



***TREATMENT OF COMMONWEALTH
PAYMENTS***

Commission Position Paper

CGC 2009/03

***SUBMISSION BY SOUTH AUSTRALIAN
DEPARTMENT OF TREASURY AND FINANCE***

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SOUTH AUSTRALIAN SUBMISSION ON TREATMENT OF COMMONWEALTH PAYMENTS

South Australia supports the Commission's general principle that where Commonwealth payments have an influence on States' fiscal capacities and are provided in an area where a differential assessment is made, they should have an impact on relativities.

South Australia strongly supports the Commission having an over riding discretion on the treatment of Commonwealth Payments, in particular, National Partnership Payments (NPPs). The more rigid approach (favoured by Queensland) of quarantining reward and facilitation payments (ie no impact on the relativities) may not always be appropriate and also relies on the correct classification of NPPs at the time they are developed and signed. It is clear that a number of NPPs contain classification discrepancies and can not be relied on as a guide to the appropriate assessment treatment.

In relation to the Commission's proposed guidelines, South Australia supports the following:

- applying any treatment prescribed by the Commonwealth's Terms of Reference;
- National SPPs having an impact on the relativities as these are available for the delivery of State-type services and needs are assessed (except non-government schools);
- exclusion of payments to third parties that have no impact on State fiscal capacities (eg payments to non-government schools and local government) ;
- exclusion of payments that are a purchase by the Commonwealth;
- exclusion of payments that are for programs implemented at the behest of the Commonwealth and which will lead to above average or unique State outcomes; and
- exclusions where needs have not been able to be assessed for the State expenditures to which the payment relates.

However, South Australia does not support Commonwealth payments to public trading enterprises (PTEs), either made directly or through States, having an impact on relativities. This does not require case-by-case analysis. The activities of PTEs (other than direct general government subsidies) are out of scope from the Commission's assessment and this position should be maintained.

It would appear that the Commission's position on this has been influenced by the requirement in the Intergovernmental Agreement on Federal Financial Relations (IGA) that all Commonwealth payments be made initially to State Treasuries. However, under these revised administrative arrangements, if a payment is for a third party (eg local government) or for a PTE, State Treasuries simply act as a post-box and forward the funds on. These payments are not generally influencing

a State's fiscal capacity and cannot be considered as the equivalent of a State subsidy.

South Australia takes the view in respect of the Nation Building funding for rail projects that if the recipient of these rail-related payments is a PTE then they should not have an impact on the relativities. There should only be an impact if these payments are for expenditure to be incurred within the general government sector in a jurisdiction as needs are assessed in this area.

Capital payments for the use of PTEs in other areas should also not have an impact on the relativities. (eg capital funding under Water for the Future NP for the Adelaide Desalination Plant being constructed by SA Water).

Regarding National Network Roads, we remain of the view that Commonwealth funding should not impact on relativities as the distribution of these funds reflects decisions to meet national transport infrastructure needs.

One way of achieving this result is to treat the grants actual per capita and expenditures/depreciation equal per capita.

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