

NATIONAL PARTNERSHIP AGREEMENT ON ASSET RECYCLING

Council of
Australian
Governments

An agreement between

- the **Commonwealth of Australia** and
- the **States and Territories**, being:
 - New South Wales
 - Victoria
 - Queensland
 - Western Australia
 - South Australia
 - Tasmania
 - the Australian Capital Territory
 - the Northern Territory

This Agreement will assist in addressing State and Territory funding constraints that limit their ability to invest in additional economic infrastructure. This Agreement will contribute to increased investment in productivity-enhancing infrastructure by encouraging the sale of State-owned assets to unlock funds and recycle the capital into additional infrastructure.

National Partnership Agreement on Asset Recycling

INTERGOVERNMENTAL AGREEMENT ON FEDERAL FINANCIAL RELATIONS

PRELIMINARIES

1. This National Partnership Agreement (the Agreement) is created subject to the provisions of the Intergovernmental Agreement on Federal Financial Relations (IGA FFR) and should be read in conjunction with that Agreement and its Schedules, which provide information in relation to performance reporting and payment arrangements under the IGA FFR.
2. In entering this Agreement, the Commonwealth of Australia (the Commonwealth) and the States and Territories (the States) recognise that they have a mutual interest in increasing infrastructure investment that supports economic growth and productivity and need to work together to achieve that objective.
3. This Agreement will assist in addressing State and Territory funding constraints that limit their ability to invest in additional economic infrastructure. It will contribute to increased investment in productivity-enhancing infrastructure by encouraging the sale of State-owned assets to unlock funds and recycle the capital into additional infrastructure.
4. Under this Agreement, references to the sale of an asset may include alternative ways of unlocking funds from State-owned assets as agreed between the relevant Parties, including long-term leasing.

PART 1 – FORMALITIES

Parties to this Agreement

5. This Agreement is between the Commonwealth and the States.

Term of the Agreement

6. This Agreement will commence as soon as the Commonwealth and one other Party sign the Agreement, and will expire on 30 June 2019, or on final performance reporting and processing of final payments against milestones. This Agreement may be terminated earlier or extended as agreed in writing by the Parties.

PART 2 – OBJECTIVES, OUTCOMES AND OUTPUTS

Objectives

7. Those Parties who wish to, will work together to unlock funds from existing State-owned assets to invest in additional infrastructure that will support economic growth and enhance productivity.

Outcomes

8. This Agreement will facilitate achievement of the following outcomes:
 - (a) reduced funding constraints for additional infrastructure investment;
 - (b) increased economic activity, employment and improved living standards; and
 - (c) enhanced productive capacity of the economy.

Outputs

9. The objectives and outcomes of this Agreement will be achieved by:
 - (a) the sale of State-owned assets; and
 - (b) increased investment in additional economic productive infrastructure.

PART 3 – ROLES AND RESPONSIBILITIES OF EACH PARTY

10. To realise the objectives and commitments in this Agreement, each Party has specific roles and responsibilities, as outlined below.

Role of the Commonwealth

11. The Commonwealth agrees to be accountable for the following roles and responsibilities:
 - (a) assessing and determining the eligibility for payments to the States, in consultation with the States and in accordance with the eligibility criteria outlined in this Agreement;
 - (b) providing a financial contribution to the States to support the implementation of this Agreement;
 - (c) coordinating the development and revision of the Schedules to this Agreement, in partnership with the States;
 - (d) in accordance with the Fair Work (Building Industry) Act 2012, ensuring that financial contributions to a building project or projects as defined under the Fair Work (Building Industry – Accreditation Scheme) Regulations 2005, are only made where a builder or builders accredited under the Australian Government Building and Construction Occupational Health and Safety Accreditation Scheme is contracted; and
 - (e) ensuring that compliance with the Building Code 2013 is a condition of Commonwealth Government funding.

Role of the States

12. The States agree to be accountable for the following roles and responsibilities:
 - (a) delivering asset sales and reinvesting in additional infrastructure under this Agreement;
 - (b) developing and revising Schedules to this Agreement, in partnership with the Commonwealth;
 - (c) advising the Commonwealth of commercially sensitive information contained in the Schedules to this Agreement;

- (d) reporting on the delivery of outcomes and outputs as set out in Part 5 – Performance Monitoring and Reporting of this Agreement;
- (e) ensuring that only a builder or builders accredited under the Australian Government Building and Construction Occupational Health and Safety Accreditation Scheme is contracted, and providing the necessary assurances to the Commonwealth; and
- (f) ensuring that compliance with the Building Code 2013 is made a condition of tender for all contractors and subcontractors who tender for the work, and providing the necessary assurances to the Commonwealth.

