

SUBMISSION NO. 4 *PN*
Inquiry into National Funding Agreements



Hon Andrew Fraser MP
Member for Mount Coot-tha



Treasurer of Queensland
Minister for State Development
and Trade

TRX-15983

- 5 APR 2011

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

Dear Mr Oakeshott,

Submission to the Joint Committee of Public Accounts and Audit's Inquiry into National Funding Agreements

Queensland welcomes the opportunity to provide a State perspective to your Inquiry.

Like all states, Queensland is reliant on Australian Government funding, with approximately 45 percent of Queensland's revenue being sourced from the Australian Government in 2010-11¹. Funding provided under Payments for Specific Purposes funds 18 percent of total State expenses and 35 percent of State capital expenditure. This includes \$1.060 billion in funding for capital expenditure under the Australian Government's economic stimulus measures.

The current Commonwealth-State fiscal architecture makes it challenging for States to respond to emergent needs from within their own resources, leading them to become more dependent on the assistance of the Australian Government.

In recent years we have seen a significant change in the framework for providing funding assistance to States. Under the Intergovernmental Agreement on Federal Financial Relations (the IGA) agreed by COAG in November 2008, the Australian Government and the States agreed to a wide range of measures to dramatically improve the previous funding model.

¹ Queensland State Budget 2010-11, Budget Paper 2 - Budget Strategy and Outlook.

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The intention of the reforms agreed by COAG was twofold. Firstly, to improve transparency and accountability in the areas in which both levels of government have shared policy objectives. Secondly, to improve the overall operation of shared programs through a series of measures aimed at giving States more flexibility in service delivery in exchange for greater public accountability for achieving results. In addition, both levels of Government set out the ambitious outcomes they expect to achieve in the major policy areas covered by new funding agreements.

While States welcomed the COAG Reforms and agree that the current situation reflects a better approach to the provision of Australian Government Funding for Specific Purposes, we believe that there is scope to make further improvements to extend and entrench the progress that has been made so far.

In December 2009, COAG agreed to a proposal from the Ministerial Council for Federal Financial Relations that there should be a review of the Implementation of National Agreements, National Partnerships and Implementation Plans. This proposal reflected a view by Heads of Treasuries (HOTS) and Treasurers that some elements of the reforms had not realised their full potential.

The speed at which the reform process has occurred has raised concerns that a number of agreements do not always comply with the IGA's design principles. In particular, the significant number of agreements and reporting requirements, combined with the continued use of input controls, has the potential to impede the flexibility of States to deliver outcomes efficiently and effectively.

Queensland considers that optimal outcomes will be achieved under Commonwealth-State funding agreements when there is clarity around accountabilities, when the agreements are framed in terms of the outcomes to be achieved, when there are relevant performance indicators available to measure progress, and when States are not required to divert scarce resources to high levels of reporting and administrative effort.

Queensland has endorsed the final report of the HOTS Review, which was considered by COAG in February 2011, and agrees that the underlying principles of the IGA provide a strong foundation for pursuing the COAG reform agenda, and that while implementation has generally progressed well, some challenges remain.

Queensland will engage constructively in the implementation of the HOTS Review recommendations which support the intent of the IGA to provide States and Territories with the flexibility to deliver high quality, high priority services where they are most needed. We support an open and transparent funding regime which focuses on achieving results and which rewards States which are able to demonstrate that they meet agreed outcomes.

Queensland believes that through the HOTS Review Implementation process, the Australian and State Governments will be able to finalise the implementation of a funding framework that provides accountability, transparency and value for money for both the Australian and State Governments.

Yours sincerely

ANDREW FRASER