



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

**FEDERAL FINANCIAL
RELATIONS BILL 2009**

**FEDERAL FINANCIAL RELATIONS
(CONSEQUENTIAL AMENDMENTS AND
TRANSITIONAL PROVISIONS) BILL 2009**

Second Reading

SPEECH

Wednesday, 11 March 2009

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date Wednesday, 11 March 2009
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Questioner
Speaker Emerson, Craig, MP

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Dr EMERSON (Rankin—Minister for Small Business, Independent Contractors and the Service Economy and Minister Assisting the Finance Minister on Deregulation) (6.52 pm)—I thank members for their contributions to the debate on these important bills to reform financial relations with the states and territories. I particularly thank the member for Wills for pointing out the importance of ensuring that every young person gets a good education and the relevance of these bills and the contribution that they will make to alleviating disadvantage through a better education for the underprivileged in this country.

The Federal Financial Relations Bill 2009 appropriates funds to provide financial assistance to the states and territories and implements the government's reforms to modernise federal financial relations in accordance with the new financial framework agreed by the Council of Australian Governments in the Intergovernmental Agreement on Federal Financial Relations. The Federal Financial Relations (Consequential Amendments and Transitional Provisions) Bill 2009 provides for the relevant consequential amendments arising from the measures in the Federal Financial Relations Bill 2009, including the repeal or amendment of inconsistent legislation.

As the Treasurer said in his second reading speech, COAG has agreed to a new architecture of cooperative funding arrangements that will replace the inefficient, complex and, frankly, dysfunctional system of grants that has plagued areas of joint Commonwealth and state involvement in the delivery of services for decades. With these bills, the ineffective methods of the past will be behind us. We will be heading in a new direction and into a new era of modern federalism. Following COAG's agreement to the new federal financial framework in November last year, the government was pleased to note the comments of the Business Council of Australia. The Business Council has consistently argued for reform of federal financial relations and for governments to focus on outcomes

in health and education. The council congratulated COAG:

... for reshaping federal-state finances in ways that can improve the accountability and efficiency of government services and make it easier for businesses to invest and grow.

In agreeing the new framework for federal financial relations, the Commonwealth committed to the provision of ongoing financial support for the states' service delivery efforts through general revenue assistance, including the ongoing provision of GST payments to be used by the states for any purpose; national specific purpose payments, national SPPs, to be spent in the key service delivery sectors; and national partnership payments to support the delivery of specified outputs or projects, to facilitate reforms or to reward those jurisdictions that deliver on nationally significant reforms.

The Federal Financial Relations Bill provides an appropriation for the Commonwealth to make GST payments to the states equivalent to the revenue received from the GST in respect of financial years starting from 1 July 2009 and for these payments to be distributed in accordance with the principle of horizontal fiscal equalisation. These provisions are equivalent to the current GST payment provisions. Each state will continue to receive its adjusted population share of the GST revenue. The government has a range of revenue-sharing arrangements and other general purpose payments in place with the states other than the GST arrangements. Payments under these arrangements will be provided for in the Federal Financial Relations Bill in order to bring all payments to the states under one piece of legislation. Monthly payments of general revenue assistance will be determined by the Treasurer and paid through the COAG Reform Fund. These payment arrangements will be set out in an intergovernmental agreement.

The Federal Financial Relations Bill provides appropriations for the Commonwealth to make an ongoing financial contribution from 1 July 2009 to support state and territory service delivery in the form of five national SPPs covering the key human service sectors of health care, schools, skills and workforce development, disability services, and affordable housing. The Federal Financial Relations Bill also provides a facility for the Treasurer to determine the appropriate amount of national SPPs

for this financial year. This transitional arrangement for 2008-09 is necessary to allow the government to reconcile the total amount to be paid for the year with the amount already paid under existing arrangements in order to determine the correct payment for the remainder of the year.

In the past, onerous Commonwealth conditions on funding arrangements have tended to stifle innovation and flexibility, resulting in duplication, overlap, cost shifting and unnecessary administration costs. In establishing these new national SPPs, the Commonwealth will provide the states with more funding certainty. The Federal Financial Relations Bill specifies the amount of funding for each national SPP for 2009-10 and for the base funding to be indexed annually by a growth factor. There will be no more five-year agreements with take it or leave it offers, as occurred under the previous arrangements. These national SPPs are ongoing payments with regular funding adequacy reviews. The Treasurer of the day will determine the annual growth factor and each state's or territory's share of the national SPPs in a financial year. These determinations will be in accordance with the principles provided in the intergovernmental agreement and detailed in a methodology paper to be agreed in March by the Ministerial Council on Federal Financial Relations.

While the states now have greatly improved budget flexibility in respect of these payments, they are also subject to substantially improved public performance reporting against clearly specified performance indicators and benchmarks. These obligations are set out in the national agreements and the intergovernmental agreement. Taken together, the clear specification of mutually agreed objectives and outcomes combined with clarified roles and responsibilities and enhanced public performance reporting will represent a very substantial improvement in the public accountability of all governments. This will drive improvements in the quality of services available to the Australian community. The Commonwealth will also enter into new incentive arrangements with the states, through national partnership payments, to drive key economic and social reforms. It has already started this process, with around 20 national partnerships agreed by COAG. Continuing payments which conform to the new arrangements will be deemed to be national partnerships.

The Federal Financial Relations Bill provides for the Treasurer to credit amounts to the COAG Reform Fund for the purpose of providing financial assistance to the states in the form of national partnership payments. These payments will reward those states which best deliver services and outcomes to their citizens and not

reward those that do not. In so doing, they will drive a new microeconomic reform agenda in this country. Most importantly, they will improve the quality of services available to the Australian community, in particular those of hospitals and schools.

Full details of these measures are contained in the explanatory memorandum. Together these bills provide for the most significant reform of Australia's federal financial relations in decades. They represent a new era of modern federalism and the ending of the blame game. The new federal financial framework is the culmination of extensive work by all levels of government and provides a solid foundation for COAG to pursue economic and social reforms to underpin growth, prosperity and social cohesion into the future. The government thanks our state and territory counterparts for their contributions to developing the new framework and looks forward to working with them in the pursuit of ongoing collaboration in this area. The government also thanks the Senate Economics Committee for its consideration and support of the bills. I commend the bills to the House.

Question agreed to.

Bill read a second time.

Message from the Governor-General recommending appropriation announced.