

**Response to Commonwealth Grants
Commission 2010 Review Draft Report**

**Indicative Treatment of
Commonwealth Payments in
the 2010 Review**

August 2009



1. Indicative Treatment of Payments

Commonwealth Grants Commission Principle

The principle applied by the Commonwealth Grants Commission in assessing Commonwealth payments to the States is that payments that have an influence on State fiscal capacities are treated by inclusion. In other words, Commonwealth payments that provide budget support to a State or Territory should impact GST relativities. As most Commonwealth payments to the States have an influence on State fiscal capacities, by implication, most payments have been indicatively treated by inclusion.

As a general rule and consistent with the Intergovernmental Agreement on Federal Financial Relations, Commonwealth payments to the States are treated as follows:

- Specific Purpose Payments (SPPs) – inclusion
- National Partnership Payments (NPPs)
 - Project NPPs, supports delivery of specified projects – inclusion
 - Facilitation (reform) NPPs, facilitates reforms – exclusion
 - Reward (reform) NPPs, rewards jurisdictions that deliver nationally-significant reforms – exclusion
- General Revenue Assistance (GRA) – inclusion
- Commonwealth Own Purposes Expenses (COPEs) – inclusion

In particular, the treatment of NPPs is open to discretion on the part of the Commission and is to be decided on a case by case basis. Some guidelines have been developed specifically for NPPs:

- NPPs that are paid to all States are to be treated by inclusion;
- NPPs that are a Commonwealth ‘purchase’ of a service from the State, where it is to a third party or where it is not practical to introduce an assessment, be treated by exclusion; and
- NPPs that are a result of unique State policies be treated by exclusion.

Victoria’s Position

Victoria agrees with the method the CGC proposed in its discussion paper that it consider the intent and form of each payment in deciding the appropriate treatment rather than decide a treatment for each class of payment.

Victoria supports the treatment of payments proposed by the CGC because it applies a simple rule to assess whether the delivery of the service affects State fiscal capacities. Victoria considers that the proposed treatment of payments is consistent with the principle whereby payments that have an influence on State fiscal capacities are included in the calculation of GST relativities.

Victoria considers that the CGC should have discretion to consider individual payments on a case by case basis. There are many classes of payments but there

should be a set of decision rules applied to decide the treatment of each payment. Victoria considers that payments that affect States' fiscal positions and the purpose of which are directly related to State services or activities should affect State GST relativities. This approach is supported by Clause D42 of the Intergovernmental Agreement on Federal Financial Relations which allows the CGC to treat NPPs on a case by case basis.

Some payments such the Early Childhood Education (and the Literacy and Numeracy) payments are classified as National Partnership reform payments, but according to the National Partnership Agreement on Early Childhood Education, the purpose is to deliver early childhood education and care services. These payments will directly support the delivery of core state services that affect State fiscal positions and hence should be included in the calculation of GST relativities. Due to discrepancies between the title and actual use of some payments, the CGC should assess whether a payment affects State fiscal positions, rather than be bound by a blanket treatment for each class of payment. This treatment should be applied even if some of these payments are directed by the Commonwealth to deliver specific core state services and allocated to individual States.

Case-by-case decisions are particularly pertinent to payments that support a State in delivering the average level of service delivery. In these situations, a State that is delivering below average level of services would have previously benefited from being assessed as already delivering the average level of services. It is appropriate to treat Commonwealth funding by inclusion in these circumstances as otherwise a State would potentially benefit twice.

Consistent with our position that funding for State activity should impact the relativities, we consider the proposed treatment of the capital component of National Network Road funding on an APC basis is inappropriate.

If the Commission's argument about National Network Roads (NNR) holds (that is, spending in a particular State is due to growth in neighbouring States), it provides good reason that State expenditure of these roads does not represent their needs. However, the assumption behind an APC assessment is that State spending meets State needs exactly. This and the fact that the allocation of NNR funding is partly driven by political influences, makes an APC assessment inappropriate.

The States partially fund National Network Road projects with funding being assessed in the investment component of the capital assessment, recognising State disabilities; while the Commonwealth funding is being assessed APC. This seems incongruous, particularly when one considers that future maintenance of the same road will be assessed by applying disabilities in the Roads category. This leads to the same stretch of road being assessed in three different ways.

