



Australian Government

Commonwealth Grants Commission

2010 REVIEW

**TREATMENT OF
COMMONWEALTH PAYMENTS TO THE STATES**

**STAFF DISCUSSION PAPER
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BACKGROUND

- 1 In 2005, the Heads of Treasury undertook a review of horizontal fiscal equalisation. A conclusion of that review was that Commission processes could be simplified. The 2010 Review terms of reference ask the Commission to simplify its assessments, provided to do so is consistent with the principle of equalisation. The Commission believes simplification and equalisation can both be achieved and that simplification will improve the reliability and robustness of the processes and the acceptability of the outcomes. The treatment of Commonwealth payments to the States is part of the Commission's methods that might be made simpler.
- 2 In October 2008, the Commission released a position paper 2008/30 *The Adjusted Budget*. This noted that the Commonwealth Government and the States were to sign a new intergovernmental agreement (IGA)¹ and that Commission staff would send a discussion paper to the States on the treatment of Commonwealth payments to the States in the 2010 Review once the new IGA became final. However, the Commission noted that the new arrangements were unlikely to change the Commission's principle that Commonwealth payments should be included in the adjusted budget if they were available to meet assessed State expenses. It therefore indicated that its preliminary view, for the 2010 Review, was to continue including recurrent and capital Specific Purpose Payments (SPPs) which have a direct impact on State budgets in the adjusted budget. It also said that it intended to continue treating Commonwealth Own-Purpose Expenses (COPEs) paid to States by inclusion. For the COPEs paid mainly to non-government organisations for State-type services, the Commission said it preferred leaving them out of scope but that a disability factor could be assessed if there were an indirect impact through a reduced call on State budgets.
- 3 As the new IGA was agreed to in November 2008, this paper provides staff views on how Commonwealth payments to the States might be treated in the 2010 Review.
- 4 States are invited to comment on issues raised in this paper as part of the iterative approach the Commission is taking to the development of assessment methods.

COAG REFORMS

- 5 The Commonwealth has complex financial arrangements with the States. Broadly, two types of payments are made to States:
 - transfers to State Governments for general or specific purposes, classified in ABS Government Finance Statistics (GFS) as grants; and
 - Commonwealth own-purposes expenses (COPEs) paid to State Governments for services they supply, classified mostly as user charges in GFS but sometimes as grants.

¹ *Intergovernmental Agreement on Federal Financial Relations, 2008.*

- 6 In the past, the boundary between these has been blurred. The classification as transfers or COPEs is done by Commonwealth departments when they are paid, and by States for budget reporting and GFS purposes when they are received. The classification of the same payment by the two levels of government may be different.
- 7 The Commonwealth also contracts with State PTEs and non-government service providers to provide services similar to those provided by States, but these payments are not included in GFS general government statistics.
- 8 The COAG reforms have seen the streamlining of SPPs and the introduction of National Partnership payments (NPPs). NPPs will be either project payments, facilitation payments or reward payments. The expectation in the IGA is that SPPs, project 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. Subject to consultation with the Commonwealth and the States, the Commission has discretion on the appropriate treatment of NPPs and GRA, other than the GST which will constitute the pool of funds to be distributed by the relativities. The Treasurer may also issue terms of reference to the Commission directing it on the treatment of NPPs.
- 9 While the Treasurer retains the power to decide the treatment of any NPP, the Commission has been given a major responsibility for deciding how NPPs should be treated. The IGA thus ensures that, unless directed in the terms of reference, horizontal fiscal equalisation is the predominant principle to be used in determining the treatment of all Commonwealth payments to the States.

PROPOSED TREATMENT OF COMMONWEALTH PAYMENTS TO THE STATES

Guidelines

2004 Review

- 10 In the 2004 Review, the Commission distinguished between *'in' and 'out' of scope payments*. In-scope payments were those that had a direct impact on the State budget and which provided assistance for services in the adjusted budget. This was defined by the general government budgets of the States, although a small number of Commonwealth payments to non-State agencies were considered to be in-scope if they were similar to payments made to the States.
- 11 Beyond that, for in-scope payments, there was the question of how they should be treated. They could be treated as part of the *pool* or by *inclusion* or *exclusion*. The terms of reference specified that the GST and health care grants comprised the pool. In most other cases, the payments were treated by inclusion, meaning that payments and the expenses relating to them were included in the adjusted budget. The expenses were assessed differentially in relevant categories and the revenue was assessed on an actual per capita (APC) basis as the payments were available to meet individual States' assessed expenses.

- 12 Some payments were treated by exclusion (the revenue was usually deducted from the associated expense) if they were a reimbursement for services provided to or for the Commonwealth, if they were distributed consistently with the Commission's assessment of needs or if they were minor and the introduction of disabilities into an expense assessment was not warranted. In cases where the expense funded by the payment was not known, only the revenue was excluded.
- 13 In a few cases, the Commission treated payments by inclusion but introduced an assessment that ensured these payments had no influence on the relativities. It did this if it was not appropriate to treat the payments by exclusion but the Commission considered their distribution recognised State expense needs. In these instances, an APC assessment for the amount of the payment received by each State was introduced in expense categories. For example, non-government schools grants in the 2009 Update and National Highways payments in a number of inquiries were treated in this way.
- 14 Lastly, where there was a major change in the Federal financial arrangements, the Commission backcast the new arrangement into its assessments. It did this by adjusting the assessment year expenses and revenues to reflect what they would have been had the new arrangements been in place in those years. Backcasting produced relativities that better reflected State requirements for Commonwealth assistance in the year of application.

