

SUBMISSION NO. 10 
Inquiry into National Funding Agreements



Treasurer

Mr Rob Oakeshott MP
Chair
Joint Committee of Public Accounts and Audit
PO Box 6021
Parliament House
Canberra ACT 2600

Contact: Scott Wheeler
Telephone: (02) 9228 3803
Our Reference:
Your Reference:

23 MAY 2011

Rob
Dear Mr Oakeshott,

The NSW Government is pleased to make a submission to the Inquiry into National Funding Agreements, and thanks the Secretariat for the extension granted for the submission.

Please find attached the NSW Government submission, which has been prepared after consultation across Government to ensure issues from a range of portfolios and the varied types of funding agreements are captured.

If any further information is required about this submission, the appropriate contact officer is Mr Scott Wheeler, Director, National Reform Branch, NSW Treasury, ph: (02) 9228 3803 or email:

Thank you again for the opportunity to make this submission. I look forward to seeing the Committee's findings in due course.

Yours sincerely

THE HON MIKE BAIRD MP
Treasurer

**NEW SOUTH WALES GOVERNMENT SUBMISSION TO THE
JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT**

The NSW Government welcomes the Committee's inquiry into the operation of funding agreements between the Commonwealth and State and Territory Governments, including the National Agreements entered into under the Intergovernmental Agreement on Federal Financial Relations (IGAFFR).

This submission has been drafted after consultation across the NSW Government to identify key issues that NSW seeks to bring to the Committee's attention.

The term 'States' is used in this submission in reference to both States and Territories.

The key issues raised by the NSW Government in this submission are:

- National funding arrangements that allow the States to determine their own priorities have many advantages over a more centralised, prescriptive approach.
- The changing dynamics of grants, brought about by COAG in 2008 through the IGAFFR, are considered a positive step in Commonwealth-State relations due to the increased focus on outcomes and increased public accountability.
- Conceptually the IGAFFR framework is sound. However, there is scope to improve its implementation, in particular to achieve:
 - a genuine focus on outcomes;
 - an improved performance reporting framework;
 - clear specification of roles and responsibilities between the Commonwealth and States;
 - funding certainty (particularly in relation to the expiry of National Partnership Agreements); and
 - reduced administration and reporting burden.
- NSW considers that work currently underway to implement the recommendations of the Heads of Treasuries' Review of National Agreements, National Partnerships and Implementation Plans should be completed, as a matter of urgency. Any additional recommendations (arising from the current inquiry) should be mindful of this existing work.
- The Commonwealth and the States should jointly investigate opportunities to streamline performance reporting arrangements.
- NSW considers that the current level of scrutiny of funding agreements, including through the NSW Auditor-General's reports to Parliament, is appropriate. The addition of another layer of scrutiny is not required.
- The recent endorsement by the Ministerial Council for Federal Financial Relations of a review into the distribution of GST revenue between the States is welcome.

Term of Reference -

The changing dynamics of grants to states and territories, the types of grants that are made and the principles, agreements and legislation governing these grants.

The Intergovernmental Agreement on Federal Financial Relations (IGAFFR) agreed at COAG in 2008 represented a significant change to Commonwealth-State relations.

The IGAFFR brought about a rationalisation of Specific Purpose Payments, and a move away from Commonwealth input prescriptions on service delivery by the States, with the aim of providing States with increased flexibility in the way they deliver services.

The objective of the IGAFFR is the improvement of the well-being of all Australians through:

- collaborative working arrangements, including clearly defined roles and responsibilities and fair and sustainable financial arrangements, to facilitate a focus by Parties on long term policy development and enhanced government service delivery;
- 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, rather than input controls;
- reduced administrative and compliance overheads; and
- stronger incentives to implement economic and social reforms.

In essence the Commonwealth and States agreed to achieve high level objectives and outcomes, but it is up to States to choose how to deliver these.

All intergovernmental transfers, other than Commonwealth own-purpose expenses (COPEs) used to fund Commonwealth programs and some payments made 'through' the States to other bodies, are subject to the IGAFFR.

