



Queensland Treasury Response to  
Commonwealth Grants Commission  
Position Paper CGC 2009/03

## Treatment of Commonwealth Payments

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## SUMMARY OF QUEENSLAND'S POSITION

Significant changes have occurred in the range and delivery of Commonwealth payments to states, including National Agreements and National Partnership payments (NPPs). The *Inter-Governmental Agreement on Federal Financial Relations* (IGA) signed by the Council of Australian Governments in 2008 contained directions on the treatment of Commonwealth payments by the Commission.

Queensland sought additional terms of reference (TOR) to assist the Commission obtain clear direction on how to deal with Commonwealth payments consistent with the:

- IGA; and
- Commonwealth Government's policy objectives for individual funding agreements with the states.

The supplementary TOR now provides the Commission with some direction, and discretion on its treatment of Commonwealth payments to the states. However, the Commission has indicated that its role is solely achieving Horizontal Fiscal Equalisation not ensuring Commonwealth Government policy objectives are met. Queensland acknowledges this and considers the issue is a matter for the Commonwealth Government to address as it sees fit.

### ***Queensland's Position on Key Issues***

While Queensland acknowledges the Commission's intended treatment of Commonwealth payments outlined in Position Paper CGC 2009/03, it maintains the Commission's proposed treatment of some NPPs will, in some instances, dilute the Commonwealth's policy intent associated with the payments. However, in the absence of unambiguous instruction from the Commonwealth Government, Queensland accepts the treatments of Commonwealth payments as proposed by the Commission in its position paper.

## PROPOSED METHODOLOGY

The Commission proposes to use the following guidelines in dealing with all ongoing Commonwealth payments to the states:

1. Apply any treatment prescribed by the TOR, including to any ongoing payments quarantined in previous TOR;
2. National specific purpose payments will have an impact on the relativities. The exception being non-government schools payments where their disposition does not impact on state fiscal capacities;
3. All other payments should impact on the relativities unless:
  - a. they are a purchase by the Commonwealth;
  - b. they are for programs implemented at the behest of the Commonwealth which lead to above-average or unique state outcomes;
  - c. they are a payment to a third-party that has no impact on state fiscal capacities; and
  - d. needs have not been able to be assessed for the state expenditures to which the payment relates.

## **ASSESSMENT APPROACH**

### ***Policy intent***

Queensland acknowledges the Commission can only base its treatment of Commonwealth payments on the direction provided in the TOR, which reflect the position in the IGA. That is, it directs the Commission to treat New Specific Purpose Payments by inclusion, NPPs for projects to be treated by inclusion and NPPs for facilitation and incentive (reward) payments treated by exclusion.

Most importantly, the treatment of NPPs (facilitation and reward payments) was to ensure that any benefit to a state from achieving specified outputs sought by the Commonwealth, or through implementing reforms, will not be redistributed to other states through the Commission's horizontal fiscal equalisation processes.

However, the Commission's TOR gives it discretion to treat Commonwealth payments differently to ensure equalisation is achieved. The Commission's proposed treatment of some NPPs such as Improving Teacher Quality and Literacy and Numeracy will dilute the Commonwealth Government's policy intent associated with the payments.

If the Commonwealth Government wanted to ensure its policy objectives are met, it could provide direct instructions in the Commission's TOR. In the absence of unambiguous instruction from the Commonwealth Government, Queensland accepts the treatments of Commonwealth payments as proposed by the Commission in its Position Paper 2009/03.