2010 Review

- 15 For the 2010 Review, staff consider that the 2004 Review approach could be streamlined. Staff propose removing one layer of decision making in the treatment of Commonwealth payments. The decision on what is in or out of scope would no longer be a matter for Commission decision. What is in-scope would be defined by the financial transactions included in the GFS general government sector. All such transactions (transfers and COPES) would be 'in'. Payments by the Commonwealth to non-general government agencies (such as to PTEs), non-government agencies (such as Indigenous Health Organisations) and to individuals would be 'out'.
- 16 The decision for the Commission would then be whether the payments should influence States' assessed fiscal capacities (and the relativities) and if so, how.
- 17 For in-scope payments, the Commission's principles for the 2010 Review and the IGA suggest that payments which finance part of assessed State expenses, or in the words of the IGA, those available to provide 'budget support for state and territory services'², have an influence on State fiscal capacities. They should therefore have an impact on the relativities. Payments which do not have an influence on State fiscal capacities should not have an impact on the relativities.
- 18 Some out-of-scope payments may also affect State fiscal positions, but indirectly. They may reduce assessed State expenses indirectly by, say, reducing a State's deficit payment to its PTE

² *Intergovernmental Agreement on Federal Financial Relations, 2008.*

or reducing the amount the State needs to spend to deliver a substitutable service. In such cases, the Commission has proposed assessing a disability in areas of assessed State expenses to recognise the indirect impact. Staff propose continuing this approach. An example is the proposed treatment of Medicare payments in the Community and other health services assessment.

- 19 The rest of the paper explains how the proposed approach would be implemented.

Assessment of in-scope payments

- 20 Subject to the requirements of terms of reference, staff consider that in-scope payments should impact on the relativities if they have an influence on State fiscal capacities. If they do not, or are quarantined by terms of reference, then they should not impact on the relativities.

Payments influencing State fiscal capacities

- 21 Where payments are available to provide 'budget support', those payments should be assessed APC. A differential assessment of State expenses, paired with the APC assessment of the revenue, leaves the net amounts States are assessed as needing to spend on providing the same level of service to their populations impacting on their GST shares.

Payments not influencing State fiscal capacities

- 22 Payments which do not affect assessed State fiscal capacities may include:
- payments not providing budget support for State services, such as
 - payments for Commonwealth purchases from States. These achieve Commonwealth purposes and meet the full cost of the activity;
 - payments 'through the States' or to 'third parties' which are outside the control of States and have no direct impact on State budgets (States act as pure intermediaries);
 - payments which are the result of unique State policy; or
 - payments for which a differential assessment is not warranted or practical.
- 23 There are a number of ways of ensuring such payments have no impact on the relativities.
- If the revenue from these payments is assessed APC and the expenses relating to them are also assessed APC in relevant expense categories, then there will be no impact on States' assessed fiscal capacities. This could be implemented by including an APC component in relevant categories, reflecting the actual distribution of the payment³.
 - Equal per capita (EPC) treatments of the revenue and expenses could also be adopted. This would require a Commonwealth payment category to be assessed EPC and an EPC component in relevant expense categories.

³ This will require the matching of each payment treated in this way with an expense category. The payments would need to be netted off gross assessed expenses before constructing the disability factors to be applied in the capital assessment.

- On practicality grounds, a simpler way of giving effect to this treatment would be to net the payment off gross expenses before any assessment of expenses was undertaken. The revenues and expenses are ‘in’ the adjusted budget but the revenues are classified to the expense category as an offset. This treatment was described as ‘exclusion’ in the 2004 Review.

24 In a few instances, the Commission may not know which State services are funded by a payment. In these situations, a different treatment would be required to ensure the payment has no impact on State fiscal capacities. As it is not known how the revenue is used to provide State services, it is not possible to include balancing assessments in an expense category. If the revenue from the payment were assessed EPC, it would not influence the relativities. However, the expensing of the payments would influence the relativities as the expenses would continue to be assessed in the categories in which they fell. This treatment would have the same effect on the relativities as the past treatment of the National Competition payments by exclusion — only the revenue was excluded, not the expenses funded by them. This was described as revenue exclusion in the 2004 Review.

Assessment of out-of-scope payments

25 The Commonwealth payments not made to State general government sectors and therefore not included in the State general government GFS statistics but which could have an impact on State fiscal capacities could include those made direct to public trading enterprises (PTEs), to non-government agencies or to individuals. Where these payments reduce the amount States need to pay to provide a service or a subsidy, then their impact on State fiscal capacities needs to be recognised. For example, Commonwealth payments direct (not through the States):

- to transport PTEs could reduce the amount of deficit funding States are required to provide;
- to Indigenous community housing authorities may reduce the amount of Indigenous housing States need to provide; or
- to individuals, such as in the case of Medicare rebates, can reduce the quantity of community health services States provide.

26 In these cases, staff propose that the Commission recognises the differential impact on State fiscal capacities through the assessment of disabilities. A State with above average Commonwealth payments to these third parties would need to spend less than the average per capita amount to deliver comparable services. Similarly, a State with less than average would be required to spend more. A disability factor or the subtraction approach proposed for use in the Community and other health services assessment could be used to make appropriate adjustments to assessments.