Shared roles and responsibilities

13. The Commonwealth and the States will:

- (a) participate in consultations as appropriate regarding the implementation of this Agreement; and
- (b) meet the requirements of Schedule E, Clause 26 of the IGA FFR, by ensuring that prior agreement is reached on the nature and content of any events, announcements, promotional material or publicity relating to activities under this Agreement, and that the roles of both Parties will be acknowledged and recognised appropriately.

PART 4 – FINANCIAL ARRANGEMENTS

Financial contributions

- 14. The Commonwealth's financial contributions will be managed as an Asset Recycling Pool (the Pool) from which the Commonwealth will allocate financial contributions to the States over the 2014-15 to 2018-19 period. Financial contributions will be additional to existing Commonwealth infrastructure funding to the States.
- 15. Funding from the Pool will be allocated on a first-come, first-served basis. States have up to two years from commencement of the Agreement to agree with the Commonwealth the specific assets to be sold and the additional infrastructure investment which would be supported by funding from the Pool. No new asset divestments and infrastructure projects will be agreed after 30 June 2016. The sale of the asset must be completed and the construction of the additional infrastructure must commence on or before 30 June 2019.
- 16. To be eligible for funding from the Pool, infrastructure projects must:
 - (a) demonstrate a clear net positive benefit;
 - (b) enhance long-term productive capacity of the economy; and
 - (c) where possible, provide for enhanced private sector involvement in both the funding and financing of the infrastructure.
- 17. The Commonwealth will also consider projects that meet long-term economic infrastructure priorities in regional economies.
- 18. The Commonwealth's financial contributions must be spent on the additional infrastructure investment agreed in the relevant Schedule to this Agreement.

19. The total payment for each infrastructure project will be calculated as 15% of the proceeds received by States from the sale of the asset(s) multiplied by the proportion of the proceeds reinvested by the states in additional infrastructure investment.
 - (a) For example, a State sells an asset for \$1 billion and reinvests \$800 million (80%) of the proceeds into new productive infrastructure. The total payment would be 15 % of \$800 million which is \$120 million.
 - (b) The payment may be reduced if the sale of an asset results in a direct cost to the Commonwealth; for example, where the sale of social housing results in an increase in Commonwealth Rent Assistance payments. These details would be specified in the Schedules to this Agreement.
20. Payments will be made in two instalments:
 - (a) The initial payment will be 50% of the estimated total payment referred to in paragraph 19 using the book value of net assets as the estimate for the likely proceeds received by the States. The initial payment will be paid subject to the State's Statement of Assurance demonstrating that Milestone 1 has been met as follows:
 - i. commencement of the tender process or the expression of interest to sell the asset; and
 - ii. commencement of other government processes required ahead of the sale; and
 - iii. commencement of planning and approvals for the additional infrastructure project(s).
 - (b) The final payment, calculated as the total payment minus the initial payment (allowing for an adjustment for the difference between the sale proceeds and the book value, as well as any adjustment required where the sale of an asset results in a direct cost to the Commonwealth) will be paid subject to the State's Statement of Assurance demonstrating that Milestone 2 has been met as follows:
 - i. completion of the sale of the asset; and
 - ii. commencement of construction of the agreed infrastructure project(s).
21. For the purposes of calculating the initial payment, the book value of net asset(s) will be supplied by the State and agreed by the Commonwealth. The Commonwealth will also need to agree the final sale amount supplied by States, and any adjustment that may be needed in the final payment to account for the difference between the book value of the net asset(s) and the final sale proceeds. If for specific assets, the book value is not an appropriate measure, an alternative objective measure may be agreed with the Commonwealth.
22. The Commonwealth's financial contribution to each agreed project will be detailed in the relevant Schedule to this Agreement in accordance with clauses 19 to 21 of this Agreement.
23. If for any reason the asset sale does not proceed, the project does not proceed, or the State decides not to reinvest the proceeds in the agreed infrastructure project(s) in accordance with the relevant Schedule, and/or the State terminates their participation in the Agreement, the State will be required to repay the initial payment, except where the Commonwealth agrees that there are exceptional circumstances.
 - (a) In such cases, the Commonwealth may return the funds to the Pool and reallocate funds to another project or projects under this Agreement.

