

Definitions and Institutional Arrangements

INTERGOVERNMENTAL AGREEMENT ON FEDERAL FINANCIAL RELATIONS

DEFINITIONS

Federation Funding Agreements (FFA) Framework	The Framework, as outlined in Schedule F, streamlines and standardises new agreements and reduces the administrative burden associated with negotiating agreements. It comprises five elements: the Intergovernmental Agreement on Federal Financial Relations, Council on Federal Financial Relations and its role as gatekeeper of the FFA Framework, the eight FFA principles, the agreement architecture, and administrative arrangements.
Sectoral Federation Funding Agreements (Sectoral FFA)	The Sectoral FFAs, that cover Health, Education and Skills, Infrastructure, Environment, and Affordable Housing, Community Services and Other, consolidate National Partnership Agreements, Project Agreements and Schedules under the National Partnership for Streamlined Agreements into FFA schedules under these agreements. They provide the framework for facilitating and establishing sector-based agreements.
Federation Funding Agreement schedules (FFA schedules)	These schedules sit under the Sectoral FFAs and include consolidated National Partnership Agreements, Streamlined Agreements, project agreements and most new agreements, except National Federation Funding Agreements.
National Agreements	National Agreements typically include all States and Territories as parties to the agreement and relate to sector wide funding of policy objectives. The category is then divided into two categories, National IGA FFR Agreements and National Federation Funding Agreements with differing policy goals. These are defined below. Unless specified National Agreements references refer to both types.
National IGA FFR Agreement	An overarching agreement defining the objectives, outcomes, outputs and performance indicators, and clarifying the roles and responsibilities, that will guide the Commonwealth and the States and Territories in the delivery of services across a particular sector. Prior to 2021 this was the only type of National Agreement outlined in this agreement.

National Federation Funding Agreement (NFFA)	An agreement within the FFA Framework that contains significant policy content and act as sources of ongoing funding and have relatively complex and bespoke terms and conditions. These are newly created classifications from the 2020 agreement consolidation process.
National Health Reform funding	A Commonwealth financial contribution under the National Health Reform Agreement.
National Specific Purpose Payment (National SPP)	Commonwealth financial contribution to support State and Territory delivery of services in a particular sector. The legal basis for this payment is outlined in Part 3 of the <i>Federal Financial Relations Act 2009</i> .
National Partnership agreement	An agreement defining the objectives, outputs and performance benchmarks related to the delivery of specified projects, to facilitate reforms or to reward those jurisdictions that deliver on national reforms or achieve service delivery improvements. These agreements were consolidated under the sectoral FFAs.
National Partnership payment	Commonwealth payment to the States and Territories, in respect of a National Partnership agreement and FFA schedules, 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. The legal basis for this payment is outlined in Part 4 of the <i>Federal Financial Relations Act 2009</i> .The majority of FFA schedule payments are made under this legal basis.
Objectives	Describe the mutually-agreed, overarching aspirations for each new National Agreement.
Outcomes	Describe the impact a government activity is expected to have on community well-being. Outcomes should be strategic, high level and observable goals expressed in clear, measurable and achievable terms.
Outputs	Describe the services being delivered by governments to achieve outcomes. Alternatively they may be used as a proxy for outcomes where outcomes are not readily observable. Outputs can also help to define roles and responsibilities. Outputs should be high level, as detailed outputs run the risk of constraining States and Territories' responses to changing demand, cost drivers, priorities and service delivery models.
Performance indicator	Data which informs the community about how governments are progressing towards achieving the objectives, outcomes and outputs.
Performance benchmark	A quantifiable change in a performance indicator, usually expressed in respect of a period of time – for example, an X per cent increase in X by 20XX. Where necessary to inform the community, performance benchmarks should be few in number, high-level and reflect the highest order, most challenging goals toward attainment of outcomes.

