

From: Catherine Hull

Sent: Monday, 10 November 2008 3:40 PM

To: State Treasury contact officers

Subject: New Issue: Treatment of CHIP in the 2009 Update [SEC=UNCLASSIFIED]

Good Afternoon,

Following work to better understand developments in funding for Indigenous housing, staff are proposing to recommend to the Commission that for the 2009 Update, it no longer treat Community Housing and Infrastructure Program (CHIP) payments to non-government organisations differentially to CHIP payments to States.

Please find attached a document describing the reasons for this proposal. The document should be considered as an Addendum to Staff Discussion Paper 2008/19-S New Issues for the 2009 Update.

States should note that CHIP has been replaced by the Australian Remote Indigenous Accommodation (ARIA) program from July 2008. The Commission has not been advised whether ARIA payments are to be considered as National Partnership Payments under the new Commonwealth State financial relations arrangements and therefore excluded from the Commission's analysis. The proposed change to the treatment of CHIP payments is subject to further advice on the treatment of ARIA payments.

State comments on the proposed change in the treatment of CHIP payments, as described in the Addendum, are sought by COB Monday 1 December.

John Spasojevic

Secretary

ADDENDUM TO 2008/19-S NEW ISSUES FOR THE 2009 UPDATE

CHANGE TO THE TREATMENT OF COMMUNITY HOUSING AND INFRASTRUCTURE PROGRAM (CHIP) PAYMENTS

Background

- 1 The then Commission decided as part of the 2004 Review to differentially treat payments to States under CHIP. Those payments paid to States were treated by inclusion, whilst those payments made direct to Indigenous Community Housing Organisations (ICHOs) were treated by exclusion. In assessing State housing needs, all community housing dwellings, including remote Indigenous dwellings, were included in the assessment.
- 2 However, information obtained by staff from a meeting with officers from FaHCSIA to discuss developments in funding arrangements for Indigenous housing suggests that this different treatment of CHIP payments is not correct.
- 3 From the meeting with FaHCSIA, staff understand that regardless of whether the CHIP payments were made to States or directly to non-government organisations (NGOs), they were essentially for the same purpose. This purpose was to provide remote Indigenous housing. This implies that the payments to States and to NGOs should be treated in a consistent manner.

Analysis

- 4 The proportion of CHIP payments being made to States and to NGOs has varied in recent years, with Australian government responsibility for the payments passing from ATSIC to FaHCSIA. In 2001-02, 28 per cent of CHIP payments were made to the States, with the remaining 72 per cent made to NGOs. The proportion of payments made to States increased to 77 per cent of payments in 2006-07, indicating that the Australian Government is increasingly viewing this function as a State responsibility.
- 5 For the 2004 Review and subsequent updates, CHIP payments to States have been treated as SPPs using the inclusion method, whilst the CHIP payments to NGOs have been treated by exclusion. The CHIP payments by State are shown in Table 1.

Table 1 Aggregated CHIP payments, 2002-03 to 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Payments to States	80.63	2.11	44.60	176.96	52.03	0.18	0.49	134.70	491.70
Payments to NGOs	36.86	29.96	124.99	99.67	39.61	7.59	1.67	170.37	510.71
Total payments	117.49	32.06	169.60	276.63	91.63	7.77	2.16	305.07	1002.41

(a) Totals may not add due to rounding.

Source: FaCSIA.

- 6 CHIP payments to the States accounted for \$492 million (or 49 per cent) of total CHIP payments from 2002-03 to 2006-07 (the five years included in the 2008 Update), with \$511 million (or 51 per cent) of total CHIP payments over the same period made to NGOs.
- 7 Table 1 shows that for each of Queensland, Western Australia and the Northern Territory, a large (around \$100 million or more) amount of CHIP payments have been made to NGOs. The Housing category assessment has assessed needs in relation to remote Indigenous housing for these States. However these payments to NGOs, assisting in meeting those needs, have not been offset against the GST shares of those States.
- 8 The treatment of Australian Government payments to both States and NGOs was considered by the Commission during the 2004 Review. In regard to Commonwealth Own Purpose Outlays (COPOs) the Commission decided to¹:
- treat COPOs paid to States and non-government organisations by inclusion where the standard practice was to pay them to State agencies; and
 - treat COPOs paid to States and non-government organisations by exclusion where the standard practice was to pay the COPO to non-government organisations. In these cases, both the payment and the expenditure it financed were excluded.
- 9 It would seem highly desirable to treat all CHIP payments on the same basis, either by exclusion or by inclusion. The meeting with FaHCSIA suggested that, historically, States acted primarily as post boxes where CHIP payments were concerned, on-passing CHIP payments to their ICHOs. With no matching requirements, this has led to State government contributions on top of the Australian government CHIP funds being small (although no data are available to quantify these State payments). This suggests that exclusion may be the appropriate treatment.
- 10 However, there are also theoretical and practical arguments for treating the CHIP payments by inclusion.
- The view of the Australian Government expressed during the 2004 Review was that COPOs could be treated as notional SPPs (that is, by inclusion) where the COPO was paid to third parties whose sole source of funding was State and the Australian

