan relates to six funding streams forming part of the *Building the Education Revolution* initiative, \$1.7 billion, and to the Social Housing initiative, \$945.1 million. Table 3.2 shows the estimated funding for each of the Plan's revenue streams identified in the Budget Papers.

**Table 3.2: Estimates of funding to Victoria under the Commonwealth's Nation Building – Economic Stimulus Plan**

Revenue stream under Plan	2008-09 Revised (\$ million)	2009-10 Budget (\$ million)	Change (%)
<b><i>Building the Education Revolution</i></b>			
National Schools Pride Program	62.8	146.6	133.4
Primary Schools for the 21 <sup>st</sup> Century	97.6	1,074.3	1,000.7
Science and Language Centres	-	140.6	-
National Schools pride program: Non-government schools	28.4	66.2	133.3
Primary Schools for the 21 <sup>st</sup> Century: Non-government schools	46.2	508.6	1,000.8
Science and Language Centres: Non-government schools	-	59.4	-
<b>Total</b>	<b>235.0</b>	<b>1,995.7</b>	<b>749.2</b>
<b>Social Housing</b>	<b>64.4</b>	<b>1,009.5</b>	<b>1,467.5</b>
<b>Black Spot Program / Boom Gates</b>	<b>21.1</b>	<b>54.3</b>	<b>157.3</b>
<b>Aggregate Plan funding</b>	<b>320.5</b>	<b>3,059.5</b>	<b>854.6</b>

Source: Budget Paper No. 4, 2009-10 Statement of Finances, pp.209-11

As mentioned in an earlier paragraph, the *Nation Building – Economic Stimulus Plan* aims to provide timely economic stimulus through improved nation building and supporting economic growth and jobs. The Budget Papers include a useful description of the nature and purpose of funding under each of the Plan's revenue streams. For example, the Budget Papers provide the following descriptions for the two largest funding items in 2009-10:<sup>83</sup>

#### **Primary Schools for the 21<sup>st</sup> Century** – managed within Education portfolio

*The funding will enable the building of major new infrastructure for government and non-government primary schools and special schools, including for new facilities such as libraries, multipurpose halls, classrooms or the upgrade of existing facilities.*

#### **Social Housing** – managed within Housing portfolio

*...The once-off injection of funding will enable construction of around 5000 new dwellings in Victoria and the refurbishment of existing stock that would otherwise be unavailable for occupancy. The majority of new housing provided ... will be completed by the end of 2010.*

The Budget Papers state that funding to Victoria under the *Nation Building – Economic Stimulus Plan* is estimated to total around \$5 billion over the three year period 2009-10 to 2011-12.<sup>84</sup> Based on this estimate, additional funding under the Plan of around \$2 billion is earmarked for Victoria over the next two financial years.

<sup>83</sup> Department of Treasury and Finance, Budget Paper No. 4, 2009-10 Statement of Finances, May 2009, pp.212, 216  
<sup>84</sup> *ibid.*, pp.208-9

### 3.3.2 Funding to Victoria under National Agreements and National Partnerships

The Budget Papers also outline the nature of these further two new elements of Commonwealth funding to Victoria:<sup>85</sup>

- **National Agreements** – five new broadbanded categories of SPPs, health, schools, skills and workforce, affordable housing and disabilities, were created following a major rationalisation of the number of SPPs to the states. Each SPP is now associated with a National Agreement that contains objectives, outcomes, outputs and performance indicators. The Agreements clarify the roles and responsibilities that will guide the Commonwealth and the states in the delivery of services across relevant sectors.
- **National Partnerships** – this form of funding has been created for specific projects and to facilitate and/or reward states that deliver nationally significant reforms. The tabular data on funding estimates included in the Budget Papers, which is summarised in Table 3.2 above, lists 25 National Partnerships under departmental headings with all ten departments assigned responsibility for service delivery under at least one Partnership. Of the 25, nine fall within the responsibility of the Department of Education and Early Childhood Development and six are administered by the Department of Human Services.

In terms of forward estimates, the Budget Papers estimate that funding totalling approximately \$1.7 billion will be provided to Victoria over five years under National Agreements for the five new categories of SPPs.

The Budget Papers do not quantify forward estimates of funding under the National Partnerships. The Committee's perusal of the Commonwealth Government's 2009-10 Budget Papers showed that, for many Partnerships, funding to Victoria will continue over the four year period to 2012-13.<sup>86</sup> Examples of references to likely forward funding in the State budget and the related estimates in the Commonwealth's budget are:<sup>87</sup>

- **The Early Childhood Education Partnership** – the State Budget indicates '*Funding is provided to assist Victoria to work towards the Council of Australian Governments' target of access to 15 hours of early childhood education per week for all children in the year before school by 2013.*' The Commonwealth budget identifies that funding totalling \$213.8 million is earmarked for Victoria over the four year period 2009-10 to 2012-13.
- **The Preventive Health Partnership** – the State Budget says this Partnership '*provides funding to tackle preventive health issues ... will lead to reductions in the proportion of people who smoke, are at an unhealthy bodyweight and/or do not meet national guidelines for physical activity and healthy eating. Funding in 2009-10 precedes significant investment from 2011-12.*' The Commonwealth budget earmarks funding totalling \$54.1 million to Victoria over the four years to 2012-13.
- **The Homelessness Partnership** which, as mentioned in the State Budget, '*commits the Commonwealth and States to work together towards the objectives of achieving a 50 per cent reduction in homelessness, and an end to primary homelessness, by 2020.*' Total funding of \$100.8 million is scheduled to be provided to Victoria in the Commonwealth budget over the period to 2012-13.