Under the IGAFFR new types of agreements were developed between the Commonwealth and the States and Territories:

- National Agreements (NAs) are agreements which define high level objectives, outcomes, outputs and performance indicators, and clarify roles and responsibilities to guide the Commonwealth and States in service delivery across key service sectors. NAs are enduring agreements subject to periodic review. NAs exist for: health, education, skills and workforce development, disability services, affordable housing and Indigenous reform.
- National Partnerships (NPs) are funding agreements which support the delivery of specific projects, facilitate reforms and/or reward States that deliver on national reforms or achieve service delivery improvements. NPs are designed to be time limited.

In addition to NAs and NPs identified above, the IGAFFR provides a governance structure for general revenue assistance to the States (including GST) and COPEs contributing toward collaborative policy reforms such as in indigenous reform. There are also some Commonwealth payments made through the States such as local government financial assistance grants and Commonwealth assistance to non-government schools.

The COAG Reform Council (CRC) was established by COAG to strengthen public accountability of the performance of governments through independent and evidence-based monitoring, assessment and reporting. The CRC reports directly to COAG on reforms of national significance that require cooperative action by Australian governments.

The CRC is responsible for reporting on the performance of the Commonwealth and States in achieving the outcomes and performance benchmarks specified in the six NAs.

The CRC also reports to COAG on the performance of governments under various NPs with reward payments. The CRC independently assesses jurisdictions' performance in achieving agreed benchmarks and targets and the Commonwealth uses this assessment to determine the amount of reward funding to be paid to jurisdictions. The reporting framework meets the outcome-focussed reporting requirements of both Commonwealth and State governments under the IGAFRR.

While this submission has largely been prepared with the major NAs and NPs in mind, the issues raised are relevant to any transfer of funds between the Commonwealth and the States which are governed by a formal agreement.

Overall, the changing dynamics of grants brought about by COAG in 2008, through the IGAFRR, are considered a positive step in Commonwealth-State relations due to the increased focus on outcomes and increased public accountability. Conceptually, the principles of the IGAFRR are sound, however there is significant opportunity to improve the implementation of these arrangements.

Term of Reference –

The extent to which the current systems for funding agreements satisfy the requirements of all levels of government, and any suggestions for changes to the process.

Commonwealth Government payments to NSW are critical to the NSW Government's capacity to provide appropriate levels of service delivery for the people of NSW. The very significant contribution that these payments make to total NSW Government revenue reflects the current mismatch between NSW's substantial service delivery responsibilities and its limited own-source revenue capacity.

In 2009-10 the Australian Government accounted for around 68% of own-source revenue raised by all levels of government, but was responsible for only 53% of government own-purpose spending. Payments made under the IGAFRR to NSW comprise 45.1% of total NSW revenue in 2010-11. GST payments contribute over half (56%) of the total composition of Commonwealth payments to NSW. Payments under NAs and NPs account for almost all of the remainder (27% and 17% by NAs and NPs respectively).

The IGAFRR provides a framework in which NSW Government requirements can be satisfied provided:

- There is fairer distribution of GST payments among the States; and
- Issues associated with the implementation of the IGAFRR are addressed.

GST REVENUE PAYMENTS

Horizontal fiscal equalisation (HFE) is the principle guiding the distribution of GST revenue among the States. GST revenue payments account for the majority of federal general revenue payments to the States and Territories (\$44.5 billion in 2009-10).

Broadly, HFE seeks to equalise States' capacities to provide services to their residents. It seeks to do so by adjusting the payment of GST revenue to the States for the difficulties that

States face in raising their own revenue or providing services to their populations. States' difficulties are those non-policy factors of demography, geography or economic environment that may reduce a State's ability to raise its own revenue or increase a State's costs of service delivery relative to other States.

While most federations have some form of fiscal redistribution designed to assist the fiscally weaker States in providing services, other comparable federations do not attempt to equalise as fully or undertake as comprehensive a system of fiscal equalisation as Australia.

The consequences of Australia's HFE are: large cross-subsidies paid by the larger to the smaller States; a complex and data intensive method of equalisation yet one which still relies on large measures of judgement; and a method of equalisation which potentially has significant adverse impacts on resource allocation in Australia.