An APC assessment assumes States have no say in where the money is spent. However, this is not the case. States influence which projects are funded by submitting proposals to the Commonwealth. Presumably the Commonwealth will not fund projects for which no proposal has been received.

2. Intergovernmental Agreement

The Intergovernmental Agreement on Federal Financial Relations specifies in Clauses D41 and D42 that:

For the purpose of the Commonwealth Grants Commission determining GST revenue sharing relativities:

- (a) National SPPs and National Partnership project payments will be treated by 'inclusion', recognising that these payments provide the States and Territories with budget support for providing standard state and territory services;
- (b) National Partnership facilitation and incentive payments will be treated by 'exclusion' so that any benefit to a State or Territory from achieving specified outputs sought by the Commonwealth, or through implementing reforms, will not be redistributed to other States or Territories through the horizontal fiscal equalisation process; and
- (c) general revenue assistance, excluding GST payments, will be treated by 'inclusion', recognising that these payments are available to provide untied general budget support to a State or Territory, however, the Commonwealth Grants Commission may treat, on a case by case basis, any component of general revenue assistance as 'out of scope' if it considers such treatment is more appropriate.

Notwithstanding Clause D41, and following consultation involving the Commonwealth and the States and Territories:

- (a) **the Commonwealth Grants Commission may treat, on a case by case basis, any National Partnership payment differently if it considers that such treatment is more appropriate; and**
- (b) the Commonwealth Treasurer may issue Terms of Reference to the Commonwealth Grants Commission directing the Commission on the treatment of a National Partnership if he considers that such treatment is appropriate.

3. Indicative Treatment of Payments to the States

The following table outlines the Commonwealth payments to the States and the Commonwealth Grants Commission's treatment of the payments and Victoria's position. Any differences between the positions are highlighted in yellow. For payments commencing 2009-10 and 2010-11, Victoria will wait until the CGC provides an indication of its treatment for the payment before providing its position.

Payment	CGC Treatment	Victoria's Position	Notes
General Revenue Assistance			
GST revenue	Inclusion	Inclusion	
ACT municipal services	Exclusion	Exclusion	
Royalties	Inclusion	Inclusion	
Compensation – crude oil excise condensate	Inclusion	Inclusion	
GST deferral	Inclusion	Inclusion	
Snowy Hydro Ltd – company tax compensation	Inclusion	Inclusion	Commonwealth to cash out
Specific Purpose Payments			
National healthcare SPP	Inclusion	Inclusion	
National schools SPP - payments to non-government schools	Inclusion Exclusion	Inclusion Exclusion	Payment to third party
National skills and workforce development SPP	Inclusion	Inclusion	
National disability SPP	Inclusion	Inclusion	
National affordable housing SPP	Inclusion	Inclusion	
National Partnership Payments			
<i>Healthcare</i>			
Health and hospital workforce reform	Inclusion	Inclusion	This is a reform NPP
Health and hospital fund	Inclusion	Inclusion	
Elective surgery waiting list reduction programme - performance rewards	Inclusion Unknown	Inclusion Exclusion	This is a reward payment

Essential vaccines (vaccines purchase)	Exclusion	Exclusion	Commonwealth purchase
Health infrastructure (e.g. Royal Hobart Hospital)	Inclusion	Inclusion	
Health services - payments quarantined by terms of reference (e.g. Victorian Cytology Services)	Inclusion Exclusion	Inclusion Exclusion	Quarantined payments
Organ transplantation services	Exclusion	Exclusion	Payment to third party
Repatriation general hospitals	Exclusion	Exclusion	Commonwealth purchase
Health programme grants	Inclusion	Inclusion	
Organ and tissue donation	Inclusion	Inclusion	
Highly specialised drugs	Exclusion	Exclusion	Commonwealth purchase
<i>Schools</i>			
Building the education revolution	Inclusion	Inclusion	
Digital Education Revolution - non-government component	Inclusion Exclusion	Inclusion Exclusion	Payment to third party
Early childhood education	Inclusion	Inclusion	This is a reform NPP
Improving teacher quality	Inclusion	Inclusion	This is a reform NPP
Indigenous early childhood development – education	Inclusion	Inclusion	This is a reform NPP
Literacy and numeracy	Inclusion	Inclusion	This is a reform NPP
Low socio-economic status school communities	Inclusion	Inclusion	This is a reform NPP
National solar schools plan	Inclusion	Inclusion	
Quality on-the-job workplace learning	Inclusion	Inclusion	
School security programme	Exclusion	Exclusion	Impractical to assess
Trade training centres in schools	Inclusion	Inclusion	
Australian technical colleges	Exclusion	Exclusion	Payment to third party (paid to private consortia)
Indigenous education strategic initiatives programme – non-government	Exclusion	Exclusion	Payment to third party
Relocation of Amberley State school, Qld	Exclusion	Exclusion	Commonwealth purchase
<i>Skills and workforce development</i>			