Backcasting

27 Consistent with 2004 Review methods, the Commission decided that it wished to backcast the changed arrangements stemming from the IGA into the assessment years of the 2009 Update if

they constitute major changes in Federal financial relations and if not prevented from doing so by terms of reference. It did not need to do so because the application year of the 2009 Update was not affected by the changed distribution of Commonwealth payments.

- 28 During the negotiation of the IGA, States and the Commonwealth Treasury indicated to Commission staff with modelling requests that they expected the new payment arrangements to be backcast in future reviews and updates, to assist with the phasing in of the new arrangements.
- 29 The advantage of backcasting major changes in Federal financial arrangements is that no State receives a windfall gain or a major loss due to the change. It ensures the relativities are more contemporaneous. A disadvantage of backcasting is that it is not always simple. Also the concept of achieving equalisation over time is disturbed. The historical data in the assessment years is changed to reflect a future situation.
- 30 Staff consider that backcasting changed arrangements of the application year into the relativities where they are major is more consistent with the 2010 Review principle of contemporaneity than not doing so. Provided backcasting is applied to only major changes, then its use can be limited. Staff propose that the Commission retains backcasting in these circumstances for the 2010 Review and subsequent updates.

Summary

- 31 Staff propose that the Commission considers each transfer payment (SPPs, NPPs, GRA) or COPE to decide if the payment has an impact on State fiscal capacities and should therefore affect the relativities. Staff propose that where the Commission decides that:
 - in-scope payments:
 - should have an impact on the relativities, that the revenue from the payment be assessed APC and the expense differentially;
 - should not have an impact on the relativities, the payment 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 an assessment being made); and
 - should not have an impact on the relativities but the payment cannot be related to a State expense, an EPC assessment would be made of the revenue and the expense assessed differentially;
 - out-of-scope payments should have an impact on the relativities, a disability factor would be included in the relevant assessment.
- 32 Staff also propose that 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.

IMPLEMENTATION

- 33 Instructions in terms of reference on the treatment of any payment would be followed first. Then the treatment of other individual payments would be considered.

National SPPs

- 34 The IGA notes that all national SPPs are ‘available to provide budget support for state and territory services’⁴. Using the guidelines set out above, staff propose that the revenue from them be assessed APC and the expensing of them differentially.
- 35 There is one exception — the payments to non-government schools which are included in the Schools national SPP. These payments are to a third party, so, as for the 2009 Update, the revenue from the payments and the expenses would be assessed APC.

NPPs

- 36 The most complex new area for Commission consideration is the appropriate treatment of NPPs. The IGA suggests that project payments should impact on the relativities but facilitation and reward payments should not. However, the IGA also says that the Commission may decide to treat any NPP differently if it considers such a treatment more appropriate.
- 37 The guidelines set out above for deciding how each payment will be assessed will be applied to all these payments:
- Where NPPs are generally paid to all States and an assessment of expenses is undertaken, staff would be inclined to have those payments impact on relativities. Most project payments are like this but some facilitation payments paid to all States for the same policy objective might also be.
 - Where any NPP is like a Commonwealth ‘purchase’ of a service from the State, where it is to a third party or where it is not practical to introduce an assessment, staff would be inclined to preclude those payments from having an impact on relativities. For example, the following types of payments should not influence the relativities:
 - if a State receives a payment to develop or trial a new approach to service provision for the Commonwealth, it is as if the Commonwealth has ‘purchased’ the trial and the payment and expenses do not influence a State’s fiscal capacity;
 - if an NPP is paid through a State to a PTE to encourage more efficient approaches to service delivery, it does not affect assessed State fiscal capacities; or
 - if an NPP is for a highly specialised purpose, such as for, say, salinity control, and the Commission does not have the data to introduce a disability assessment, its distribution should not impact on a State’s GST.

⁴ *Intergovernmental Agreement on Federal Financial Relations, 2008.*

- Where an NPP is the result of unique State policies, it should have no impact on the relativities. Staff would be inclined to assess them in a way that recognises that they are due to above average effort.

38 Staff propose that the Commission consider the intent and form of each payment in deciding the appropriate treatment rather than decide a treatment for each class of payment. If the purpose of the payments changes over time, their treatment may change. However, their treatment in the years before the change would not be changed.

GRA

39 Under the new IGA, the GST is the only revenue included in the pool of funds distributed by the relativities. Other GRA is to impact on the relativities unless the Commission considers it should not. Using the new guidelines, most GRA will affect State fiscal capacities and be assessed APC on the revenue side and differentially in the relevant assessment category. Because of its general nature, it is not associated with a particular expense category but is available to meet assessed State expenses⁵.

40 Where the GRA does not affect State fiscal capacities, such as that for ACT municipal services, it will be assessed so that it does not have an impact on the relativities (usually EPC).

COPEs

41 The IGA is silent on how COPEs should be treated by the Commission. However, using the new guidelines, where COPE revenue has an impact on State fiscal capacities and so should affect the relativities, this would be recognised with an appropriate disability assessment.

42 Where a COPE for the same purpose is paid sometimes to States and sometimes to non-State agencies, only the revenue paid to States would be in-scope. However, revenue paid to non-government agencies (and out of scope) may also have an indirect impact on State fiscal positions if it reduces the assessed expenses States need to incur to provide the average level of services. A disability assessment would be appropriate to recognise that. A disability factor to recognise the differential amount of revenue paid to non-government agencies could be calculated.

43 Similarly, where out-of-scope COPEs have an indirect impact on State fiscal capacities, disability assessment could be included in relevant categories.

