

2008

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

COAG REFORM FUND BILL 2008

EXPLANATORY MEMORANDUM

(Circulated by the authority of the
Treasurer, the Hon Wayne Swan MP)

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Glossary

The following abbreviations and acronyms are used throughout this explanatory memorandum.

<i>Abbreviation</i>	<i>Definition</i>
BAF	Building Australia Fund
COAG	Council of Australian Governments
EIF	Education Investment Fund
HHF	Health and Hospitals Fund
SES	Senior Executive Service

General outline and financial impact

Establishment of the COAG Reform Fund

This Bill establishes the COAG Reform Fund as a Special Account. The purpose of the COAG Reform Fund is the making of grants of financial assistance to the States and Territories. The terms and conditions on which financial assistance is granted are to be set out in written agreements between the Commonwealth and States or Territories.

Date of effect: This measure takes effect 1 January 2009.

Proposal announced: This measure was announced in the Commonwealth 2008-09 Budget.

Financial impact: Nil.

Compliance cost impact: Nil.

Chapter 1

The COAG Reform Fund

Outline of chapter

1.1 This Bill establishes the COAG Reform Fund for the purpose of making grants of financial assistance to the States and Territories.

1.2 The Bill also provides that the terms and conditions on which financial assistance is to be granted are to be set out in written agreements between the Commonwealth and States or Territories.

Context of amendments

1.3 On 26 March 2008, the Council of Australian Governments (COAG) agreed to a new framework for federal financial relations.

1.4 A central element of the new framework is the provision of new incentive payments to drive reforms. The Commonwealth will provide National Partnership payments to the States to support the delivery of specific projects, to facilitate reforms or to reward those jurisdictions that deliver nationally significant reforms.

1.5 On 13 May 2008, as part of the 2008-09 Budget the Government announced that it would establish three new nation-building funds — the Building Australia Fund (BAF), Education Investment Fund (EIF) and the Health and Hospitals Fund (HHF) (the nation-building funds) — as well as a COAG Reform Fund to channel payments from the nation building funds to the States via National Partnership payments.

1.6 The COAG Reform Fund will channel National Partnership reform payments from the Commonwealth Budget annual appropriations; and payments from the nation-building funds.

- The purpose of the nation-building funds is to lift Australia's productive capacity by providing leadership in the planning, financing and provision of significant national infrastructure projects.

Summary of new law

1.7 This Bill establishes the COAG Reform Fund as a Special Account as provided for in section 21 of the *Financial Management and Accountability Act 1997*.

1.8 The COAG Reform Fund may receive funding through:

- payments from the nation-building funds;
- annual Appropriation Acts; and/or
- special appropriations in the form of National Partnership payments.

1.9 The COAG Reform Fund provides a vehicle for the disbursement of grants of financial assistance to a State or Territory, for the purposes of:

- supporting the delivery of specified outputs or projects through appropriations from the nation-building funds; and
- facilitating the implementation of nationally significant reforms and rewarding jurisdictions that deliver nationally significant reforms through National Partnership payments.

1.10 Financial assistance to a State or Territory will be subject to an agreement between the Commonwealth and the State or Territory (a National Partnership agreement) setting out performance benchmarks and the amount of the payment for meeting each benchmark.

- For grants through the COAG Reform Fund that originate in the nation-building funds, terms and conditions of financial assistance will be those contained in written agreements under the *Nation-building Funds Act 2008*.

1.11 In the case of National Partnership reward payments, financial assistance to a State or Territory will also be subject to the COAG Reform Council assessment of whether the performance benchmarks have been achieved.

Comparison of key features of new law and current law

<i>New law</i>	<i>Current law</i>
A new special account is created for the purpose of distributing funds to the States and Territories.	Current federal financial relations are convoluted, involving many complex payment arrangements in various areas. No specific account such as that proposed by the Bill currently exists to channel funds to the States and Territories.

Detailed explanation of new law

1.12 This Bill brings into existence the COAG Reform Fund and specifies that it is a Special Account for the purposes of the *Financial Management and Accountability Act 1997*. [Section 5]

1.13 For the purposes of section 21 of the *Financial Management and Accountability Act 1997*, the purpose of the COAG Reform Fund is the making of grants of financial assistance to the States and Territories. [Section 6]

1.14 The Bill requires that the terms and conditions on which financial assistance is granted through the COAG Reform Fund are set out in a written agreement between the Commonwealth and the State or Territory. [Sub-sections 7(1) and 7(2)]

1.15 The Bill provides that an agreement relating to funding for a State or Territory may be entered into by a Minister on behalf of the Commonwealth. [Sub-section 7(3)]

1.16 The Bill also provides that a Minister may delegate the authority to enter into an agreement to the Secretary of a Department or to an SES employee, or acting SES employee, in a Department. A delegate exercising the powers of the Minister must comply with any directions of the Minister. [Section 8]

Application and transitional provisions

1.17 This Bill will apply from 1 January 2009.