Since the GST was introduced, NSW and Victoria have largely carried the burden of cross subsidising the smaller States under HFE. Queensland and Western Australia have been more recent contributors, largely reflecting the trends in revenue raising capacities from the middle of the decade, particularly the rapid growth in revenue from mining royalties. These trends are evident whether the cross-subsidies are measured against a GST distribution based on state population shares or shares of GST revenue generated.

The HFE system is designed to even out as much as possible the relative advantages/disadvantages between the States. Above average revenues may be partially equalised away and this can reduce the incentive to improve efficiency. There is a disincentive against expanding the revenue base, either through increasing activity in the State or through undertaking additional expenditure to fund economic development, as some of the increased revenue capacity will be equalised away through lower GST revenue.

Specific efficiency costs of HFE include: i) reduced incentives for resources (including people) to move from low productivity locations to high productivity locations; and ii) the risk of States with higher grants overspending on public provided goods and services relative to underlying community demand.

NSW has long argued for reform of the current system for distributing GST revenue payments between the States. The need to support States and Territories, such as South Australia, Tasmania and the Northern Territory, with relatively low populations and/or economic bases is acknowledged. However, NSW considers that this can be done with a much simpler and more transparent method than currently used.

The recent endorsement by the Ministerial Council for Federal Financial Relations of a review into the distribution of GST revenue between the States is welcome.

SPECIFIC PURPOSE GRANTS

The underlying reform principles of the IGAFRR provide a strong foundation for progressing COAG's reform agenda and achieving better policy and service delivery outcomes for all Australians.

Characteristics of the framework valued by NSW are:

- The opportunity for collaborative policy development in areas of national interest. It is the NSW Government's view that reforms born out of a shared Commonwealth-State policy vision and supported by a well developed business case have the highest rates of success. The value adding role the Commonwealth can play by supporting States to work with stakeholders in reform areas considered contentious is also acknowledged.
- That the commitments of both the Commonwealth and State governments are embodied in a single agreement, to which a single accountability framework applies. For example,

the National Disability Agreement covers employment services and income support which are Commonwealth Government responsibilities in addition to State responsibility areas. Predecessor national agreements only captured those disability services provided by the States. The Commonwealth's clear public statement of their responsibility to provide these services and, in turn, to have their performance submitted to the same assessment and reporting process that applies to State services is welcome.

- The enduring nature of the NAs. The continuous nature of these agreements (with periodic review) avoids the excessive administrative effort associated with the predecessor national agreements which were typically for fixed terms and therefore required full renegotiation every few years.
- The opportunity to achieve better value for money by leveraging existing State infrastructure and systems (eg tendering processes, supplier and stakeholder networks and quality assurance systems). This benefit even applies where funding for Commonwealth own-purposes is made 'through' States – with the added advantages of avoiding duplication and providing the opportunity for alignment of related Commonwealth and State programs.

Notwithstanding the conceptual strengths of the IGAFRR framework, NSW has a number of significant concerns regarding the manner in which the IGAFRR has been implemented to date, discussed below.

Outcomes Focus

The IGAFRR is clear that there should be a "rigorous focus on the achievement of outcomes", with the performance reporting framework focussing on "the achievement of results". The IGAFRR also states that NAs should "not include financial or other input controls imposed on service delivery by the States".

If achievement is measured in terms of outcomes, 'how' States go about delivering services or reforms becomes a matter for them and a matter for which they are accountable. A focus on outcomes also recognises that States have a long history of service delivery, it is their area of experience and expertise, and it is what their citizens expect – regardless of the source of funds.

However, it is acknowledged that a true outcomes focus is not always easily realised. Barriers include the sometimes long lag time between implementing reforms and realising outcomes (often longer than a single term of government), as well as problems with the performance monitoring framework (discussed following). These factors have often resulted in the Commonwealth defaulting to requiring detailed reporting against outputs (ie service levels), or in some cases, inputs.

An outcomes focus has been hardest to achieve in implementation planning. Typically this manifests as excessively detailed up-front Implementation Plans (IPs) or agreements which, due to their prescriptive nature, need to be updated regularly and create unnecessary administrative burden. Frequent and detailed reporting requirements acquitting for activity, that do little to enhance public accountability, are also often imposed by the Commonwealth.

