



**NORTHERN TERRITORY VIEWS ON
THE 2010 REVIEW DRAFT REPORT**

TREATMENT OF COMMONWEALTH PAYMENTS

September 2009

Key Points

- The Territory broadly supports the Commission's proposals regarding the treatment of Commonwealth payments.
- Commission discretion regarding the treatment of individual payments is strongly supported.

Introduction

This submission focuses on the treatment of Commonwealth Payments proposed in the Commonwealth Grants Commission's (the Commission's) 2010 Review Draft Report and responds to the Commission's specific questions in the Draft Report at Appendix 1B of Attachment 1:

- what Commonwealth payments are missing;
- whether the proposed treatment is appropriate; and
- whether any payments should be split and have different parts treated differently.

The Territory also notes that the treatment of Commonwealth payments is proposed to be addressed in the Commission's forthcoming New Issues paper.

The Intergovernmental Agreement (IGA)

The IGA requires the Commission to treat:

- specific purpose payments (SPPs), National Partnership (NP) project payments and general revenue assistance (other than GST) by inclusion;
- NP facilitation and reward payments by exclusion; and
- payments as directed through its Terms of Reference.

However, it also allows the Commission to exercise its discretion to decide the appropriate treatment of NP payments in consultation with the Commonwealth and States.

The Territory strongly supports the use of the Commission's discretion in determining treatment based on the principles of horizontal fiscal equalisation, the nature of the assessment methodology and the nature of the service being funded.

Payments included in the adjusted budget

The Commission has proposed that payments which a State can use to provide a service or to acquire an asset and where it (the State) has discretion on how it is spent should affect the relativities. Payments which have no influence on state fiscal capacities such as fee for service arrangements, 'through' payments and trial programs or where directed to do so under the terms of reference should not affect the relativities. The Territory strongly supports this general approach.

The Commission has indicated that it will take a case by case approach to the treatment of all payments to enable a more accurate analysis of the impact on state budgets of a given payment, and to determine whether the funding is allocated on a needs basis or otherwise. The Territory strongly supports this approach and believes that it is particularly pertinent given the complexity of funding arrangements supporting NP Agreements. These Agreements include Commonwealth funding assistance to states for state services, Commonwealth Own Purpose Expenses (COPEs) and State Own Purpose Expenses (SOPEs) to achieve the agreed outcomes. Within an NP Agreement, COPEs may be provided to a state or a third party depending on the service providers within a jurisdiction.

NP payments are generally labelled as either project, facilitation or reward payments, and in some instances two types of NP payments may be used to support a given NP Agreement's outcomes. However these classifications are somewhat arbitrary and do not reflect the nature of equalisation or the relevant assessment. Thus the use of the Commission's discretion is essential to ensure treatment is consistent with its overall task.

The Territory notes that within certain NP Agreements both government and non-government sectors may be included which may require differential treatment by the Commission of payments included in the NP.

In some instances NP payments for the non-government sector are explicit in these Agreements (such as those in Building the Education Revolution), whereas in others (such those in as Improving Teacher Quality) the allocation of resources to the non-government sector is to be done within the state, and is not explicit in the documentation for the Agreement.

The Territory has previously supported reward payments being treated so as not to affect the relativities. This position was on the basis of reward payments being untied (as was the initial intent of these payments). However an emerging trend is that some NPs require reward payments to be spent in a particular sector. The Territory believes that where reward payments are tied to a sector, such as those under the Youth Attainment and Transitions NP (which are required to be spent on school education or training) and possibly the Elective Surgery Waiting List Reduction Program, these payments should be treated by inclusion. Our view that untied reward payments should not affect the relativities remains unchanged.

Where payments are explicitly made responding to historical backlogs or unmet need, they should not affect the relativities. These include funding provided by the Commonwealth under the Northern Territory Emergency Response (NTER), the subsequent Closing the Gap in the Northern Territory NP, the Remote Services Delivery NP and the Remote Indigenous Housing NP. Funding for the NTER and Closing the Gap in the Northern Territory NP is for a raft of measures specifically targeted to reduce the level of Indigenous disadvantage, including child protection, education, family violence health and wellbeing. In recognition of the intent of this funding, recent Terms of Reference have directed the Commission to treat NTER payments by exclusion. The Commonwealth has also agreed that Closing the Gap in the Northern Territory NP payments should also not affect the relativities.