Backcasting of the IGA changes

44 The IGA has changed the following:

- The distribution of national SPPs to the States will change from the current historical distribution to one based on population shares (phased in over 5 years); the government

⁵ Some GRA available to meet State assessed expenses may be more appropriately classified to relevant State revenue categories and assessed with State own-source revenues. Such payments include those for the Snowy Hydro Ltd tax compensation and mining royalties.

school component of 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 the Commonwealth's socio-economic status formula;

- There has been a substantial increase in funding, especially for health and schools.
- Some SPPs will become COPEs — for example, the Home and Community Care SPP will become a COPE.
- Some payments will be cashed out and terminated — for example, the Repatriation General Hospital will be cashed out.

45 Staff propose that the Commission:

- backcast the application period's distribution of Commonwealth payments to the States into the assessment years of the Review and subsequent Updates because this is a major change in Federal financial arrangements;
- not backcast the funding increase because it is not practical to estimate the assessment period equivalent amounts or in which expense categories States would have increased their spending;
- not change the treatment in past assessment years of payments changing their classification or terminating.

Summary

46 Attachment A provides an indication of how each Commonwealth payment would be treated in the 2010 Review using the proposed guidelines. The proposed treatment might change once more information on the nature of some payments is received and the terms of reference for the 2010 Review and Commission assessments are finalised.

CONCLUSIONS

47 The outcome of the approach to the treatment of Commonwealth payments to the States proposed above will be little different from the outcome of the approach the Commission took in the 2004 Review. Payments with an impact on State fiscal positions will continue to have an impact on the relativities while those that do not, will not. All Commonwealth payments will continue to be considered by the Commission and backcasting will be continued.

48 There are presentational differences. In terms of payments defined as in-scope, only COPEs not paid to State general government sectors in some States but paid to that sector in others will not be included. All other payments will be included and decisions on how they will be assessed will influence whether they should have an impact on the relativities or not.

49 The Commission will still need to consider whether out-of-scope payments should have an indirect impact on the relativities. Disabilities to recognise their indirect impact on State budgets may be assessed.

- 50 The main advantage of the revised approach is that the way the revenue and expenses relating to a Commonwealth payment will be assessed has become more transparent. It will be made clearer which payments have an impact on the relativities and which will not.
- 51 States are asked to consider the proposed approach. It requires the Commission to answer only one question about each payment: does the payment affect States' fiscal positions? If the answer is yes, the payment should have an impact on the relativities. If not, it should not affect the relativities. There are a number of ways of ensuring payments do, or do not, influence the relativities. The methods proposed in this paper are intended to make the impact payments have more transparent.
- 52 State views are sought.

ATTACHMENT A

INDICATIVE TREATMENT OF COMMONWEALTH PAYMENTS IN THE 2010 REVIEW

- 1 The attached tables provide details of whether, on the basis of currently available information, the staff consider each payment has an influence on State fiscal capacities and should therefore impact on relativities. The proposed treatments could change once more information on the nature of some payments is received and the terms of reference for the 2010 Review and Commission assessments are finalised.

Indicative treatment of Commonwealth payments in the 2010 Review

Table A-1: General Revenue Assistance

Commonwealth payment	Year of payment end of June	New SPP framework payment type	U2009 Treatment	R2010 treatment	Reason if apply 'no impact on relativities'	Extra information on payment
General Revenue Assistance (GRA)						
GST revenue	05 to 10	GRA	GST pool	GST pool		
ACT municipal services (paid as ACT national capital influences and assistance for water and sewerage up to 2007-08)	05 to 10	GRA	Out of scope	No impact on relativities	Payment to third party	To meet the additional municipal type costs the ACT bears flowing from Canberra's role as the national capital. Funding is based upon the findings of the CGC. Also to compensate the ACT Government for additional costs resulting from the national capital planning influences on the provision of water and sewerage services.
Royalties — Payment to NT	05 to 10	GRA	Mining revenue	Mining revenue		
Royalties — Payment to WA	05 to 10	GRA	Mining revenue	Mining revenue		
Compensation - crude oil excise condensate	08 to 10	GRA	Mining revenue	Mining revenue		The Commonwealth Government has removed the current exemption of condensate from crude oil excise from May 2008. This results in a reduction in revenue from the offshore petroleum royalty which is shared with Western Australia. This payment is to compensate Western Australia for the loss of royalty revenue.
GST deferral	08 to 10	GRA	Inclusion	Impact on relativities		
Snowy Hydro Ltd — company tax compensation	05 to 10	GRA	Contribution by trading enterprises - dividend equivalent payment	Miscellaneous revenue		To compensate Victoria and New South Wales for company tax payments by Snowy Hydro Ltd. Snowy Hydro is jointly owned by the Australian, New South Wales and Victorian Governments.

