



AUSTRALIAN CAPITAL TERRITORY

SUBMISSION TO THE COMMONWEALTH GRANTS COMMISSION'S REQUEST FOR COMMENTS ON:

TREATMENT OF COMMONWEALTH PAYMENTS TO THE STATES

August 2009



TREATMENT OF COMMONWEALTH PAYMENTS TO THE STATES

Introduction

The Commonwealth Grants Commission (the Commission) has requested urgent comments from the States to assist with determining the range of Commonwealth payments to be included in the 2010 Review and their appropriate treatment.

Specifically, the States were asked to provide advice on:

- what Commonwealth payments are missing from the 2010 Review Draft report Attachment 1 – The Adjusted Budget;
- whether the Commission’s proposed treatment is appropriate; and
- whether any payments should be split and have different parts treated differently.

This submission responds to these requests.

Commonwealth payments missing from Attachment 1

The ACT is not aware of any other Commonwealth payments that should be included in Attachment 1 of the 2010 Review Draft Report.

Proposed treatment of Commonwealth payments - National Partnership Payments

The ACT notes that the *Intergovernmental Agreement on Federal Financial Relations 2008* (IGA) provides the Commission with the discretion to determine an appropriate treatment for NPPs, unless otherwise directed by the Terms of Reference. The ACT acknowledges the Commission’s interpretation of the IGA and supports its general approach.

At the recent Commission – Heads of Treasuries’ discussions, Queensland questioned the Commission’s proposed treatment of a number of education NPPs. They suggested that NPPs should not impact relativities where their underlying policy intent is to bring States into line with regard to service provision. A similar argument has been put forward regarding past neglect of funding for services, whether due to State and/or Commonwealth policies, and the resulting need to retain above average payments of NPPs. The ACT considers these claims unreasonable on the grounds that other States have resolved similar inadequate service provision issues by committing their own source funding.

A specific example offered by Queensland during the recent discussions related to the *Digital Education Revolution* NPP. The Commission was asked how a State could be expected to ‘catch-up’ with other States in the provision of school computers, if its above per capita share of the NPP was equalised?

The ACT considers that where all States provide computers in secondary schools, and one State has chosen to provide their schools with a below average number of computers, it is not the Commission’s role to exclude the NPP from its assessment in order for that State to ‘catch-up’.

This position appears consistent with the conclusion reached at the discussions, that any Commonwealth policy intention outside the terms of the IGA, should be addressed through the Commission’s Terms of Reference, as the Commission’s role does not include interpreting underlying policy intentions.

Treatment of specific items in Attachment 1

The proposed treatment of the *majority* of the Commonwealth Payments listed in Attachment 1 is supported.

However, where the proposed treatment is not supported, or is still under consideration, the ACT's views are provided below to assist the Commission.

Nation building plan for the future

In regard to the *Nation building plan for the future*, the proposed treatment for a number of payments to *impact relativities*, for example, capital infrastructure funding for schools; hospital infrastructure; and better cancer care, is supported. It is understood that these payments will be included in the investment component of the capital assessment.

However, the proposal for the remaining payments is to *not impact relativities*, because they are considered payments to third parties. The ACT does not support this treatment because:

- the funds provide budget support for State services;
- the allocation of funding is influenced by State policy (distributed based on State competitive bidding); and
- the Commission assesses expenses related to Public Non-Financial Corporations (PNFCs), both in terms of new capital investment in transport (captured in the capital subsidies component of the transport assessment) and new capital infrastructure (captured in the net financial worth component of the capital assessment).

Accordingly, the ACT considers that payments for road and port projects such as the:

- Ipswich Motorway (Qld);
- Hunter Expressway (NSW);
- Bruce Highway (Qld);
- Pacific Highway (NSW); and
- Oakajee and Darwin port expansions

should *impact relativities* and be differentially assessed in the investment component of the Capital assessment.

Similarly, payments for transport projects such as the:

- Victorian regional rail express;
- Gawler rail line modernisation (SA);
- Northbridge rail link (WA);
- Noarlunga to Seaford rail extension (SA);
- Gold Coast light rail system; and
- Sydney West Metro

should also *impact relativities* and be included in the capital subsidies component of the transport assessment, and assessed on an EPC basis, consistent with the Commission's ruling on capital subsidies for transport.

The ACT has serious concerns that excluding transport payments will result in double counting through the net worth component of the Capital assessment.

As the proposed treatment of the *Nation building plan for the future* payments represent a major concern to the ACT, a more detailed outline of the case for assessing the:

- roads and ports funding differentially will be provided as part of the capital submission; and
- urban and non-urban transport funding on an EPC basis will be provided as part of the transport submission.

Nation building programme (formerly Auslink)

For the *Nation building programme (formerly Auslink)*, the proposed treatment of the National Network Roads (NNR) capital component '*no impact on the relativities*' is not supported as:

- an APC treatment fails to reflect the fact that the allocation of funding is policy influenced by the States. Funding is distributed based on State competitive bidding;
- the funds provide budget support for State services, thereby reducing a State's total financial assistance requirement;
- the Commonwealth's priorities mirror and follow those of the States; and
- NNR projects are developed, operated and owned by the States.

As the treatment of NNR funding is also of particular concern to the ACT, a detailed outline of the case for assessing these funds differentially will be provided in the Territory's Capital assessment submission.

Elective Surgery Waiting Lists reduction programme

In terms of the Elective surgery waiting list reduction programme performance rewards, this aspect of the programme has not yet been allocated a treatment as this is still under consideration by the Commission. The ACT considers that this funding should have '*no impact on the relativities*' as it rewards those States which increase the number of elective surgeries completed within the clinically recommended time by the end of the four year plan. That is, the reward aspect of the payment compensates States for incurring expenditure that they otherwise would not have incurred.

Trade training centres in schools

For Trade training centres in schools, the Commission's proposed treatment for all of this funding to '*impact on the relativities*', however, as part of the funding is for non-government schools, to be consistent with the treatment of other payments to non-government schools, this component should have '*no impact on the relativities*'.