The Remote Services Delivery NP aims to increase service accessibility and delivery to remote Indigenous Australians, including enhancing the range, standard and co-ordination of government services for people living in these communities, as well as enhancing governance and leadership skills and economic and social participation. The NP is targeted to 26 communities; fifteen in the Northern Territory, four in Queensland, three in Western

Australia and two each in NSW and South Australia and is akin to a pilot or trial program selecting a relatively small number of communities across Australia. While the Commission has proposed that these payments impact the relativities, the Territory believes it more appropriate that they are excluded, given the intent of the NP.

The Territory also considers that all payments associated with the Remote Indigenous Housing NP, which support the enhancement of remote Indigenous housing, should not affect the relativities. These payments are designed to raise infrastructure and services to a point whereby a state would provide these services in normal operations. The Territory notes that the 2009 Update Terms of Reference recognised this intent by directing the Commission to treat these payments by exclusion and strongly supports the Commission's proposal to continue this treatment in the 2010 Review.

The Territory notes that the Commission may vary its continued treatment of payments specifically excluded in previous Terms of Reference on receipt of additional information. The Territory believes that where a specific direction to exclude a payment has been made in a previous Terms of Reference, this should continue until the specific elements of program for which the payment is made ceases, rather than the end of the initial Commonwealth funding agreement. Specific elements may continue over time through a number of Commonwealth funding agreements, with the original intent of these elements remaining. For example, many NTER initiatives are carried over into the new Closing the Gap in the Northern Territory NP.

Indicative treatment of each Commonwealth payment

The Territory supports the Commission's positions on the majority of payments outlined in Appendix 1B of Attachment 1 (*The Adjusted Budget*) of the draft report. It proposes different treatments for the following payments:

- Elective Surgery Waiting List Reduction Program: while detail is not readily available as to the nature of the reward payments for this program, it

appears that these payments will be required to be directed to admitted patient services¹. As such, these payments should affect the relativities;

- TAFE Fee Waivers: these payments should affect the relativities as they are designed to fund States for (state) regulated fee revenue foregone for eligible childcare vocational education and training qualifications in TAFE and other government providers;
- Remote Service Delivery: should not affect the relativities, given that its intent is to facilitate new standards of service accessibility and delivery to remote Indigenous Australians, that significant effort is required given what is currently available in the target communities is well below average state policy, and that Commonwealth resources (COPEs) are allocated on a needs basis across 26 target communities nationally (of which 15 are in the Northern Territory); and

The Territory notes that the following NPs are not included in the Commission's list, and that there appears to be numerous new NPs being proposed by Commonwealth line agencies which may or may not arise from re-badged previous payments. Those that the Territory is aware of, that are not currently included in the Commission's list are:

- Closing the Gap in the Northern Territory NP: this replaces NTER funding and should not affect the relativities. The recently signed agreement includes Commonwealth agreement that all funding under the NP, including COPEs and payments to the Territory should not affect the relativities ;

¹ The Department of Health and Ageing website notes that *"Stage Three of the program is currently being developed and further details will be announced shortly. This Stage of the Plan will build on the success of the Stage One blitz and the capital infrastructure improvements being made under Stage Two, to help more patients receive the elective surgery they need sooner. In Stage Three, up to \$300 million in incentive payments, available in 2009-10 and 2010-11, will be provided to reward states and territories that have met targets to improve elective surgery performance."*

<http://www.health.gov.au/internet/main/publishing.nsf/Content/elective-surgery-about>, accessed 27 August 2009.

- the National Partnership on Closing the Gap of Indigenous Health: the Territory reserves its judgement as to the most appropriate treatment of these payments as it is inextricably linked with the Community and Other Health Services assessment and the appropriate treatment cannot be determined until the assessment is finalised; and
- Youth Attainment and Transitions NP: which encompasses both project and reward payments. As discussed above, the reward payments are required to be spent in either the education or vocational education and training sectors. As such, both types of payments should affect the relativities.

The Territory notes that the treatment of a number of payments commencing in 2009-10 and 2010-11 are proposed to be decided in the 2011 Update. Treatment of these and any additional payments should be consistent with the principles articulated above, and with that for like payments.

Backcasting

The Commission is proposing to reflect the transitional arrangements for national SPPs by backcasting the application year distribution into the assessment years to better reflect the relativities that will be applied in a given year. The Territory supports this proposal.