Table A-2: National SPPs

Commonwealth payment	Year of payment end of June	New SPP framework payment type	U2009 Treatment	R2010 treatment	Reason if apply 'no impact on relativities'	Extra information on payment
Health care grants	05 to 10	Healthcare SPP	Inclusion	Impact on relativities		
National public health - excluding Victorian Cytology service	05 to 10	Healthcare SPP	Inclusion	Impact on relativities		
Youth health services	05 to 09	Healthcare SPP	Inclusion	Impact on relativities		
Essential vaccines	05 to 10	Healthcare SPP	Inclusion	Impact on relativities		
National Schools SPP	09 to 10	Schools SPP		Impact on relativities		
Government schools - capital and current	05 to 09	Schools SPP	Inclusion	Impact on relativities		
Indigenous education strategic initiatives program — government	05 to 09	Schools SPP	Inclusion	Impact on relativities		
Targeted programs government schools	05 to 09	Schools SPP	Inclusion	Impact on relativities		
#Non-government schools	05 to 09	Schools SPP	Inclusion and assessed expense APC	No impact on relativities	Payment to third party	
#Non-government schools	05 to 09	Schools SPP	Inclusion and assessed expense APC	No impact on relativities	Payment to third party	
#Targeted programs non–government schools	05 to 09	Schools SPP	Inclusion and assessed expense APC	No impact on relativities	Payment to third party	
National disabilities services SPP	09 to 10	Disabilities serv SPP		Impact on relativities		
Disabilities services	05 to 09	Disabilities serv SPP	Inclusion	Impact on relativities		
Young people with disabilities	07 to 09	Disabilities serv SPP	Inclusion	Impact on relativities		
National affordable housing SPP	09 to 10	Affordable housing SPP		Impact on relativities		
Commonwealth–State housing agreement block assistance/base funding	05 to 09	Affordable housing SPP	Inclusion	Impact on relativities		
Community housing	05 to 09	Affordable housing SPP	Inclusion	Impact on relativities		
Crisis accommodation assistance	05 to 09	Affordable housing SPP	Inclusion	Impact on relativities		
Housing assistance for Indigenous people	05 to 09	Affordable housing SPP	Inclusion	Impact on relativities		
Supported accommodation assistance	05 to 09	Affordable housing SPP	Inclusion	Impact on relativities		
Skilling Australia's Workforce (paid as Vocational education and training up to 2004-05)	06 to 10	Skilling Australia's workforce SPP	Inclusion	Impact on relativities		
#Payment through the States						

Table A-3: National Partnership Payments (NPPs)

Commonwealth payment	Year of payment end of June	New SPP framework payment type	U2009 Treatment	R2010 treatment	Reason if apply 'no impact on relativities'	Extra information on payment
Elective surgery waiting list reduction program	08 to 10	Healthcare NPP	Inclusion	Impact on relativities		
Health infrastructure grants	08	Healthcare NPP	Inclusion	Impact on relativities		
PET scanner for Westmead Hospital	05 to 10	Healthcare NPP	Inclusion	Impact on relativities		Contributions to the purchase and installation of a new PET scanner at Westmead Hospital (NSW) and annual grant towards running costs.
Victorian cytology service	05 to 10	Healthcare NPP	Inclusion	Impact on relativities		
Royal Darwin Hospital - equipped, prepared and ready	05 to 10	Healthcare NPP	Exclusion	No impact on relativities	Purchase of services by Commonwealth Government	Funding to ensure that the hospital can operate as a National Critical Care and Trauma Response Centre and ensure that in the event of a major incident (such as the Bali bombing), it has the capacity to receive and treat as many people as possible.
Supporting nurses back into the workforce - incentive payments	08 to 10	Healthcare NPP	Inclusion	Impact on relativities		
National secondary schools computer fund - government	08 to 10	Schools NPP	Inclusion	Impact on relativities		
National secondary schools computer fund - Non-government	08 to 10	Schools NPP	Out of scope	No impact on relativities	Payment to third party	
Aged care assessment	05 to 10	Disabilities Serv NPP	Inclusion	Impact on relativities		
Children's services	05 to 10	Disabilities Serv NPP	Exclusion	No impact on relativities	Purchase of services by Commonwealth Government	To ensure access to affordable, quality childcare in programs administered by State governments on behalf of the Commonwealth Government.
Extension of fringe benefits	05 to 10	Disabilities Serv NPP	Inclusion	Impact on relativities		
Indigenous housing and infrastructure (ARIA)	09	Affordable housing NPP	Exclusion	No impact on relativities	Quarantined by terms of reference (as in U2009)	
AusLink	05 to 10	Infrastructure NPP	National highways and State roads — Inclusion; Rail and local roads — Out of scope	National highways and State roads - impact on relativities; rail and local roads - no impact on relativities	Rail and local roads - payment to third party	
Interstate road transport	05 to 10	Infrastructure NPP	Motor tax revenue	Motor tax revenue		

Table A-3: National Partnership Payments (NPPs) (continued)