Securing a focus on outcomes, as opposed to prescriptive NPs and IPs with onerous output/input reporting, supports the delivery of long term reforms and avoids diverting resources from service delivery to administration. This requires a stronger commitment on the part of all governments to have a sharper focus on outcomes during the negotiation of NPs and IPs coupled with an improved performance monitoring framework.

Performance Monitoring Framework

A sound performance monitoring framework is fundamental to securing a focus on outcomes and meeting public accountability objectives. NSW considers the key issues that need to be addressed with regard to the performance monitoring framework are:

- The conceptual adequacy of agreements. Performance indicators should be well connected to, and provide comprehensive coverage of, the high level objectives and outcomes of agreements. Currently this is not the case for many NAs and NPs.
- Data limitations. These include: data that are poor quality, unreliable or infrequent; data that are not comparable over time or between jurisdictions; and data that cannot be sufficiently disaggregated by Indigenous or socio-economic status where appropriate.

By way of example, the National Healthcare Agreement contains 70 performance indicators. As a package the indicators do, in theory, provide the opportunity for a more rounded view of the performance of the health system than ever before. In reality, however, 70 indicators is too many to be sustainable and meaningful. This is compounded by a lack of valid data. As a result, in 2010 the CRC was only able to meaningfully report against 25 of the 70 indicators in its baseline report on the National Healthcare Agreement. It will be possible to provide data for more of the indicators by making changes to administrative data sets and surveys. However, the costs of achieving meaningful reporting against all 70 current indicators cannot be justified. In addition, improved data capture, significant rationalisation of the indicators is necessary. Fewer, more meaningful indicators across the spectrum of agreements will facilitate a sharper focus on what really matters, and make it easier for the public to understand the performance of their governments.

The NSW Government is committed to vastly improving the performance framework. To avoid the mistakes of the past it will be important that future work on the performance framework combines the expertise of both data and policy specialists.

Roles and Responsibilities

Clarification of roles and responsibilities in NAs and NPs has been inadequate to date. Across the NAs, a total of 63 responsibilities are defined as 'shared', with just 45 listed as Commonwealth and 36 listed as State responsibilities. In many cases the shared roles and responsibilities are broad, which reduces the potential for NAs to achieve the key IGAFRR objective of improving public accountability for outcomes.

Without clear roles and responsibilities, both levels of government will be concerned about accountability and seek to manage risks accordingly (including via requirements for detailed reporting requirements acquitting for activity).

These accountability issues should be ameliorated by reviewing existing agreements, with accountability strengthened in the future by stronger gate-keeping by central agencies during negotiation processes, as well as capacity building among persons with primary carriage of negotiations (including by publishing guidance materials).

Related to clarity associated with roles and responsibilities, is the need to ensure the most appropriate level of government is involved in the agreement. In some instances, where States have been by-passed in favour of agreements with non-government organisations or local government, opportunities have been lost for leveraged funding, services duplicated, and strategic partnerships with stakeholders missed. More consultation and collaboration between the Commonwealth and States would ameliorate these lost opportunities.

Funding Certainty

States can only commit to and deliver reforms if the requisite funding is assured. It is important that funding is settled before agreements are signed. However, to-date, this has not always been the case. For example, the National Partnership Agreement on Energy Efficiency provided minimal upfront funding but noted that overall funding and cost-sharing arrangements were to be considered through normal budgetary processes. Consequently, implementation of the measures and programs of this NP has been difficult due to funding uncertainty.

Once agreements are signed, States need to be able to proceed with implementation, confident that the goalposts will not subsequently be moved. This is not always the case; there are instances where milestones have been changed during the life of the agreement, funding has been withheld for reasons outside the agreement; or funding has been significantly delayed. It is important that the Commonwealth not unilaterally change the milestones, funding and reporting conditions agreed between signatories to agreements.

The States also need to be confident that, where reforms may impose ongoing costs, for example beyond the life of an NP, continuation or otherwise of the funding will be properly considered through an agreed process, well before the agreement expires. Jurisdictions need early advice from the Commonwealth about future financing intentions in order to make any necessary adjustments to services.