¹ CGC, Treatment of Specific Purpose Payments, 2004 Review Working Papers, para 110.

governments and whose expense relate to equalisation budget functions (for example, bodies involved in the delivery of State-like services to Indigenous communities)². The delivery of housing services is a State responsibility.

- Moreover, CHIP payments are increasingly being paid through the States. Table 2 shows that in 2006-07, for five States the majority of CHIP funding was through the States and across all States 77 per cent of total funding was through the States. From this result, it can be argued that the standard practice is now to pay CHIP payments to States. This reinforces the case for treating all CHIP payments by inclusion in the 2009 Update.
- From the practicality standpoint, the Housing category assessment includes disabilities associated with the provision of remote Indigenous housing. Reliable data are not available to enable the netting off these dwellings and their inhabitants from other State and community housing dwellings and inhabitants in the assessment.

Table 2 CHIP payments, 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Payments to States	16 006	0	3 046	43 345	10 263	180	439	46 830	120 108
Payments to NGOs	601	2 593	14 937	36	2291	318	0	15 735	36 512
Total payments	16 607	2 593	17 983	43 381	12 554	498	439	62 565	156 620

(a) Totals may not add due to rounding.

Source: FaCSIA.

Application year

- 11 A further argument in favour of treating all CHIP payments by inclusion in the 2009 Update relates to how these payments will be funded in the application year, 2009-10. The Australian Remote Indigenous Accommodation (ARIA) program, the successor to CHIP, was due to come into effect in July 2008. To date, only one State, the Northern Territory, has signed a specific ARIA memorandum of understanding with the Commonwealth. For the other States, ARIA will not now come into effect until January 2009 — the funding previously provided under CHIP has essentially been extended until the end of December 2008. There is likely to be an October COAG announcement of the actual quantum of ARIA funding, with details of funding by State to follow in December.
- 12 Based upon the agreement with the Northern Territory, the size of the State government contributions negotiated under the ARIA framework appear likely to be much larger than under the CHIP regime, reflecting a desire to redefine State and Australian government roles and responsibilities for remote Indigenous housing. Under the new model, the Australian Government will by and large take on responsibility for funding, whilst the States will be responsible for actual delivery of all housing services. This strategy appears to be aimed at

² Ibid. Para. 96.

making States more accountable and channelling funding through them, in place of direct funding grants from the Commonwealth to (ICHOs).

Proposed approach

13 On balance, it appears that treatment by inclusion would be appropriate and more readily implementable. Treating the CHIP payments to NGOs by inclusion would have a material impact upon the GST share for the Northern Territory. The effect of treating these payments by inclusion in the 2008 Update is shown in Table 3 below.

Table 3 Impact of treating CHIP payments to NGOs by inclusion, 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Revised GST share (\$m)	25.1	14.7	-7.6	-12.1	-1.2	0.6	0.8	-20.4	41.2
Revised GST share (\$pc)	3.62	2.81	-1.81	-5.69	-0.74	1.23	2.44	-94.23	1.95

(a) CHIP payments are allocated 80% to Housing and 20% to Services to Indigenous Communities.
Source:CGC.

14 A FaHCSIA fact sheet on Improved housing and new tenancy arrangements states that the ARIA funding for the Northern Territory is housing expenditure that is not part of the Northern Territory Emergency Response (NTER). This indicates that if the Commission is directed under the 2009 Update terms of reference to exclude expenses relating to the NTER, this will not affect the Commission’s treatment of CHIP payments.

Recommendation

Staff propose to recommend to the Commission that:

- for the 2009 Update, CHIP payments to NGOs be treated as SPPs by the inclusion method.