Commonwealth payment	Year of payment end of June	New SPP framework payment type	U2009 Treatment	R2010 treatment	Reason if apply 'no impact on relativities'	Extra information on payment
Exotic diseases eradication	05 to 10	Environment NPP	Exclusion	No impact on relativities	Impractical to assess disabilities	Supports investigations into the role of wildlife species in the maintenance and spread of emerging animal diseases and incursions of major exotic diseases of animals.
Water Initiative - Great Artesian Basin sustainability initiative	05 to 10	Environment NPP	Exclusion	No impact on relativities	Impractical to assess disabilities	To assist with the implementation of Great Artesian Basin Management Plan. Grants will be made to States and Territories to assist bore rehabilitation. Supplementary incentives will also be made available for the replacement of open drains with piping.
Water Initiative - living Murray	06 to 10	Environment NPP	Inclusion	Impact on relativities		
Renewable remote power generation	05 to 10	Environment NPP	Out of scope	No impact on relativities	Payment to third party	To provide a rebate to the States for the installation of renewable energy generation technologies in areas of Australia currently reliant on diesel for electricity generation.
Caring for our country (paid as Natural Heritage Trust, national landcare programs and National Action Plan for Salinity and Water Quality up to 2007-08)	05 to 10	Environment NPP	Out of scope	No impact on relativities	Quarantined by terms of reference (as in U2009)	
#Bushfire mitigation package	05 to 10	Other services NPP	Out of scope	No impact on relativities	Payment to third party	Funding of \$15 million over three years for the construction and maintenance of fire trails and associated accessibility measures such as the provision of access gates.
Legal aid	05 to 07; 09 to 10	Other services NPP	Out of scope	No impact on relativities	Purchase of services by Commonwealth Government	To provide funding to State legal aid commission for the provision of legal assistance on the Commonwealth Government matters.
Standard Business Reporting Program	08 to 10	Other services NPP	Exclusion	No impact on relativities	Purchase of services by Commonwealth Government	Funding to reduce reporting burdens for businesses through eliminating unnecessary or duplicated reporting and improving the interface between business and government agencies.

#Payment through the States

Table A-3: National Partnership Payments (NPPs) (continued)

Commonwealth payment	Year of payment end of June	New SPP framework payment type	U2009 Treatment	R2010 treatment	Reason if apply 'no impact on relatives'	Extra information on payment
Exceptional circumstances administration	09	Contingent liabilities NPP	Exclusion	No impact on relatives	Impractical to assess disabilities	To support the administrative costs of the State rural assistance authorities, including the issuing of EC certificates under the Farm Household Support Act 1992 to eligible farmers to access the exceptional circumstances relief payment (ECRP).
Equine influenza emergency response	08	Contingent liabilities NPP	Exclusion	No impact on relatives	Purchase of services by Commonwealth Government	The Commonwealth Government provided \$97.2 million in 2007-08 towards the cost of the national response to eradicate equine influenza from Australia. Australia was declared provisionally-free of the disease on 14 March 2008. The agreed limit for the national response is capped at \$108.0 million. Under Commonwealth Government, State and industry cost-sharing arrangements, the Commonwealth Government agreed to underwrite the horse industry's proportion.
Hepatitis C settlement fund	05 to 10	Contingent liabilities NPP	Out of scope	No impact on relatives	Payment to third party	To provide financial assistance to those who have been infected with Hepatitis C via blood transfusions.
Natural disaster relief	05 to 10	Contingent liabilities NPP	Exclusion	No impact on relatives	Purchase of services by Commonwealth Government	Reimbursement of part of the expenditure incurred by the States on personal hardship and distress payments made to persons adversely affected by natural disaster.

Table A-4: Other payments

Commonwealth payment	Year of payment end of June	New SPP framework payment type	U2009 Treatment	R2010 treatment	Reason if apply 'no impact on relativities'	Extra information on payment
Payment to become COPE - date for the change not yet decided.						
Health program grants	05 to 07; 09 to 10	SPP to become COPE	Exclusion	No impact on relativities	Purchase of services by Commonwealth Government	To provide alternative funding to Medicare benefits, with the aim of improving access to approved health services and/or where fee for service is inappropriate, by reimbursing service costs to State government organisations for two types of services: pathology and medical/general practitioner services.
Organ and tissue donation	07 to 08	SPP to become COPE	Inclusion	Impact on relativities		
Essential vaccines	05 to 10	SPP to become COPE	Inclusion	Impact on relativities		
Highly specialised drugs	05 to 09	SPP to become COPE	Exclusion	No impact on relativities	Purchase of services by Commonwealth Government	To provide access to certain drugs under the Pharmaceutical Benefits Scheme which must be supplied through hospitals to outpatients, because of special need in clinical administration or monitoring.
Unaccompanied humanitarian minors	05 to 10	SPP to become COPE	Exclusion	No impact on relativities	Impractical to assess disabilities	To assist humanitarian minors without parents in Australia and families providing their care through early intervention, counselling and assistance by State welfare agencies.
Family Violence Partnership	08 to 10	SPP to become COPE	Inclusion	Impact on relativities		
Home and community care - capital	05 to 10	SPP to become COPE	Inclusion	Impact on relativities		
Home and community care - current	05 to 10	SPP to become COPE	Inclusion	Impact on relativities		
Improving water information	08 to 10	SPP to become COPE	Exclusion	No impact on relativities	Purchase of services by Commonwealth Government	Payment for information to be provided to the Bureau of Meteorology by State agencies to improve the detail and scope of nationally available water information.

Table A-4: Other payments (continued)