The IGAFRR provides that the Ministerial Council for Federal Financial Relations (MCFRR) has the role of “assessing whether expiring National Partnerships should be converted into existing or new National Special Purpose Payments (SPPs) or general revenue assistance” (Schedule A, Clause A4 (b) [vii]). However, ultimately funding for the continuation of NPs is provided by the Commonwealth, which places an obligation on the Commonwealth to agree and abide by timely and transparent processes in this regard.

With regard to expiring agreements, a more collaborative process to determine future funding, which considers policy, financial risks, and the success to date of any agreement, is essential.

Administrative and Reporting Burden

Excessive administration and reporting risks diverting resources from service and reform delivery.

There is scope to reduce the time and resources needed to administer grants under the IGAFRR. The consolidation of Commonwealth specific purpose funding under the IGAFRR has, to date, meant that grants of any size or type can only be made by negotiating a full National Partnership Agreement. In the past, grants to support relatively small, straightforward initiatives were made on the basis of a simple exchange of letters, avoiding lengthy and resource intensive negotiation processes. NSW considers that agreements made under the IGAFRR should be fit-for-purpose. Different types of agreements should be used for different types of reform (eg legislative change, capital works projects, boosting existing services etc.).

The proliferation of NPs is also of concern to NSW. A key issue is that the aggregate reporting burden can become disproportionate relative to the funding involved – this is a particular risk where there are a large number of small NPs.

There are two types of reporting under the IGAFRR: a) assessment of the performance of governments made by the COAG Reform Council (CRC) and b) milestone/progress reporting by States to the Commonwealth and other bodies. Issues relevant to CRC reporting are discussed under the following Term of Reference.

Most NPs (or associated Implementation Plans) require line agencies to furnish milestone and/or progress reports to the relevant Commonwealth line agency. These may or may not be linked to the release of milestone/progress payments to the States. The frequency of reporting varies among agreements from annual to monthly. There are also ad hoc requests by the Commonwealth which can be difficult to accommodate, especially where the information sought is detailed, not otherwise collated in the requested manner and/or is sought at short notice. In some areas, there are also separate reporting requirements on related issues to different bodies. The large aggregate burden imposed by these requirements and requests is of concern. In addition to the large number of reports, the level of detail expected is also of concern to NSW.

It is the NSW Government's view that, for existing agreements, reporting should be as agreed – not subject to change over time or in response to special requests. In negotiating future agreements, reporting requirements should be designed to fulfil public accountability needs as opposed to status updates.

Conceptually the IGAFRR framework is sound. There is however scope to improve its implementation, in particular to achieve:

- **a genuine focus on outcomes;**
- **an improved performance reporting framework;**
- **clear specification of roles and responsibilities between the Commonwealth and States;**
- **funding certainty (particularly in relation to the expiry of NPs); and**
- **reduced administration and reporting burden.**

Many of these IGAFRR implementation issues have already been considered by governments. In December 2009 COAG agreed that Heads of Treasuries (HoTs) would undertake a review of NAs, NPs and IPs (the HoTs' Review). The Review, which was finalised by HoTs in December 2010 reaffirmed the commitment of all governments to the IGAFRR and identified improvements to sharpen the focus on results, to improve responsiveness, and to enhance public accountability by more clearly allocating responsibilities between jurisdictions and reporting performance through the CRC. It made 43 key and related recommendations which, if implemented, should address the majority of the implementation issues identified.

On 13 February 2011 COAG agreed to establish a working group, led by Senior Officials from First Ministers' and Treasury agencies, to take forward key and related recommendations arising from the HoTs' Review, consider improvements to the governance and performance reporting framework, and to tackle deficiencies in the design of current agreements identified by the HoTs' Review and reports of the CRC.

NSW considers that work currently underway to implement the recommendations of the HoTs' Review should be completed, as a matter of urgency. Any additional recommendations (arising from the current inquiry) should be mindful of this existing work.

Term of Reference-

The need to balance the flexibility to allow states and territories to determine their own priorities with mechanisms for monitoring accountability and ensuring that the objectives of funding agreements are being achieved, noting the role of the COAG Reform Council

STATE GOVERNMENT SOVEREIGNTY

The IGAFRR (cl. 6) expressly recognises the primacy of State responsibility for service delivery in those service sectors covered by the NAs under the IGAFRR (health, education, housing, skills and workforce development and disabilities) in the following terms:

“The Parties recognise that the States and Territories have primary responsibility for many of the service sectors covered by the National Agreements appended as schedules to this Agreement. The primacy of State and Territory responsibility in the delivery of services in these sectors is implicit in the Constitution of the Commonwealth of Australia and it is not the intention of the Parties to alter the Constitutional responsibility or accountability of the Commonwealth, States and Territories.”

