



Australian Government

Commonwealth Grants Commission

DISCUSSION PAPER CGC 2003/10

**PROPOSALS FOR THE TREATMENT OF NEW DEVELOPMENTS IN
STATE FINANCES, AND DATA CHANGES RELEVANT TO
THE 2004 REVIEW OF RELATIVITIES**

September 2003

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INTRODUCTION

1. New developments for the 2004 Review are:
 - the receipt of a draft of Part II of the 2004 Review terms of reference;
 - the treatment to apply to SPPs which commenced in 2002-03; and
 - whether SPPs which commence in 2003-04 or 2004-05 need to be backcast.

2. If the Australian Government Treasury or the State Treasuries wish to provide comments, the Commission asks that they do so by 15 October 2003.

DRAFT OF PART II OF THE TERMS OF REFERENCE

3. The draft of Part II of the 2004 Review terms of reference instructs the Commission on how it is to treat specified SPPs.

Clause 2 — Quarantined SPPs

4. Clause 2 instructs the Commission to quarantine certain SPPs:
 - (i) all SPPs quarantined in the 1999 Review and subsequent updates; and
 - (ii) Commonwealth payments made to the Sinking Fund on State Debt which was quarantined in the 1993 Review.

5. The Commission will treat the payments covered by paragraph 4(i) by exclusion — they were treated in the same way in the 2003 Update.

6. ***Commonwealth payments made to the sinking fund on State debt.*** In draft assessment paper, *CGC2003/78 Treatment of Specific Purpose Payments*, the Commission said it would treat capital payments for Sinking Fund on State Debt by inclusion. For consistency, it also decided to treat the contribution to the sinking fund component¹ of the Debt Redemption Assistance recurrent payment by inclusion.

7. The draft of Part II of the 2004 Review terms of reference instructs the Commission to treat the payment for Sinking Fund on State Debt by exclusion. For

¹ This component relates to compensation for the reduced Commonwealth contributions towards redemption of the Commonwealth government securities on issue for the States resulting from the *Financial Agreement Act 1994*.

consistency, the Commission proposes to also treat the contribution to sinking fund component of the Debt Redemption Assistance recurrent payment by exclusion.

Clause 3 — Non-compliance with SPP conditions

8. Clause 3 foreshadows that the Commission may be instructed to apply a particular treatment to amounts of SPPs forgone because of non-compliance with SPP conditions. Additional guidance will be provided to the Commission if this situation arises. To date, the issue has not arisen.

Clauses 4 and 5— Treatment of components of the Australian health care agreements

9. Clause 4 asks the Commission to quarantine the following components of the 2003 *Australian Health Care Agreements*:

- (i) payments in relation to mental health;
- (ii) payments in relation to the National Health Development Fund;
- (iii) payments in relation to the Pathways Home Initiative;
- (iv) all payments under an adjustment module, including those related to the Critical and Urgent Treatment (CUT) Waiting List Initiative; and
- (v) compliance payment arrangements (in this case including the maximum available compliance payments in the assessments).

10. Components (i), (ii) and (iv) were in the 1998 Agreements and quarantined by previous terms of reference. We will continue to treat these components by exclusion. Components (iii) and (v) are new components.

11. ***Pathways home program component.*** Under this program, the Australian Government will provide one-off funding to assist the move nationally to a greater focus on the care and services provided to support the transition from hospital to home, particularly for older people. The majority of the funding will be used to construct, purchase or upgrade service delivery infrastructure. Each State will receive the following amounts over the five year period commencing 2003-04:

New South Wales	\$86.0 million
Victoria	\$63.0 million
Queensland	\$45.0 million
Western Australia	\$23.0 million
South Australia	\$21.0 million
Tasmania	\$6.5 million
Australian Capital Territory	\$6.4 million
Northern Territory	\$1.9 million

12. Consistent with our usual method of quarantining an SPP, we will treat this component by exclusion². We do not intend to backcast this treatment to the 2004 Review assessment period because this program is a new initiative.