TAFE fee waivers for childcare qualifications	Exclusion	Exclusion	Commonwealth purchase
Productivity places programme	Inclusion	Inclusion	
<i>Community services</i>			
Aged care assessment	Inclusion	Inclusion	
Certain concessions for pensioners	Inclusion	Inclusion	
Home and community care	Inclusion	Inclusion	
Home and community care – services for veterans	Exclusion	Exclusion	Commonwealth purchase
National reciprocal transport concessions for seniors card holders	Inclusion	Inclusion	
Unaccompanied humanitarian minors	Exclusion	Exclusion	Impractical to assess
National action plan to build on social cohesion, harmony, and security	Exclusion	Exclusion	Impractical to assess
Children’s services	Exclusion	Exclusion	Commonwealth purchase
Family violence partnerships	Inclusion	Inclusion	
Remote Indigenous Housing (ARIA)	Exclusion	Exclusion	Quarantined payments
Social Housing	Inclusion	Inclusion	This is a reform NPP
Homelessness	Inclusion	Inclusion	This is a reform NPP
Nation Building and Jobs Plan – social housing	Inclusion	Inclusion	
First Home Owners Boost	Exclusion	Exclusion	Commonwealth purchase
Social Housing Subsidy Programme	Inclusion	Inclusion	
<i>Infrastructure</i>			
Nation building programme (formerly Auslink) - state roads - capital	Inclusion Exclusion	Inclusion Inclusion	Supports State service delivery
- local roads, rail	Exclusion	Exclusion	Commonwealth purchase
Nation building plan for the future	Exclusion	Exclusion	Payment to third party (paid to local government)
Community infrastructure programme	Exclusion	Exclusion	Payment to third party (paid

			to local government)
Kings Highway upgrade	Exclusion	Exclusion	Commonwealth purchase
Community infrastructure programme – strategic	Exclusion	Exclusion	Payment to third party
East Kimberley development package	Exclusion	Exclusion	Impractical to assess
Federation fund projects	Exclusion	Exclusion	Commonwealth purchase
Interstate road transport	Inclusion	Inclusion	
Local community sporting infrastructure	Exclusion	Exclusion	Payment to third party
Supplementary funding to SA councils for local roads	Exclusion	Exclusion	Payment to third party
Petroleum Products Freight Subsidy Scheme	Exclusion	Exclusion	Payment to third party
<i>Environment</i>			
Caring for our Country	Exclusion	Exclusion	Quarantined payments
Eradication of Red Imported Fire Ant	Exclusion	Exclusion	Impractical to assess
Exotic Disease Preparedness	Exclusion	Exclusion	Impractical to assess
Great Artesian Basin Sustainability Initiative	Exclusion	Exclusion	Impractical to assess
Plant Disease and Eradication	Inclusion	Inclusion	
Renewable Remote Power Generation	Exclusion	Exclusion	Payment to third party
The Living Murray (previously National Water Initiative — Living Murray) ¹	Inclusion	Inclusion	
Water for the Future ²	Inclusion	Inclusion	
Photovoltaic rebate programme (PVRP) (payment through States)	Exclusion	Exclusion	Payment to third party
Improving water information	Exclusion	Exclusion	Commonwealth purchase
Regional assistance	Inclusion	Inclusion	
Tasmanian forest package	Exclusion	Exclusion	Quarantined payments
Agriculture advancing Australia — FarmBis	Inclusion	Inclusion	
Tasmanian water infrastructure	Exclusion	Exclusion	Payment to third party