The NSW Government acknowledges the benefits of a collaborative approach, however as sovereign governments it is appropriate that States have the flexibility to determine their own priorities.

The States make significant own purpose investments in the service sectors covered by the various agreements, which contribute to the outcomes therein. In many cases the Commonwealth is not the majority funder and should not, therefore, expect to influence program design and delivery. By way of example, Commonwealth payments to NSW under the National Disability Agreement constitute just 18% of the total funds expended by NSW on services for people with disability.

In some respects the Commonwealth Government's approach to negotiating agreements under the IGAFRR has shown appropriate regard for the fact that on both sides of the agreement are sovereign governments each acting in the interests of the same people. In other respects, however, the approach to negotiation of NPs and IPs could be improved. The Commonwealth has adopted a process whereby NPs and IPs are developed and largely finalised within the Commonwealth prior to consultation with the States. A more inclusive process would allow for agreements to better reflect State contexts and priorities. In addition, in some instances only a few days have been provided for States to consider the implications of agreements. A less hurried process to allow a fuller analysis would be welcome and avoid past problems (such as agreed outcomes that cannot be delivered within the allocated funding). Citizens would expect that their governments have had sufficient time to analyse agreements, to ensure optimal arrangements are made.

THE ADVANTAGES OF FLEXIBILITY

In addition to respecting States' sovereignty, national funding arrangements that allow the States to determine their own priorities have many advantages over a more centralised, prescriptive approach. These advantages include:

- Accommodating regional difference. Australia is a geographically large and diverse country. A one-size-fits-all approach to service delivery would fail to meet local needs and priorities.

The Remote Indigenous Housing National Partnership is an example of an initiative where better value for money may have been achieved had States been given the flexibility to address local needs. The terms of the agreement restricts application of the funding to building homes in remote and very remote areas. However the greatest need for new housing for Indigenous persons in NSW is in urban and regional areas, and the NP funding may have been better invested in those areas.
- Leveraging implementation expertise. As the primary service providers, the States bring a wealth of knowledge and experience to reform planning and rollout.
- Minimising risk. The innovation and experimentation required to make quantum leaps forward carries inherent risk. This risk is minimised if individual States 'trial' reforms before they are implemented by others.
- Encouraging innovation. Competition and comparison among States supports continuous improvement.
- Avoids lengthy 'contract' negotiations. Prescriptive agreements tend to be lengthy documents which take longer to negotiate.

ACCOUNTABILITY FOR ACHIEVEMENT

Flexibility in service delivery need not compromise accountability for achievement, provided that there is (as discussed earlier) a genuine focus on outcomes, clarity of roles among jurisdictions and a sound performance monitoring framework.

However, despite there being room for improvement on each of these fronts, NSW considers that a high level of transparency and public accountability has already been achieved at both the 'service provider' and 'sector' levels. The NSW Government is absolutely committed to maintaining or improving this position.

At the service provider-level, the *My School* and *My Hospitals* websites provide unprecedented transparency in the education and health sectors. The *My School* website not only provides information about students' performance in national numeracy and literacy testing but also financial information about each school. *My Hospitals* provides information about bed numbers, patient admissions and hospital accreditation, as well as the types of specialised services each hospital provides. It also provides comparisons to national public hospital performance statistics on waiting times for elective surgery and emergency department care.

Sector-level (summary) performance reporting is also essential to achieving appropriate levels of transparency and accountability. There is a vast amount of activity at this level including:

- The Productivity Commission's Review of Government Service Provision; and
- The work of the Australian Institute of Health and Welfare (AIHW), Australian Curriculum Assessment and Reporting Authority (ACARA) and other independent authorities that collect and report information about various service sectors.

In 2009, COAG added to such measures with the establishment of the CRC.