13. ***Compliance payment arrangements component.*** The Australian Government will set aside an amount equivalent to four per cent of the Base Health Care Grants each year as a compliance payment. This amount will be paid to those States that satisfy the compliance requirements specified in the agreement. Each State's share of the four per cent will be determined using the Commission's per capita relativities that will apply in the relevant financial year.

14. Clause 5 of the draft terms of reference instructs the Commission to include the maximum available compliance payments in its assessment. This requires the Commission to apply the same treatment to the four per cent compliance payment as the 96 per cent of the Base Health Care Grants. The Commission will seek advice from the Australian Government on the amount to be included in its assessment each year.

15. We do not intend to backcast the treatment of this component into the 2004 Review assessment period because the changes in the patterns of payment to the States are not material.

TREATMENT OF SPSS COMMENCED IN 2002-03

16. We have examined *Commonwealth Budget Paper No 3 2003-04* for all SPSS commenced in 2002-03. We considered both capital and current payments because the equalisation budget now includes capital payments. Some of the new SPSS have been discussed in *CGC 2003/78* and will not be discussed again in this paper. Table 1 lists these payments and their treatments.

Table 1 TREATMENT OF NEW SPSS DISCUSSED IN *CGC 2003/78*

Commonwealth Payment	Estimated amount	Treatment
	\$m	
CURRENT PURPOSES		
Concessions to Commonwealth Seniors Health Card Holders	9.935	Inclusion
State Seniors Card Reciprocal Transport Concessions	2.612	Inclusion
Gold Coast Light Rail	0.430	Inclusion
Roads to Recovery – Unincorporated areas	2.000	Exclusion
CAPITAL PURPOSES		
Federation Funds Projects – New South Wales/Victoria	6.000	Out of Scope
Warner Creek Dam and Northern Midlands Water Project	1.000	Out of Scope

² Because 2003-04, the year the Health Care Agreement commences, is outside the 2004 Review assessment period, this treatment will be implemented in the 2005 Update.

17. Table 3 lists the remaining SPPs commencing in 2002-03 and our proposed treatment.

SPPS COMMENCING IN 2003-04 OR 2004-05

18. We have also examined *Commonwealth Budget Paper No 3* for SPPs which will commence in 2003-04 or 2004-05 — the year in which the 2004 Review per capita relativities will be applied. On occasion, the Commission has treated a future Commonwealth SPP as if it had been paid in the assessment period (this is referred to as *backcasting*³).

19. Table 2 provides a list of new payments in 2003-04 or 2004-05. We do not propose to backcast any of them.

Table 2 SPPS COMMENCING 2003-04 OR 2004-05

Commonwealth Payment	Estimated amount
	\$m
CURRENT PURPOSES	
Gun Buyback Scheme	54.483
Agricultural Development Partnerships	2.207
CAPITAL PURPOSES	
Disaster Mitigation Package (paid through the States)	2.000

³ The Commission uses backcasting only when there is a major change in Commonwealth-State financial arrangements.