- (b) In the event that there are no alternative mechanisms for the State to repay the funds, the Commonwealth may recover funding via adjustments to total monthly National Partnership payments which will be made as negative payments under this Agreement.
- 24. States are required to notify the Commonwealth in writing as soon as possible, but no longer than 30 days, after becoming aware that the asset sale cannot be finalised and/or project construction cannot proceed in accordance with the relevant Schedule. States should provide the reasons why the asset sale cannot be finalised and/or project construction cannot proceed, and propose how funds will be repaid.
- 25. States should provide the reasons why the asset sale cannot be finalised and/or project construction cannot proceed, and propose how funds will be repaid.
- 26. The Commonwealth's estimated financial contribution to the operation of this Agreement, including through National Partnership payments to the States paid in accordance with *Schedule D – Payment Arrangements* of the IGA FFR, will be detailed in Attachment A to this Agreement.

Schedules

- 27. Schedules to this Agreement will outline the details of the specific assets to be sold and additional infrastructure projects in each state, and will be agreed in writing between the Commonwealth and the relevant jurisdiction.
- 28. Schedules will include the following information:
 - (a) the specific assets to be sold and infrastructure projects to be supported with funding from the Pool;
 - (b) the proportion of the proceeds from the sale of the net asset(s) that will be reinvested in the agreed infrastructure investment;
 - (c) the specific details of the milestones for each investment in accordance with clause 22; and
 - (d) the associated Commonwealth payments (including any adjustments required in accordance with clause 20 (b)).
- 29. Schedules will be updated by written agreement of the relevant Parties as additional asset sales and infrastructure projects are agreed. Commercially sensitive information will not be published without the agreement of the relevant jurisdiction.

PART 5 – PERFORMANCE MONITORING AND REPORTING

Performance indicators

- 30. Achievement of the objectives and outcomes in this Agreement will be determined with reference to the following performance indicators:
 - (a) the value of the State-owned assets that are sold;
 - (b) the amount of sale proceeds reinvested into additional infrastructure; and
 - (c) the overall value of additional infrastructure constructed in Australia (including Commonwealth, State and private sector contributions).

Performance milestones

31. The States agree to meet the performance milestones as outlined in the relevant Schedule in accordance with clause 20.

Reporting arrangements

32. The States will report against the performance milestones in a Statement of Assurance. A Statement of Assurance is to be furnished to the Commonwealth upon achieving each of the performance milestones, and must:
 - (a) state which of the two milestones has been achieved;
 - (b) be authorised in writing by the Treasurer of the relevant State; and
 - (c) be accepted by the Commonwealth for the associated payment to be made.
33. For Milestone 1, at clause 20(a), the Statement of Assurance will also:
 - (a) provide the book value of the net asset(s);
 - (b) identify the amount to be reinvested in the agreed additional infrastructure investment;
 - (c) list the steps that are required ahead of the sale, such as addressing any regulatory constraints, corporatisation and introducing enabling legislation, and confirm that these have commenced;
 - (d) list the steps that have been taken to commence planning and approvals for the agreed additional infrastructure investment; and
 - (e) provide an indicative timeframe for expected completion of the asset sale, construction commencement and construction completion.
34. For Milestone 2, at clause 20(b), the Statement of Assurance will also:
 - (a) for individual infrastructure investments that have been agreed with the Commonwealth, state the expected cost of the project and the date that construction commenced;
 - (b) for the completion of asset sales, report the date of the asset sale and the final proceeds;
 - (c) report the proportion of the asset sale proceeds used for purposes other than the agreed infrastructure investment and the amount reinvested in the additional infrastructure investment;
 - (d) certify that the full amount of the payment provided by the Commonwealth has been, or will be, invested in the additional infrastructure investment;
 - (e) provide an indicative timeframe for the expected completion of the additional infrastructure construction; and
 - (f) be accompanied by relevant supporting documentation that the State and the Commonwealth deem necessary for the Commonwealth to authorise the associated payment.

PART 6 – GOVERNANCE ARRANGEMENTS

Enforceability of the Agreement

35. The Parties do not intend any of the provisions of this Agreement to be legally enforceable. However, that does not lessen the Parties' commitment to this Agreement.

Review of the Agreement

36. In accordance with Schedule E, Clause 23 of the IGA FFR, this Agreement is time limited. To assess the degree to which the agreed objective and outcomes and/or outputs have been achieved, and inform decisions regarding the appropriate treatment following its expiry, a review of this Agreement will be scheduled to be completed by the Commonwealth approximately 12 months prior to its expiry.

Variation of the Agreement

37. This Agreement, including Attachment A, may be amended at any time by agreement in writing by all the Parties.
38. Variations to the Schedules to this Agreement will be agreed in writing by the relevant Parties.
39. A Party to this Agreement may terminate their participation in the Agreement at any time by notifying all the other Parties in writing.