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<sup>85</sup> Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, p.80 and Budget Paper No. 4, *2009-10 Statement of Finances*, pp.208-11

<sup>86</sup> Budget Paper No. 3, *Australia's Federal Relations 2009-10*, May 2009, p.29

<sup>87</sup> Department of Treasury and Finance, Budget Paper No. 4, *2009-10 Statement of Finances*, pp.212, 215 and 217

The Commonwealth 2009-10 Budget Papers also list for particular National Partnerships the expected contributions from Victoria over the period to 2012-13.

The Committee notes with interest the reference in the Commonwealth Budget that payments made to the states under the National Partnerships include a reward component. The relevant budget paper indicates that incentive payments ‘*can be used to reward those States that deliver reform progress or continuous improvement in service delivery.*’<sup>88</sup>

### 3.4 Accountability regime within new federal financial relations framework

The Budget Papers include references to the new *Framework for Federal Financial Relations*, agreed by COAG, which came into effect on 1 January 2009.<sup>89</sup> The new arrangements are described as focusing on removing prescriptions imposed by the Commonwealth on service delivery by the states, ‘*while moving to clearer roles and responsibilities and outcomes-based public accountability.*’<sup>90</sup>

The Government has included in the Budget Papers the following high-level description of the accountability regime established under the new federal financial framework:<sup>91</sup>

*The new Federal Financial Framework provides a clearer specification of roles and responsibilities of each level of government and an improved focus on public accountability for better outcomes and better service delivery. The accountability of governments will be enhanced through simpler, standardised and more transparent public performance reporting for all jurisdictions. The independent COAG Reform Council (CRC) will provide annual reports to COAG containing the performance data to assist the public in assessing governments’ progress against agreed objectives, outcomes and outputs.*

In Chapter 5 of this report, the Committee analyses in some detail the various reform actions taken by COAG including its strengthening of accountability arrangements associated with the provision of Commonwealth funding to the states. The chapter includes commentary on the stringent nature of these accountability arrangements which will underpin periodic monitoring of the performance of the states under the National Agreements and National Partnerships. It describes the important role of the COAG Reform Council and the periodic involvement of the Productivity Commission in this monitoring process. It also refers to COAG’s overseeing of construction activity across the infrastructure elements of the *Nation Building – Economic Stimulus Plan*.

In addition, as part of its commentary in Chapter 5, the Committee addresses potential ramifications of the Commonwealth developments to Victoria in terms of the Government’s presentation of performance measures and targets in the annual Budget Papers and of the role, if any, of the Auditor-General in the ongoing evaluation of the State’s performance in managing Commonwealth funds.

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<sup>88</sup> Commonwealth Government 2009-10, Budget Paper No. 3, *Australia’s Federal Relations 2009-10*, May 2009, p.26

<sup>89</sup> Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, pp.80-1 and Budget Paper No. 4, *2009-10 Statement of Finances*, May 2009, pp.206-21

<sup>90</sup> Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, p.206

<sup>91</sup> *ibid.*, p.80

### 3.4.1 *Management and accountability implications to Victoria*

Under this heading, the Committee assesses some further implications to Victoria of the new framework. These implications relate to the benefits of having in place one management and accountability framework governing all programs and services delivered by the state, irrespective of whether funding is solely provided by the Commonwealth, or by the State or is a mix of Commonwealth and State funding.

The focus of the new funding and accountability arrangements on effectiveness of service delivery and outcomes-based public accountability is welcomed by the Committee. The principles underpinning the new direction are consistent with those that have been espoused by the Committee in its recent reports on the budget estimates and on the State's financial and performance outcomes.

In the departmental sector, the Committee's past comments have recognised improvements made by the Government under its visionary document, *Growing Victoria Together*, to the linking of departmental outputs to government outcomes. The Committee has advocated that the Government expand this process to provide more performance material on the expected and actual contributions made by departmental outputs to meeting objectives and contributing to key government outcomes. The Government's responses to the Committee's reports have been supportive and have indicated a willingness, in consultation with departments, to further develop and improve Victoria's outcomes reporting framework.<sup>92</sup>

In addition, the government's October 2008 discussion paper on *Public Finance in Victoria*, which forms part of its review of the *Financial Management Act 1994*, includes a chapter which canvasses the merits of a more outcomes-focused approach to public sector financial management in Victoria.<sup>93</sup>