Table 3 NEW SPSS IN 2002-03, CURRENT PURPOSES, SHOWN IN *FEDERAL FINANCIAL RELATIONS 2003-04*, BUDGET PAPER No. 3

Commonwealth Payment	Description of Program	Estimated Amount Paid in 2002-3(\$m)	Proposed Treatment in 2004 Review	Reason for Treatment
<i>Fuel and Energy</i>				
Snowy Hydro Ltd – Co. tax compensation	To compensate Victoria and New South Wales for Company tax payments made by Snowy Hydro Ltd. Snowy Hydro is jointly owned by the Australian Government, New South Wales and Victorian Governments.	3.343	Exclusion	Allocation reflects needs.
<i>Agriculture, Forestry and Fishing</i>				
Regional Assistance	To provide support to farm business enterprises to improve farm productivity, profitability and sustainability.	3.193	Inclusion	The payment is for a State type service and needs are assessed.
<i>Other Purposes</i>				
National Aerial Fire Fighting Strategy	Commonwealth contribution to the direct costs of leasing and locating the three helitankers to meet anticipated national demand in 2002-03.	7.490	Inclusion	The payment is for a State type service and needs are assessed.
Natural Disaster Risk Management Studies (a sub-program of Natural Disaster Relief Agreement) (payment through the States)	Commonwealth contributes to the cost of undertaking worthwhile risk management studies to identify, analyse and evaluate risks from natural disasters and stimulate the introduction of preventative measures to reduce the impact of natural disasters.	3.000	Out of Scope	The payment is made through the States and does not have a direct impact on the State Budget.
Bushfire Recovery Appeals	Commonwealth contributions to public appeals for cash donations to be applied to relief and recovery measures for victims of bushfires. Funds to be applied to measures not covered by existing relief programmes.	2.500	Exclusion	Allocation reflects needs.
Assistance to ACT Softwood Sawmill	Payment to the ACT Softwood Sawmill for assistance following the bushfire.	1.000	Exclusion	Allocation reflects needs.

TERMS OF REFERENCE FOR THE 2004 METHODOLOGY REVIEW – PART II

DRAFT FOR CIRCULATION TO HEADS OF TREASURIES

COMMONWEALTH GRANTS COMMISSION ACT 1973

1. These terms of reference should be read in conjunction with Part I, provided to the Commission in 2000.
2. The Commission should continue to prepare its assessments on the basis that Specific Purpose Payments quarantined in previous terms of reference should continue to not affect the per capita relativities. These payments include (but are not necessarily limited to):
 - (a) National Competition Payments;
 - (b) States' contribution to the Commonwealth's deficit reduction strategy;
 - (c) payments to the States to reimburse them for revenue lost as a result of the establishment of a national scheme of companies, securities and future regulation;
 - (d) payments which are funded from the National Heritage Trust of Australia and the Regional Telecommunications Infrastructure Fund;
 - (e) payments for the Fringe Benefit Tax Transitional Grants for the public and not-for-profit hospitals;
 - (f) payments for Building IT Strengths – Tasmanian 'Intelligent Island';
 - (g) payments for Connecting Tasmanian Schools;
 - (h) payments for the Extension of the First Home Owners Scheme;
 - (i) payments for the Roads to Recovery program; and
 - (j) Commonwealth payments made to the Sinking Fund on State Debt.
3. In preparing its assessments the Commission should have regard for the need to observe policy neutrality in relation to a reduction in the level of a Specific Purpose Payment resulting from non-compliance by a State or Territory with the conditions of the payment. Any such reductions should not directly influence the Commission's assessments of the per capita relativities. Given the complexity and variety of Specific Purpose Payment agreements, additional guidance in relation to any actual reductions for non-compliance will be provided to the Commission if and when the need arises.

4. The Commission should prepare its assessments on a basis consistent with the Commonwealth's intention that the following components of the Australian Health Care Agreements between the Commonwealth and a State should not directly influence the per capita relativities:
 - (a) payments in relation to mental health;
 - (b) payments in relation to the National Health Development Fund;
 - (c) payments in relation to the Pathways Home Initiative;
 - (d) all payments under an adjustment module, including those related to the Critical and Urgent Treatment (CUT) Waiting List Initiative; and
 - (e) compliance payment arrangements (in this case including the maximum available compliance payments in the assessments).
5. Further to part 4(e), the Commission should prepare its assessments on the basis that the pool of funds to be distributed in accordance with the per capita relativities includes the maximum available compliance payments under the Australian Health Care Agreements – notwithstanding that these have been designated as deductible amounts pursuant to s.6 of the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* – in order to reflect the Commonwealth's intention that the per capita relativities should be equivalent to those that would have been assessed had the compliance payments been retained as part of the pool of GST and unquarantined Health Care Grants.