¹ Implements a package of water recovery and water use efficiency activities, CGC Draft Report p127

² Supports the sustainable rural water use and infrastructure programme, CGC Draft Report p127

<i>Contingencies</i>			
Exceptional circumstances (EC) assistance	Exclusion	Exclusion	Payment to third party
Equine influenza emergency response	Exclusion	Exclusion	Commonwealth purchase
Hepatitis C settlement fund	Exclusion	Exclusion	Payment to third party
Natural disaster relief	Exclusion	Exclusion	Commonwealth purchase
<i>Other State Services</i>			
Disaster resilience Australia (replaced Bushfire mitigation programme, natural disaster mitigation)	Exclusion	Exclusion	Payment to third party
Legal aid	Exclusion	Exclusion	Commonwealth purchase
Standard business reporting programme	Exclusion	Exclusion	Commonwealth purchase
Film and literature classification	Exclusion	Exclusion	Impractical to assess
Seamless national economy	Exclusion	Exclusion	Commonwealth purchase This is a reform NPP
CrimTrac police reference system	Exclusion	Exclusion	Commonwealth purchase
Improving policing in very remote areas	Inclusion	Inclusion	
North East Tasmania micro capital scheme	Exclusion	Exclusion	Payment to third party
Sydney Cricket Ground — new grandstand	Exclusion	Exclusion	Payment to third party
World sailing championships	Exclusion	Exclusion	Impractical to assess
Strengthening Tasmania	Exclusion	Exclusion	Impractical to assess
Sinking fund on State debt	Exclusion	Exclusion	Quarantined payments
<i>Local Government Support</i>			
General purpose assistance	Exclusion	Exclusion	Payment to third party
Untied local road grants	Exclusion	Exclusion	Payment to third party
Commonwealth Own Purpose Expenses			
Preservation and protection of Indigenous heritage	Exclusion	Exclusion	Impractical to assess
Indigenous sports and recreation	Exclusion	Exclusion	Impractical to assess
Indigenous culture support	Exclusion	Exclusion	Impractical to assess
National arts and craft industry support	Exclusion	Exclusion	Impractical to assess
Maintenance of Indigenous language and records	Exclusion	Exclusion	Impractical to assess

Promotion of Indigenous Art	Exclusion	Exclusion	Impractical to assess
Broadcasting Services	Exclusion	Exclusion	Commonwealth purchase
Community housing and infrastructure (CHIP)	Inclusion	Inclusion	
CHIP — National Aboriginal health strategy	Exclusion	Exclusion	Quarantined payments
CHIP — Fixing houses for better health	Inclusion	Inclusion	
CHIP — Municipal services	Exclusion	Exclusion	Payment to third party
CHIP — Task of opportunity	Inclusion	Inclusion	
Indigenous women (to enhance Indigenous women's leadership, representation, safety, wellbeing and economic status).	Exclusion	Exclusion	Impractical to assess
Indigenous community strategic investment (to fund projects that provide capacity building improvements to Indigenous communities)	Exclusion	Exclusion	Impractical to assess
NPP on Indigenous economic participation	Exclusion	Exclusion	Impractical to assess This is a reform NPP
NPP on remote service delivery	Inclusion	Inclusion	This is a reform NPP
NT Aboriginal Interpreter Service	Exclusion	Exclusion	Impractical to assess
Indigenous health and substance abuse	Inclusion	Inclusion	
Mersey Hospital in Tasmania	Exclusion	Exclusion	Quarantined payments
Emergency services	Inclusion	Inclusion	
Northern Territory Emergency Response	Exclusion	Exclusion	Quarantined payments
Payments Commencing 2009-10 and 2010-11			
National Healthcare SPP	TBD		
Preventive health NPP	TBD		This is a reform NPP
Commonwealth dental health programme	TBD		
NT medical school funding contribution	TBD		
Education investment fund	TBD		
Better TAFE facilities	TBD		
Infrastructure employment projects	TBD		
Environmental management of the former Rum Jungle mine site	TBD		

Transfer of Commonwealth land to Victoria — Point Nepean	TBD		
Restoration of Albert Hall, Canberra	TBD		
Indigenous communications programme	TBD		
Digital regions initiative	TBD		