The Committee has more recently evaluated Victoria's performance management and reporting framework during its inquiry into the State's public finance practices and legislation. The Committee reported to Parliament on the results of the Inquiry in June 2009 and included recommendations in its report for the inclusion of outcomes in annual performance reports of all public sector entities.<sup>94</sup>

The Auditor-General has also advocated in several reports over the years to Parliament an outcomes-based framework for performance reporting in Victoria.<sup>95</sup> These reports have included an assessment of the government's progress in developing its *Performance Management and Reporting Framework* following the release of *Growing Victoria Together*. They also identify key areas for improvement in public sector performance reporting including the need for agencies to extend reporting beyond outputs to answer the question 'have objectives been met?'<sup>96</sup>

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<sup>92</sup> SPublic Accounts and Estimates Committee, *Report on the 2007-08 Budget Estimates – Part Three*, September 2007, pp.119-120, and Victorian Government, *Response to the 2007-08 Budget Estimates – Part Three*, March 2008, p.21

<sup>93</sup> Department of Treasury and Finance, *public finance in Victoria: Practices and Legislation*, discussion paper, October 2008

<sup>94</sup> Public Accounts and Estimates Committee, *New Directions in Accountability: Inquiry into Victoria's Public Finance Practices and Legislation*, June 2009, p.73

<sup>95</sup> Victorian Auditor-General's Office, *Departmental performance management and reporting*, November 2001, *Performance management and reporting: Progress report and a case study*, April 2003, *Parliamentary Appropriations: Output Measures*, November 2007 and *Performance Reporting in Local Government*, June 2008

<sup>96</sup> Victorian Auditor-General's Office, *Submission on the Inquiry into Victoria's public finance practices and legislation*, August 2008, p.8



The Committee considers the accountability developments under the Commonwealth's funding framework complement its own findings on performance reporting and those of other parties, as summarised above, communicated to Parliament in recent years. With all states progressing during 2009 through a period of transition and working with the COAG Reform Council on methodologies and approaches, the Committee views the current position in Victoria as ideal for the establishment of a common performance management and reporting framework covering both budget-funded and other public sector agencies.

Factors pointing to the benefit of uniform principles underpinning performance management and reporting across public sector agencies in Victoria include:

- the information needs of both the Commonwealth and Victorian Parliaments relating to outcomes-based public accountability and strong transparency in reporting would be identical, irrespective of the source of funding;
- the likelihood of compatibility of objectives and outcomes developed under the Commonwealth's funding models with those formulated by the State for delivery of its own programs and services;
- clearer management and reporting of outputs and outcomes in areas involving a combination of Commonwealth and State funding – examples include combined funding under various National Partnerships, funding under the Commonwealth's *Building the Education Revolution* which for government schools, as indicated in the Budget Papers, will be used collaboratively with the State's *Victorian Schools Plan*,<sup>97</sup> and the commingling of funding from both governments for particular Victorian Transport Plan initiatives; and
- avoidance of the need for agencies to implement separate management information systems and performance reporting practices based on funding sources – the fragmenting of management and reporting practices would be confusing to Parliament and other users of reported information and an inefficient use of scarce resources within agencies.

The Committee recognises that the central agencies would currently be occupied with the demands of the transition period established by the COAG Reform Council for the development of suitable methodologies and processes to apply to the Commonwealth's new funding framework. The Committee is hopeful that, as part of the transition tasks, the government is also considering the feasibility of using the reforms as the catalyst for introducing a state-wide management and reporting framework built on an outcomes-based public accountability foundation. Such a framework would extend the existing emphasis within reporting requirements for budget-funded agencies on performance against outputs to encompass the degree of alignment between output performance and attainment of outcomes and objectives. Common outcomes-based performance reporting principles could then be applied to all public sector agencies to meet both Commonwealth and State accountability obligations.

The Committee also recognises that the Government's current deliberations in this area may well include consideration of the nature and form of its future reporting to the Victorian Parliament, as well as to the relevant Commonwealth bodies, on its performance in the management of Commonwealth funds.

The following recommendations of the Committee therefore reflect its awareness that the Government may be contemplating changes to its own operations that extend beyond the boundaries of the Commonwealth's reform actions. The recommendations are therefore designed to encourage and add momentum to the government's evaluative work in this area.

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<sup>97</sup> Department of Treasury and Finance, Budget Paper No. 4, 2009-10 Statement of Finances, May 2009, p.212

- Recommendation 1:**                      **The Government draw on its transitional work underway in preparing for the accountability obligations under the Commonwealth’s new funding framework to formulate a state-wide outcomes-based performance management and reporting system.**
- Recommendation 2:**                      **Performance reporting to the Victorian Parliament by all public sector agencies for both State and Commonwealth funded programs and services be based on uniform outcomes-focussed reporting principles.**
- Recommendation 3:**                      **The Government present to Parliament an annual consolidated report identifying Victoria’s performance against objectives, outcomes, output targets and milestones established under the Commonwealth’s federal financial framework.**