FIRST MINISTERS' COUNCIL AND THE COUNCIL ON FEDERAL FINANCIAL RELATIONS

- A1 The First Ministers' Council consists of the Prime Minister, the Premiers of each State and the Chief Ministers of the Australian Capital Territory and Northern Territory.
- A2 The Council on Federal Financial Relations (CFFR) reports to the First Ministers' Council under the Australian Federal Relations Architecture. CFFR is responsible for overseeing the financial relationship between the Commonwealth and the State and Territory governments.
- A3 CFFR is the key decision-making body with respect to implementation of the Intergovernmental Agreement on Federal Financial Relations (this Agreement) and the new Federal Funding Agreements (FFA) Framework. CFFR will monitor progress on all aspects of this Agreement and the new Framework.
- A4 Within the framework determined by the First Ministers' Council, CFFR is able to determine matters relating to this Agreement, but will refer to the First Ministers' Council matters which have major cross portfolio or whole of government implications or require updates to this agreement.
- A5 The functions of CFFR include:
- (a) the general oversight of the operation of this Agreement on behalf of the First Ministers' Council;
 - (b) an on-going role in monitoring the maintenance of reforms in this Agreement and in making recommendations to the First Ministers' Council for its consideration and endorsement, particularly in respect of-
 - (i) ensuring to the fullest extent possible that National Agreements, National Partnerships and FFA schedules are aligned with the design principles in Schedule E;
 - (ii) ensuring that National Partnerships and FFA schedules in a sector covered by a National Agreement are aligned with the objectives of that National Agreement;
 - (iii) ensuring that National Partnerships and FFA schedules support the delivery of clearly specified outputs or projects, or facilitate the implementation of, or reward the delivery of, reforms of national significance;
 - (iv) negotiating base funding levels and growth factors for National SPPs, having regard to the objectives and outcomes agreed;
 - (v) negotiating the funding levels for reform-based National Partnerships and FFA schedules;
 - (vi) developing principles for the funding levels of project-based National Partnerships and FFA schedules;
 - (vii) assessing whether expiring National Partnerships and FFA schedules should be converted into existing or new National SPPs, National Federation Funding Agreements or general revenue assistance; and
 - (viii) maintaining a register of the national minimum data sets required to allow comparative reporting of governments' achievement against agreed objectives and outcomes

- (c) the oversight of the operation of the Goods and Services Tax (GST), including-
 - (i) approving changes to the GST base and rate;
 - (ii) maintaining a performance agreement with the Australian Taxation Office in respect of its efficient and cost-effective administration of the GST;
 - (iii) considering reports of the GST Administration Sub-Committee on-
 - (1) proposed changes to the GST base;
 - (2) the performance of the Australian Taxation Office in GST administration;
 - (3) other matters of operational significance;
 - (d) discussion of Commonwealth Grants Commission recommendations regarding GST revenue sharing relativities prior to the Commonwealth Treasurer making a determination;
 - (e) development and oversight of the National Performance Reporting System (Schedule C);
 - (f) monitoring compliance with the Commonwealth's undertakings with respect to financial support to the States and Territories;
 - (g) reviewing the operation of the Agreement over time and considering any amendments which may be proposed to the First Ministers' Council as a consequence of such review;
 - (h) reviewing funding adequacy under this Agreement, not less than every five years, with an on-going role of monitoring the reporting of outcomes to identify issues that might trigger earlier consideration of funding adequacy and related outcomes;
 - (i) considering on-going reform of federal financial relations;
 - (j) considering other matters covered in this Agreement; and
 - (k) such other matters as are referred by the First Ministers' Council.
- A6 The Treasurer of the Commonwealth will be the chair of CFFR and will convene CFFR, in consultation with the other members of the CFFR, not less than once each financial year. If the Commonwealth Treasurer receives a request from a member of the CFFR, consultation will occur with the other members concerning convening a meeting. The CFFR may also conduct its business by correspondence.
- A7 All questions arising regarding this Agreement will be determined by the unanimous agreement of CFFR, unless otherwise specified in this Agreement.
- A8 CFFR will oversee the GST Administration Sub-Committee comprised of Commonwealth, State and Territory officials to monitor the operation of the GST, make recommendations regarding possible changes to the GST base and rate, and to monitor the Australian Taxation Office's performance in GST administration.
- A9 Responsibilities for the following performance information is set out in Schedule C:
- (a) the publication of performance information for all jurisdictions against National Agreement outcomes and performance benchmarks;
 - (b) production of an analytical overview of performance information for each National Agreement, and National Partnership or FFA schedule to the extent it supports the

objectives in a National Agreement, noting that this would draw on a range of sources, including existing subject experts;

- (c) independent assessment of whether predetermined performance benchmarks have been achieved before a reward payment for nationally significant reforms under National Partnerships is made; and
- (d) monitoring the aggregate pace of activity in progressing the First Ministers' Council agreed reform agenda; and

A10 Through the assessment and reporting process, the Council will highlight examples of good practice and performance, but will not have a policy-advising role.

