

A SHORT GUIDE TO PAYMENTS THAT FALL WITHIN THE FEDERAL FINANCIAL RELATIONS FRAMEWORK

This Short Guide provides advice on the types of payments that are within scope of the federal financial relations framework, and the payment classification process undertaken by the Commonwealth Department of Finance and Deregulation (Finance).

Guidance on the use of National Partnership Payments (project, facilitation and reward) within an agreement is included in [Federal Finances Circular 2011/02, Developing National Partnerships under the federal financial relations framework](#).

What payments are covered by the *Intergovernmental Agreement on Federal Financial Relations*?

The scope of the *Intergovernmental Agreement on Federal Financial Relations* (the Intergovernmental Agreement) which underpins the federal financial relations framework is broad. *Schedule D – Payment Arrangements* of the Intergovernmental Agreement outlines that:

- D3 Payments classified as Commonwealth own-purpose expenses are the only intergovernmental financial transfers which are not covered by these payment arrangements.¹
- D4 Where Commonwealth own-purpose expenses and State own-purpose expenses directly contribute to the objectives, outcomes and outputs of a National Partnership agreement, estimates should be included in that National Partnership, even if it does not involve financial transfers between the Commonwealth and the States, for example in areas of significant policy collaboration.

Which agency determines what payments are covered by the federal financial relations framework?

The Commonwealth Department of Finance and Deregulation (Finance) is responsible for classifying payments as a Commonwealth Own-Purpose Expense or a payment to other governments (States, Territories and direct to local government). In relation to the second category, payments to the States that are also classified as National Partnership Payments, fall under the federal financial relations framework. Where payments are classified as National Partnership Payments and there are conditions attached to the payments, an agreement under the framework is the only existing mechanism available to make a payment to or through the States.

¹ In this context, “intergovernmental financial transfers” refers to financial transfers between the Commonwealth and the States. Payments classified as direct to Local Government Authorities also fall outside the federal financial relations framework.

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A Commonwealth Own-Purpose Expense is an expense made by the Australian Government in the conduct of its own general government sector activities, and includes expenses for the purchase of goods and services and associated transfer payments. Such funds are open to all sectors of the economy and therefore they may be paid to other levels of governments, in which case the payments are made and reported by the responsible Australian Government agency; and not reported in *Budget Paper No. 3*.

National Partnerships cannot be used as a vehicle for paying Commonwealth Own-Purpose Expenses to the States.

The payment classification process

Commonwealth portfolio agencies must consult with the Financial Reporting Branch in Finance (cope@finance.gov.au) for advice on whether an Australian Government payment is classified as a Commonwealth Own-Purpose Expense or a payment to or through the States or direct to local government. When determining the classification of a payment, Commonwealth portfolio agencies should consider relevant program information against the criteria of contestability and the nature of transactions as described in [Finance Circular 2010/02, Classification of Payments to the States and Territories and Commonwealth Own-Purpose Expense](#).

Once Commonwealth portfolio agencies have considered these issues and conducted the necessary analysis, they must consult with Finance so that their conclusions regarding the classification of the payment can be verified.

Agencies should also refer to the guidance provided on payment classification processes in [Federal Finances Circular 2011/03, Processes for Drafting, Negotiating, Finalising and Varying Agreements under the federal financial relations framework, and related Estimates and Payments processes](#).

Given the importance of payment classification, an agreement under the federal financial relations framework must not be drafted or negotiated before the classification of any proposed payment is verified by Finance.

What types of payments are covered by the federal financial relations framework?

Payments classified by Finance as a payment to the States and therefore covered by the federal financial relations framework include:

- Payments made direct 'to' States (this includes National Specific Purpose Payments, and National Partnership Payments²):

² National Partnership Payments also include payments made under Project Agreements.

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- Payments that are made 'through' the States to bodies that fall within the State government framework, for example, ambulance services; and
- Payments made 'to' or 'through' the States as a result of competitive processes only open to the State government sector.

Payments to the States made under former agreements that predate the federal financial relations framework have been deemed to be National Partnerships (for example, Nation Building – formerly AusLink). For these previous funding agreements, where the program is continuing, a new National Partnership or Project Agreement may need to be negotiated with the States before the expiration of the current agreement.

What types of payments are excluded from the federal financial relations framework?

Payments to States and direct to local government entities classified as Commonwealth Own-Purpose Expenses are excluded from the federal financial relations framework. These include:

- Arrangements where the Commonwealth is purchasing specific services from state government bodies;
- Funds pooling arrangements for projects or services that are of low value and/or low risk where the Commonwealth and the States contribute funding on an agreed basis to a third party for the provision of service or deliver of the project, including by the agreement of ministerial councils; and
- Competitive grants programs that can be applied for on the same terms and conditions as government and non-government sectors (even where all applications except one are from state or local government entities, the funding will still be classified as a Commonwealth Own-Purpose Expense).

Treatment of contingent payments

Contingent payments are Commonwealth payments to the States arising from uncertain future events such as a natural disaster. The event or events that give rise to the liability may or may not eventuate, and is not within the Commonwealth's control.

Payments in respect of contingent liabilities are not reform or project-based or time limited payments. Treasury will provide advice to agencies on the treatment of contingent on a case-by-case basis.

Are there any circumstances where Commonwealth Own-Purpose Expenses are included in National Partnership agreements?

As outlined in Clause D4 of the Intergovernmental Agreement, where Commonwealth Own-Purpose Expenses and non-Commonwealth financial contributions directly contribute to the objectives, outcomes and outputs of a National Partnership agreement, the estimates for these financial contributions should be disclosed in a National Partnership Agreement. Policy and payment responsibility for Commonwealth own purpose expenses rests with the relevant Portfolio Minister.