Commonwealth payment	Year of payment end of June	New SPP framework payment type	U2009 Treatment	R2010 treatment	Reason if apply 'no impact on relativities'	Extra information on payment
Payment to be cashed out - date for the change not yet decided. Continue to apply 2009 Update treatment as far as possible.						
Repatriation general hospitals	05 to 10	To be cashed out	Exclusion	No impact on relativities	Purchase of services by Commonwealth Government	To provide funds for payments of a non-treatment nature such as staff transfer costs such as accrued leave credits, income maintenance, superannuation differential, etc to State governments in accordance with agreements reached on integration of repatriation general hospitals.
Organ transplantation services (current and capital)	06 to 10	To be cashed out	Out of scope	No impact on relativities	Payment to third party	Contribution to certain transplantation costs in New South Wales and South Australia. Capital was out of scope because the payment was for on passing (to Red Cross) and did not have a direct impact on State budgets.
Social housing subsidy program	05 to 10	To be cashed out	Inclusion	Impact on relativities		
Film and literature classifications	05 to 10	To be cashed out	Exclusion	No impact on relativities	Impractical to assess disabilities	Payments to States for participation in the new national cooperative censorship scheme as per the inter-governmental agreement signed on 28 November 1995.
Payment to be discontinued - date for the change not yet decided. Continue to apply 2009 Update treatment as far as possible.						
National action plan to build on social cohesion, harmony and security	07 to 09	Lapsing	Inclusion	Impact on relativities		
Federation fund projects - NSW/Victoria	05; 09 to 10	Lapsing	Exclusion	No impact on relativities	Purchase of services by Commonwealth Government	
CrimTrac reference system	07 to 09	Lapsing	Exclusion	No impact on relativities	Purchase of services by Commonwealth Government	The payment is for the installation of IT infrastructure to connect to the Minimum Nationwide Person Profile which is part of the CrimTrac Police Reference System.

Table A-4: Other payments (continued)

Commonwealth payment	Year of payment end of June	New SPP framework payment type	U2009 Treatment	R2010 treatment	Reason if apply 'no impact on relativities'	Extra information on payment
Improving policing in very remote areas	07 to 10	Lapsing	Inclusion	Impact on relativities		
#Disaster mitigation package	05 to 09	Lapsing	Out of scope	No impact on relativities	Payment to third party	Funding for a wide range of mitigation measures to help reduce the threat posed by natural disasters such as bushfires, cyclones, floods and landslides across the nation.
Strengthening Tasmania	06 to 09	Lapsing	Inclusion	Impact on relativities		
Sydney Cricket Ground - new grandstand	08 to 09	Lapsing	Out of scope	No impact on relativities	Payment to third party	Funding provided to the Sydney Cricket and Sports Ground Trust to assist in the building of the new grandstand on the old Hill site at the Sydney Cricket Ground.
Eradication of red imported fire ant	05 to 09	Lapsing	Exclusion	No impact on relativities	Impractical to assess disabilities	To provide funding for the eradication of Red Imported Fire Ant infestations detected in Australia.
Plant disease and eradication	05 to 09	Lapsing	Inclusion	Impact on relativities		
Payment not listed in BP3 2008-09 - includes terminated payment and ongoing payments not classified under new framework. Continue to apply 2009 Update treatment as far as possible.						
Assistance to tsunami victims	05	not listed in BP3 2008-09	Exclusion	No impact on relativities	Purchase of services by Commonwealth Government	One-off assistance to most States for the costs incurred in providing medical teams and other support as part of Australia's assistance to the victims of the December 2004 tsunami.
Strengthening cancer care — Royal Children's Hospital in Melbourne	05	not listed in BP3 2008-09	Inclusion	Impact on relativities		
Australian technical colleges	06 to 08	not listed in BP3 2008-09	Inclusion — payments to govt colleges; Out of scope — payments to non-govt colleges	Payments to government schools - impact on relativities; payments to non-government schools - no impact on relativities	Payments to non-government schools - payment to third party	

#Payment through the States

Table A-4: Other payments (continued)

Commonwealth payment	Year of payment end of June	New SPP framework payment type	U2009 Treatment	R2010 treatment	Reason if apply 'no impact on relativities'	Extra information on payment
Indigenous education strategic initiatives program — non-government	07 to 09	not listed in BP3 2008-09	Out of scope	No impact on relativities	Payment to third party	
Relocation of Amberley State school	08 to 09	not listed in BP3 2008-09	Out of scope	No impact on relativities	Purchase of services by Commonwealth Government	To provide funding to relocate and rebuild the Amberley State School in Queensland at no expense to the State or the school. The move was necessitated by the expansion and upgrading of the Amberley military base, which would have resulted in the school falling within the expanded base area.
Assistance to Solomon Island evacuees	06	not listed in BP3 2008-09	Exclusion	No impact on relativities	Purchase of services by Commonwealth Government	To reimburse Queensland government for meeting the livings costs of Solomon Island evacuees evacuated from the Solomon Islands in April 2006.
Additional first home owners scheme	05 to 06	not listed in BP3 2008-09	Out of scope	No impact on relativities	Payment to third party	To fund an additional First Home Owners Scheme grant for eligible owners contracting between 9 March 2001 and 30 June 2002 to buy or build a new home.
Alice Springs Darwin railway	05	not listed in BP3 2008-09	Out of scope	No impact on relativities	Payment to third party	To provide up to an additional \$91.4 million towards the construction of an Alice Springs to Darwin rail link. This is in addition to the \$100 million to be provided under the Federation Funds – Projects – Northern Territory.
Gold Coast light rail	05 to 05	not listed in BP3 2008-09	Inclusion	Impact on relativities		
Petroleum products freight subsidy scheme	05 to 07	not listed in BP3 2008-09	Out of scope	No impact on relativities	Payment to third party	The States Grants (Petroleum Products) Act 1965 provides for grants to be made to the States and the Northern Territory to enable them to subsidise the cost of transporting eligible petroleum products to remote areas of Australia.
Upgrade to Eyre Peninsula rail system	05	not listed in BP3 2008-09	Out of scope	No impact on relativities	Payment to third party	As part of its land transport infrastructure funding the Commonwealth Government provides funding to upgrade South Australia's Eyre Peninsula rail system. Rail is a PTE activity where the Commission assesses the net impact of the PTE on State budgets.