MANAGEMENT OF THE GST

Management of the GST rate

A11 A proposal to vary the rate of the GST will require:

- (a) the unanimous support of the State and Territory Governments;
- (b) the endorsement by the Commonwealth Government of the day; and
- (c) the passage of relevant legislation by both Houses of the Commonwealth Parliament.

Management of the GST base

A12 Subject to Clauses A13, A14 and A15, any proposal to vary the GST base will require:

- (a) the unanimous support of the State and Territory Governments;
- (b) the endorsement by the Commonwealth Government of the day; and
- (c) the passage of relevant legislation by both Houses of the Commonwealth Parliament.

A13 Future changes to the GST base should be consistent with:

- (a) the maintenance of the integrity of the tax base;
- (b) simplicity of administration; and
- (c) minimising compliance costs for taxpayers.

A14 A proposal to vary the GST base by way of a ministerial determination under the GST Act will require the unanimous agreement of CFFR.

A15 Changes to the GST base to maintain the integrity of the GST base or to prevent tax avoidance will only require the majority support of the Commonwealth, the States and the Territories.

ADMINISTRATION OF THE GST

Australian Taxation Office

- A16 The Commissioner of Taxation has the general administration of the GST law.
- A17 The Australian Taxation Office will arrange for the Australian Border Force to assist with the collection of the GST on imports.
- A18 The States and Territories will compensate the Commonwealth for the agreed costs incurred by the Australian Taxation Office in administering the GST, including costs incurred by the Australian Customs Service.
- A19 Accountability and performance arrangements between the Australian Taxation Office and CFFR will be the subject of a GST Administration Performance Agreement. These arrangements will include administrative transparency and accountability through a range of effectiveness and efficiency measures. The objective is to optimise voluntary compliance by effectively managing the administrative and compliance risks to the GST system.

GST Administration Sub-Committee

- A20 The GST Administration Sub-Committee, will monitor the operation and administration of the GST and make recommendations to CFFR regarding modifications to the GST and the administration of the GST.
- A21 The GST Administration Sub-Committee will comprise Treasury officials from each Party to the Agreement, as well as representatives from the Australian Taxation Office as required. The Commonwealth Treasury will chair the GST Administration Sub-Committee.
- A22 The Chair will convene the GST Administration Sub-Committee in consultation with other members of the Sub-Committee as often as may be necessary, and not less than once per year, to conduct its business. If the Chair receives a request from a member of the Sub-Committee, the Chair will consult with the other members concerning convening a meeting.
- A23 The functions of the GST Administration Sub-Committee will include:
- (a) monitoring the performance of the Australian Taxation Office in the administration of the GST;
 - (b) assessing policy proposals for the modification of the GST rate and base;
 - (c) making recommendations to CFFR on the need for legislation which might significantly affect the GST base; and
 - (d) requesting the Australian Taxation Office to produce draft Public Rulings in specified areas.
- A24 The States and Territories will be consulted on draft Public Rulings prior to consideration by the Public Advice and Guidance Panel and before public consultation. There will be a representative from the States and Territories on the Public Advice and Guidance Panel in relation to GST matters.

A25 Public rulings will not be referred to CFFR. However, the GST Administration Sub-Committee will refer a proposed change to an Australian Taxation Office interpretative view to CFFR for consideration if it is of the view that the change could have a significant impact on GST revenues.

APPLICATION OF THE GST TO GOVERNMENT

A26 The Parties intend that the Commonwealth, States, Territories and local governments and their statutory corporations and authorities will operate as if they were subject to the GST legislation. They will be entitled to register, pay GST or make voluntary or notional payments where necessary and will be entitled to claim input tax credits in the same way as non-government organisations. All such payments will be included in GST revenue.

GOVERNMENT TAXES AND CHARGES

A27 The Parties agree that Division 81 of the GST Act will exempt Australian taxes, fees and charges from GST in accordance with the following principles:

- (a) taxes that are in the nature of a compulsory impost for general purposes and compulsory charges by the way of fines or penalties will be exempt from GST;
- (b) regulatory charges that do not relate to particular goods or services will be exempt from GST, including-
 - (i) fees and charges levied on specific industries and used to finance particular regulatory or other activities in the government sector; and
 - (ii) licences, permits and certifications that are required by government prior to undertaking a general activity.