

**Response to Commonwealth Grants  
Commission discussion paper 2009/01-S**

**Treatment of Commonwealth  
Payments to the States**

**April 2009**





# 1. Reform in Commonwealth-State financial arrangements

The Council of Australian Governments (COAG) reforms have streamlined the classification of financial arrangements with the States. As part of the reforms, it is expected that:

“Specific Purpose Payments (SPPs), project National Partnership Payments (NPPs) and general revenue assistance (GRA) not including the GST would be treated by inclusion and impact on the relativities, while facilitation and reward NPPs would be excluded and have no impact.”<sup>1</sup>

The Commonwealth Grants Commission (CGC) treatment of payments under the new federal financial arrangements has been agreed to by COAG through the new intergovernmental agreement (IGA)<sup>2</sup>. Subject to consultation with the Commonwealth and the States, the Commission has the discretion over the appropriate treatment of NPPs and GRA. The treatment of these payments is to be determined predominantly by horizontal fiscal equalisation.

# 2. Proposed Treatment of Commonwealth Payments to the States

The Commonwealth Grants Commission proposes that it considers each transfer payment (SPPs, NPPs, GRA) or COPE individually, to decide if the payment has an impact on State fiscal capacities and should therefore affect the relativities.

The Commission defines in-scope payments as financial transactions included in the Australian Bureau of Statistics Government Finance Statistics general government sector. Out-of-scope payments are defined as payments by the Commonwealth to non-general government agencies, non-government organisations, or individuals.

The Commission propose that payments should be treated as follows:

- in-scope payments:
  - should have an impact on the relativities if the payment has an influence on State fiscal capacities, then the revenue from the payment would be assessed actual per capita and the expense assessed differentially;
  - should not have an impact on the relativities if the payment does not have an influence on State fiscal capacities
    - payments would generally be assessed in the same way on both the revenue and expense sides of the State budgets (or the revenue could be netted off the expenses prior to the assessment);
    - where payments cannot be related to a State expense, an equal per capita assessment would be made of the revenue and the expense assessed differentially;

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<sup>1</sup> *Treatment of Commonwealth Payments to the States, Staff Discussion Paper CGC 2009/01-S, Paragraph 8*

<sup>2</sup> *Intergovernmental Agreement on Federal Financial Relations, 2008*

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- out-of-scope payments should have an impact on the relativities if the payment has an influence on State fiscal capacities; in this case, a disability factor would be included in the relevant assessment to make appropriate adjustment to assessments.

Major changes in Federal financial arrangements which have an impact on the year in which the relativities will be applied should continue to be backcast into the assessment years.

Victoria supports the Commission staff's proposed treatment of the payments as outlined in the discussion paper and the retention of backcasting of major changes in Federal financial arrangements.

Victoria supports the inclusion of payments that have a material influence on State fiscal capacities. This rule will provide greater simplicity and consistency across the treatment of Commonwealth payments. In-scope payments should be included if the payment is available to provide budget support for state and territory services. Out-of-scope payments should be indirectly included if the payment reduces the amount States need to pay to provide a service or a subsidy.

Victoria considers that the proposed treatment of payments is appropriate as long as it is transparent and consistent across all jurisdictions. Victoria asks that the Commission consult with the States on any new developments and further consideration of these matters.

Victoria notes that the proposed treatment of payments could change once additional information on the nature of some payments is received and the terms of reference for the 2010 Review and Commission assessments are finalised.

### 3. Implementation of Payments

Subject to the requirements of the terms of reference, payments that affect States' fiscal positions will impact on their relativities. Victoria supports treating all SPPs by inclusion except for payments to non-government schools. Victoria agrees that most GRA and COPEs are to be treated by inclusion except for the cases where the GRA or COPE does not affect State fiscal capacities. Victoria agrees that out-of-scope COPEs that have an indirect impact on State fiscal capabilities should be assessed with a disability factor.

The guidelines for the treatment of NPPs have been left open for staff to consider the intent and form of each payment in deciding their appropriate treatment. The Commission considers that:

- NPPs that are paid to all States and an assessment of expenses is undertaken be treated by inclusion;
- NPPs that are a Commonwealth 'purchase' of a service from the State be treated by exclusion; and
- NPPs that are a result of unique State policies be treated by exclusion.

Victoria supports the general treatment of NPPs as prescribed by the Commission except in the case where NPPs are a result of unique State policies. In this case, Victoria supports consideration of each NPP on a case by case basis. Victoria believes that the Commission's proposal is consistent with the IGA, which states that 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.

Victoria expects that payments for the Victorian cytology service, which is part of the National Partnership for Health Services, will continue to be treated by exclusion. These payments will be listed in Part 2 of the terms of reference for the 2010 Review.

Victoria supports the retention of backcasting of major changes in Federal financial arrangements such that order that no State receives a windfall gain or suffers a significant loss as a result of major changes. This includes backcasting the distribution of national SPPs to the States from a historical distribution to one based on population shares, whereby the National Schools SPP will be distributed based on State shares of national government enrolments and the non-government component will be distributed on the basis of socio-economic status. Victoria supports not backcasting the funding increase and reclassification or termination of payments.

While Victoria broadly supports the implementation of payments as proposed by the Commission, Victoria awaits the actual application of the payments before offering any conclusive comment. At this stage, Victoria agrees with the Commission's indicative treatment of Commonwealth payments to the States.