Table A-4: Other payments (continued)

Commonwealth payment	Year of payment end of June	New SPP framework payment type	U2009 Treatment	R2010 treatment	Reason if apply 'no impact on relatives'	Extra information on payment
Agricultural development partnership	05	not listed in BP3 2008-09	Inclusion	Impact on relatives		
Agriculture - Advancing Australia - FarmBis	07 to 08	not listed in BP3 2008-09	Inclusion	Impact on relatives		
Forest industry structural adjustment package	05	not listed in BP3 2008-09	Out of scope	No impact on relatives	Payment to third party	To assist the native forest timber industry become more efficient, sustainable and internationally competitive. It also provides structural adjustment assistance to eligible forest industry workers and businesses who have been adversely affected by the Regional Forest Agreement process.
Regional assistance	05; 07 to 08	not listed in BP3 2008-09	Inclusion	Impact on relatives		
Skilling farmers for the future	05 to 06	not listed in BP3 2008-09	Inclusion	Impact on relatives		
Tasmanian forests package	06 to 08	not listed in BP3 2008-09	Out of scope	No impact on relatives	Payment to third party	To fund additional plantation establishment and productivity improvements to existing plantations and native forests, with the aim of ensuring long-term supply of sawlogs and veneer logs.
Tasmanian water infrastructure	06; 08	not listed in BP3 2008-09	Out of scope	No impact on relatives	Payment to third party	To provide funding to Tasmania for the construction of the Warner Creek Dam and the Northern Midlands Water Project. These projects aim to provide reliable sources of irrigation water in their respective regions.
#Photovoltaic rebate program	05 to 08	not listed in BP3 2008-09	Out of scope	No impact on relatives	Payment to third party	To provide rebates to households and community groups who install photovoltaic equipment to make electricity from sunlight for domestic use.
#Federal flood mitigation program	05	not listed in BP3 2008-09	Out of scope	No impact on relatives	Payment to third party	Provides funding to the States and Territories to assist in addressing the problem of repeated flooding in rural towns and regional centres. A joint program between the Commonwealth Government, State and local government.
Compensation — companies regulation (will not be paid after the reforms)	05 to 08	not listed in BP3 2008-09	Out of scope	No impact on relatives	Payment will not be made after the reforms	Under the terms of the Corporate Agreement, the Commonwealth Government is obliged to compensate the six States and the Northern Territory for revenue forgone following the commencement of the national scheme for the regulation of companies and securities.

#Payment through the States

Table A-4: Other payments (continued)

Commonwealth payment	Year of payment end of June	New SPP framework payment type	U2009 Treatment	R2010 treatment	Reason if apply 'no impact on relativities'	Extra information on payment
Debt redemption assistance	05 to 06	not listed in BP3 2008-09	Interest costs — Inclusion; Contribution to Sinking fund — Exclusion	Interest costs - impact on relativities; contribution to Sinking fund — no impact on relativities	Contribution to Sinking fund - contribution to sinking fund is not an operating expense	To compensate the States and NT under the Financial Agreement Act 1994 for the additional interest cost of replacing maturing Commonwealth Government debt with their own borrowings. Also for the lower Commonwealth Government sinking fund contributions, that has resulted from the debt redemption arrangement.
Sinking fund on State debt	05 to 08	not listed in BP3 2008-09	Exclusion	No impact on relativities	Payment to third party (Debt Retirement Reserve Trust Account)	Contributions to the Debt Retirement Reserve Trust Account on behalf of the six States and the NT in accordance with the Financial Agreement Act 1994.
Special revenue assistance to the ACT	05	not listed in BP3 2008-09	Out of scope	No impact on relativities	Payment to third party	Payments to the ACT that recognise that Australian - State government financial relations differ from Australian - ACT financial relations in certain specific respects.
The Prime Minister's and Premier's Cyclone Larry relief appeal	06	not listed in BP3 2008-09	Exclusion	No impact on relativities	Payment to third party	Commonwealth Government contribution to the Queensland Government's Tropical Cyclone Larry Relief Appeal.
Gun buyback scheme	05	not listed in BP3 2008-09	Exclusion	No impact on relativities	Purchase of services by Commonwealth Government	In accordance with the Handgun Buyback Act 2003, to compensate eligible persons for the surrender of handguns, parts and accessories and for money expended in direct connection with administration and awareness raising of the Council of Commonwealth Government reforms
2004 Olympic/Paralympic welcome home parade	05	not listed in BP3 2008-09	Exclusion	No impact on relativities	Purchase of services by Commonwealth Government	Contribution towards the hosting of national welcome home parades for Australia's 2004 Olympic and Paralympic Teams.
Melbourne Commonwealth Games 2006	06	not listed in BP3 2008-09	Exclusion	No impact on relativities	Purchase of services by Commonwealth Government	Provide funding to the Victorian Government to assist in the upgrading of the Melbourne Cricket Ground, one of the major facilities to be used during the Commonwealth Games.
#FAGs local government — General assistance	05 to 10	Treasury to consider in 09	Out of scope	No impact on relativities	Payment to third party	
#FAGs local government — Identified local roads	05 to 10	Treasury to consider in 09	Out of scope	No impact on relativities	Payment to third party	
#Supplementary funding to SA councils for local roads	05 to 10	Treasury to consider in 09	Out of scope	No impact on relativities	Payment to third party	
#Payment through the States						