Delegations

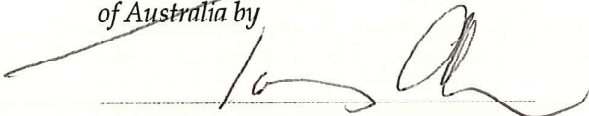
40. The Commonwealth Treasurer, in consultation with relevant portfolio ministers, is authorised to agree and amend Attachment A and any Schedules. The Commonwealth Treasurer is authorised to certify that performance milestones specified under this Agreement have been achieved, so that payments may be made.
41. Respective State Treasurers, in consultation with their relevant portfolio ministers, are authorised to agree and amend Attachment A and relevant Schedules to this Agreement.
42. The Commonwealth Treasurer may delegate the assessment of project-based performance indicators or milestones and the authorisation of related project payments to senior Commonwealth officials, having regard to the financial and policy risks associated with those payments.
43. Respective State Treasurers may delegate the authorisation of Statements of Assurance to senior State officials.

Dispute resolution

44. Any Party may give notice to other Parties of a dispute under this Agreement.
45. Officials of the relevant Parties will attempt to resolve any dispute in the first instance.
46. If a dispute cannot be resolved by officials, it may be escalated to the relevant Ministers and if necessary, the Council on Federal Financial Relations.
47. If a dispute cannot be resolved by the relevant Ministers, it may be referred by a Party to COAG for consideration.

The Parties have confirmed their commitment to this agreement as follows:

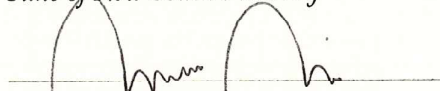
Signed for and on behalf of the Commonwealth of Australia by



The Honourable Tony Abbott MP
Prime Minister of the Commonwealth of Australia

2 May 2014

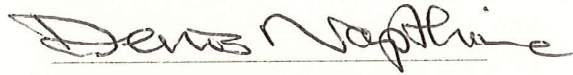
Signed for and on behalf of the State of New South Wales by



The Honourable Mike Baird MP
Premier of the State of New South Wales

2 May 2014

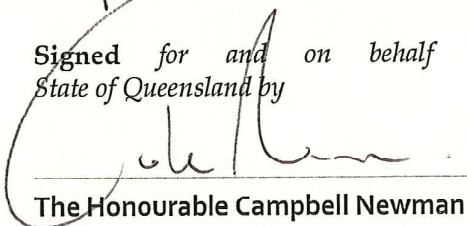
Signed for and on behalf of the State of Victoria by



The Honourable Denis Napthine MLA
Premier of the State of Victoria

2 May 2014

Signed for and on behalf of the State of Queensland by



The Honourable Campbell Newman MP
Premier of the State of Queensland

2 May 2014

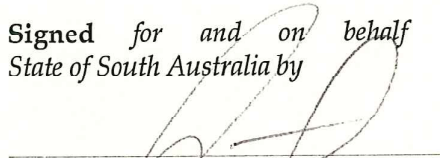
Signed for and on behalf of the State of Western Australia by



The Honourable Colin Barnett MLA
Premier of the State of Western Australia

2 May 2014

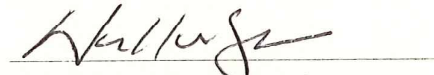
Signed for and on behalf of the State of South Australia by



The Honourable Jay Weatherill MP
Premier of the State of South Australia

2 May 2014

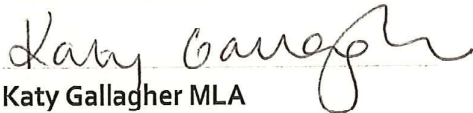
Signed for and on behalf of the State of Tasmania by



The Honourable Will Hodgman MP
Premier of the State of Tasmania

2 May 2014

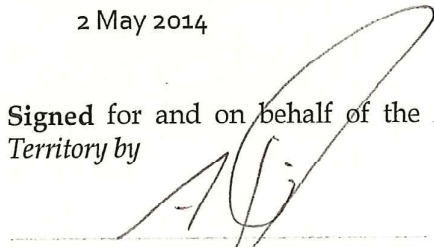
Signed for and on behalf of the Australian Capital Territory by



Katy Gallagher MLA
Chief Minister of the Australian Capital Territory

2 May 2014

Signed for and on behalf of the Northern Territory by



The Honourable Adam Giles MLA
Chief Minister of the Northern Territory

2 May 2014