The NSW Government supports timely and independent assessment of progress toward outcomes under the NAs and NPs and other agreements. However, there are a number of issues with the current arrangements:

- The sheer volume of reporting may reduce, rather than enhance public accountability. It is questionable whether a member of the public would be able to use and understand the many reports and websites that have been established to enhance public accountability.
- Publication of already published or 'old' data. For example, the data published by the CRC has in most cases already been published by the Productivity Commission, AIHW or others.
- The questionable value of annual NA performance reporting - given the generally medium/long-term horizon for realising reform outcomes and the realities of data availability (new data for many NA indicators is from surveys conducted every 3-5 years). Less frequent reporting, potentially biennial or triennial, may be appropriate.
- The long time delay between when jurisdictions achieve reward targets and the CRC completes NP performance assessments. This is not a comment on the efficiency of the CRC. Rather it is a criticism of the currently lengthy process that involves the States submitting their data to the Productivity Commission either directly or via the relevant Commonwealth line agency (at which point the achievement, or otherwise, of targets is generally clear); the Steering Committee for the Review of Government Service Provision consolidating the data and providing it to the CRC; and finally the CRC's assessment period.
- The timing of CRC recommendations to improve the performance reporting frameworks of NPs. The IGAFRR expressly provides for the CRC to advise COAG on where changes might be made to the performance reporting framework. This provides for continuous improvement in performance reporting, however, it can be difficult and disruptive to make significant changes to NPs midway through their implementation.

There are a range of viable options for streamlining performance reporting to address the issues identified above - including revising the content of reports to reduce duplication and reconsidering the frequency of CRC and other national reports.

The Commonwealth and the States should jointly investigate opportunities to streamline performance reporting arrangements.

Term of Reference-

The adequacy of parliamentary scrutiny of funding agreements, noting that such agreements are typically negotiated at executive-to-executive level.

While funding agreements under the IGAFRR are negotiated at an executive-to-executive level, they must be signed off by Heads of Governments or delegated Ministers. NSW considers this entails an appropriate level of scrutiny.

There is also significant public scrutiny of the content of agreements under the IGAFRR, as well as each jurisdiction's performance compared to both the jurisdiction-specific targets and other jurisdictions, given that:

- Once agreements are signed, they are publicly available on the Federal Financial Relations website which hosts copies of all current and superseded agreements, guidelines for new agreements and Commonwealth Federal Finances Circulars. The website also provides information on the overall funding framework, the performance reporting framework and accountabilities.
- The CRC releases its performance reports on NAs and reward NPs under the IGAFRR within one month of delivering the reports to COAG. The CRC provides commentary on these reports to major media outlets at the time of their release, and the reports are also available online.

In regards to both GST funding and funding for specific purposes, all Governments are subjected to their own parliamentary scrutiny processes. In NSW this includes the activities of the NSW Auditor-General as well as annual Budget Estimates hearings.

The NSW Auditor-General undertakes:

- Financial audits – which provide independent opinions on NSW government agencies' financial reports. Financial report audits are also undertaken each year on the Total State Sector Accounts and the Statement of the Budget Result.
- Performance audits – which build on financial audits by reviewing whether tax payers' money is spent efficiently, effectively, economically and in accordance with the law.

A report on each audit is provided to the NSW Parliament.

State and Territory Treasurers also provide annual reports to the Commonwealth Treasurer acquitting expenditure of NA and NP funds.

The addition of another layer of scrutiny by the Commonwealth within States is not required, nor appropriate. A key recommendation in the HoTs' Review of National Agreements and National Partnerships noted advice from the Australian National Audit Office that, if implemented fully and correctly, the IGA and associated federal financial relations framework provide the overarching policy framework against which Commonwealth portfolio agencies discharge their obligations under the *Financial Management and Accountability Act* and regulations.

In considering the appropriate roles for Commonwealth and State Auditors-General and Parliaments in relation to payments to or through the States under intergovernmental agreements, NSW considers that the principle of subsidiarity should apply. That is, responsibility and accountability for functions should rest with the lowest level of government practicable.

NSW considers that the current level of scrutiny of funding agreements, including through the NSW Auditor-General's reports to Parliament, is appropriate. The addition of another layer of scrutiny is not required.