



**NORTHERN TERRITORY VIEWS ON  
CGC STAFF DISCUSSION PAPER 2009/01-S**

***TREATMENT OF  
COMMONWEALTH PAYMENTS TO THE STATES***

**APRIL 2009**

**COMMONWEALTH GRANTS COMMISSION  
GENERAL REVENUE GRANT RELATIVITIES  
2010 REVIEW**

### **Key Points**

- The Territory agrees with the Commission's proposed treatment of Commonwealth payments that support state government budgets by inclusion.
- The Territory agrees that national specific purpose payments (SPP's), project National Partnerships (NPs) and General Revenue Assistance (GRA) (excluding Goods and Services Tax (GST) and Budget Balancing Assistance (BBA)) should be treated by inclusion.
- The Territory strongly supports the use of the Commission's discretion to decide whether NP facilitation payments should be treated by inclusion.
- The Territory agrees that Commonwealth payments that do not impact on states fiscal capacities should not affect relativities.
- The Territory considers that exclusion should be considered where Commonwealth payments designed to address infrastructure and service backlogs are outside of the scope of equalisation as currently defined.
- The Territory believes that Commonwealth payments made to other (non-government) organisations generally should have no impact on relativities.
- The Territory supports backcasting in relation to the new arrangements under the Intergovernmental Agreement on Federal Financial Relations.
- Payments associated with the Northern Territory Emergency Response (NTER) and Australian Remote Indigenous Accommodation (ARIA) programs should continue to have no impact on the relativities, consistent with previous Commission Terms of Reference.

### **Proposed Treatment of Commonwealth Payments to the States**

Commission staff have proposed an approach whereby payments that affect states' fiscal positions should generally be treated by inclusion and those that do not should not affect relativities. The Territory generally agrees with this approach.

## **Payments influencing State Fiscal Capacities**

The Territory agrees with the Commission's proposed treatment of Commonwealth payments that support the state government budgets by inclusion.

The Territory strongly agrees that national SPP's, project NP's and GRA (excluding GST and BBA) should be treated by inclusion, as agreed in the Intergovernmental Agreement on Federal Financial Relations (IGA). The proposed treatment of payments to non-government schools is supported.

The Territory notes that the IGA has the presumption of exclusion for facilitation and reward payments. While the proposed exclusion of reward payments is supported, the Territory strongly supports the use of the Commission's discretion to decide whether facilitation payments should be treated by inclusion.

As a general principle, the Territory supports treatment by inclusion where payments are part of core state services and where there is no differential assessment of needs in the distribution of funding. Payments for services delivered on behalf of the Commonwealth, payments to PTEs and needs based payments should be treated by exclusion.

The Territory notes that treatment of payments for any given NP may change depending on the nature of the funding and whether it is a facilitation or reward payment. For example, the Elective Surgery Waiting List Reduction Program includes both facilitation and reward payments. The facilitation payments for this program are provided for a core state service and should impact relativities. Reward payments reflect effort on behalf of states and should not impact the relativities.

## **Scope of Horizontal Fiscal Equalisation (HFE)**

HFE as implemented in the 2009 Update is defined as:

*State governments should receive funding from the Goods and Services Tax revenue such that, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each would have the capacity to provide services at the same standard (Commonwealth Grants Commission 2009 Update).*

The Territory considers that exclusion should be considered where Commonwealth payments designed to address infrastructure or service backlogs or provide above average effort are outside of the scope of HFE as currently defined. Current examples include the NTER and ARIA programs in the Northern Territory, both of which are currently quarantined through the terms of reference.

The Territory considers that NPs targeted at addressing backlogs under the COAG Closing the Gap initiatives represent above average effort that should be assessed on a case by case basis. Examples of NPs that are specifically aimed at Closing the Gap include Indigenous Health, Indigenous Early Childhood Development, Remote Service Delivery and Economic Participation. The most significant of these is Indigenous Health which proposes expenditure of \$1.6 billion, with \$0.8 billion of Commonwealth expenditure, matched by State expenditure. While the distribution of state expenditure has been made, the basis of distribution of Commonwealth funding is not known but is not expected to be consistent with state matching contributions. Some of the Commonwealth expenditure is expected to be through States. Nonetheless a significant amount of funding across Australia is expected to be as COPEs and given its purpose to Close the Gap, the Community and Other Health assessment may require adjustment in future years if the funding intent of the NP is to be preserved.

### **Commonwealth Own Purpose Expenses**

The Territory agrees with the Commission staff view that Commonwealth payments that do not impact on states fiscal capacities should not be included.

The Territory considers that fee-for-service payments from the Commonwealth should not affect the relativities – examples include Legal Aid payments.

The Territory supports the use of the Commission's discretion in determining the treatment of payments to third parties on a case-by-case basis. However, Paragraph 25 of the Staff Discussion Paper identifies a potential anomaly in treatment of similar payments over time.

Paragraph 25 of the Staff Discussion Paper identifies that payments to Indigenous community housing authorities may reduce the amount of Indigenous housing states need to provide and therefore should be treated by inclusion.

The Terms of Reference for the 2009 Update quarantine ARIA payments to the Northern Territory from the Commission's assessments. The ARIA program replaced the Community Housing and Infrastructure Program (CHIP) from 1 July 2008.

Using the principle outlined in paragraph 25 would result in payments to third parties under CHIP prior to 1 July 2008 potentially being treated by inclusion. However, the same payments from 1 July 2008 would have no impact on relativities due to the quarantining of ARIA.

Thus the same payments could potentially be treated differently across assessment years. The Territory considers that backcasting arrangements that apply in the application year are appropriate in this instance.

### **Backcasting**

The Territory agrees with the Commission staff's proposal to backcast major changes resulting from the Intergovernmental Agreement on Federal Financial Relations as it will assist states with the phasing in of the new arrangements.

### **Indicative Treatment of Commonwealth Payments in the 2010 Review**

The Territory supports the proposed treatment of payments as outlined in Attachment A of the Staff Discussion Paper. The Territory notes that the NTER is not included in Attachment A and strongly contends that these payments should have no impact on the relativities as expressed in previous Terms of Reference to the Commission. The Territory has previously provided supporting documentation in relation to the quarantining.