

# COMMONWEALTH GRANTS COMMISSION (CGC) 2010 REVIEW

## COMMISSION DISCUSSION PAPER 2009/01-S

### TREATMENT OF COMMONWEALTH PAYMENTS TO THE STATES

#### NEW SOUTH WALES TREASURY COMMENTS

APRIL 2009

New South Wales Treasury notes the Commission staff's attempt to establish a simple set of guidelines for the treatment of Commonwealth payments to the States.

However, in making decisions on whether a Commonwealth payment directly or indirectly affects a State's fiscal position, the Commission still will be required to make judgements. New South Wales Treasury believes the Commission will need to ensure its judgements are consistent and transparent, giving States and territories the opportunity to comment on the proposed treatment of particular payments.

The Commonwealth payments to the States and territories include:

- Specific Purpose Payments (SPPs),
- National Partnership Payments (NPPs),
- General Revenue Assistance (GRAs), and
- Commonwealth own-purpose expenses (COPEs).

New South Wales Treasury notes the Commission's intentions on the treatment of Commonwealth payments to the States and territories. This treatment involves the establishment, by the Commission, of relatively simple guidelines or rules against which each payment can be measured and its influence on the relativities determined.

The Commission proposes to consider each payment from the Commonwealth to the States and territories separately and to decide if the payment will affect state fiscal capacities either directly or indirectly. The Commission intends to ask one question in examining each payment – does the payment affect the state or territory's fiscal position either directly or indirectly? If the response is positive then it will affect the relativities. If the response is negative, then it should not affect the relativities.

The class of the different payments (SPP, NPP, GRA, COPE) or the recipient of the payments are of little importance. The most significant issue is whether the payment directly or indirectly affects the state or territory's fiscal position.

Commonwealth payments automatically will be defined as in or out of scope, depending on whether or not the transactions are included in the GFS general

government sector. Transactions included in the GFS general government sector will be in scope. Payments by the Commonwealth to non-general government sector agencies (such as PTEs), non-government agencies or individuals would be out of scope (paragraph 15)<sup>1</sup>. However, as the Commission notes, Commonwealth payments defined as out of scope still could have an indirect impact on State fiscal capacities where they reduce the amount States need to pay to provide a service or a subsidy. Where this is the case, their impact on State fiscal capacities needs to be recognised (paragraph 25)<sup>2</sup>.

It is in making those judgements that the Commission will need to ensure that there is consistency of treatment and transparency in making judgements.

This overall method is a refinement of the 2004 Review system and should be effective provided:

- The Commonwealth Government/Treasurer of the day minimises the number of payments excluded from the calculation of relativities in the Terms of Reference, particularly where a payment is made to one or a small number of States or territories.
- The Commission determines the status of payments consistently.
- The Commission clearly states its reasoning behind decisions.
- The Commission provides an opportunity for State and territory comment on proposed Commission treatment.
- As the class of the payment (SPP, NPP, GRA, COPE) is not important, the Commission should adopt a simple nomenclature for each payment to indicate its intended treatment. Each payment could be classified as either an *inclusion* meaning it affects relativities (directly or indirectly) or *exclusion*, it does not affect relativities.

In considering the payments identified in Attachment A to the Discussion Paper, some of the difficulties in making these judgements are seen. For example:

- Commonwealth payments for Royal Darwin Hospital –equipped, prepared and ready – are proposed to be excluded while payments for a PET scanner for Westmead Hospital in NSW and to the Victorian Cytology Service are proposed to be included. In these cases a crucial part of the question may be whether a Commonwealth payment relieves a State government of expenses the State government might reasonably have been expected to incur. The Commonwealth payments for Darwin Hospital might relieve the NT Government of payments it might otherwise have needed to make for the hospital to provide adequate services to Darwin and wider NT communities.

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<sup>1</sup> CGC, *Treatment of Commonwealth Payments to the States*, Staff Discussion Paper CGC2009/01-S, page 3

<sup>2</sup> *Ibid.*, page 5

- Commonwealth payments for the Alice Springs – Darwin railway and the upgrade of the Eyre Peninsula rail system in South Australia are proposed to be excluded and payments for the Gold Coast light rail are proposed to be included.
- Indigenous housing and infrastructure payments are proposed to be excluded though the payments may fund services which would otherwise be partly or fully funded by the respective State or territory governments.
- Commonwealth payments for the Tasmanian forests package and Tasmanian water infrastructure are proposed to be excluded. Though payments to third parties, the payments might indirectly impact on expenses the Tasmanian Government might otherwise have borne.

Some of the payments proposed for exclusion on the basis that they were quarantined by the 2009 Update Terms of Reference may need to be reconsidered in the absence of specific direction in future terms of reference.

In addition, some payments not included in Table A-4<sup>3</sup> which have been quarantined in previous terms of reference – such as payments for the Northern Territory Emergency Response and for Mersey Hospital in Tasmania – may need to be reconsidered in the absence of specific directions in future terms of reference. NSW Treasury considers that in both cases these payments appear to be material, have a potential impact on the jurisdictions' budget and provide assistance for services included in the CGC's adjusted budget.

### **Backcasting**

NSW Treasury agrees that where there is a substantial change in Commonwealth funding arrangements in an application year, the Commission should backcast the change to the assessment years to reduce the likelihood of windfall gains and losses to the States from the changed arrangements. The exceptions to backcasting changes include cases where it is not practical to estimate the assessment period equivalent amounts or where changes are made in the quantum of payments.

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<sup>3</sup> *Ibid.*, page 17