



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

***Staff Discussion Paper***

***CGC 2009/01-S***

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

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## **SOUTH AUSTRALIAN SUBMISSION ON TREATMENT OF COMMONWEALTH PAYMENTS TO THE STATES**

Throughout 2008, COAG oversaw the reform of Commonwealth funding to the States culminating in the new *Intergovernmental Agreement on Federal Financial Relations* (the IGA). In response to the new funding arrangements contained in the IGA, the CGC is proposing a simpler and more transparent approach to the assessment of whether particular Commonwealth payments will have an impact on relativities.

South Australia supports the Commission's guiding principle that where Commonwealth payments have an influence on States' fiscal capacities they should have an impact on relativities and where payments do not have an influence, they should not have an impact.

In relation to the specific positions, South Australia:

- supports the position that financial transactions included in the GFS general government sector should initially be in-scope for assessment;
- acknowledges that some out-of-scope COPE payments may also affect State fiscal positions and supports the CGC proposal to assess disabilities in such circumstances to recognise indirect impacts;
- supports the backcasting arrangements proposed in the Staff Discussion Paper;
- supports a case-by-case assessment of whether specific Commonwealth payments (in particular, NPPs) should impact on relativities (with consideration given to references/provisions contained in funding and the IGA);
- supports the general implementation approach for National SPPs and NPPs but notes:
  - “facilitation” NPPs could, in certain circumstances, potentially be an area where judgement is required as these are not reward/performance dependent and may influence States' fiscal capacities (eg the Seamless National Economy NP contains a general facilitation component allocated on an EPC basis); and
  - “reward” NPPs, in principle, would not be expected to have an impact on relativities.
- has no preferred method for removing the impact of payments that do not influence State fiscal capacities, except for NPPs that provide capital project or infrastructure funding where an approach netting revenue off gross expenses is favoured;
- supports the proposed treatment for each Commonwealth payment (contained in Attachment A to the Staff Discussion Paper).

### Accounting aspects

The accounting treatment for taxes, fines, grants and transfers (including Commonwealth payments to the States) is prescribed in Australian Accounting Standard AASB 1004 titled *Contributions*. This standard is currently being reviewed for consistency (by the Australian Accounting Standards Board) with the International Public Sector Accounting Standard (IPSAS) 23 - *Revenue from Non-exchange Transactions (taxes and transfers)*.

IPSAS 23 requires an inflow of resources from a non-exchange transaction (such as a grant) to be recognised as revenue, except to the extent that a liability is recognised in respect of the same inflow. Conditions in a funding agreement may give rise to a present obligation on initial recognition that is to be recognised as a liability (provided it meets the liability recognition criteria).

AASB 1004, on the other hand, requires contributions, other than contributions by 'owners', to be recognised as income when the transferee obtains control over them, irrespective of whether restrictions or conditions are imposed on the use of the contributions.

Under AASB 1004, for situations where there are Commonwealth capital funding agreements (NPPs) containing binding obligations, the receipt of funds would usually be treated as revenue in the period it is received. Under IPSAS 23, the receipt may have to be recognised as an increase in cash assets with a corresponding liability in respect of the obligation. As the project is constructed/delivered, the liability would be reduced and the Commonwealth funding progressively recognised as income.

The treatment of specific purpose capital grants for the general government sector under IPSAS 23 will, however, remain "upfront" i.e. income is recognised to match capital expenditure. This is in contrast with the situation for "for profit entities" and Government Business Enterprises (GBEs) where specific grants can be recognised and spread over time as income to match depreciation/amortisation expense.

The opportunity is taken in this Submission to refer again to accounting standard developments in relation to concessions (PPPs). Commonwealth capital grants may well be involved in respect of PPPs. South Australia considers it warranted for the CGC to anticipate the bringing back onto General Government balance sheets of integrated network 'private' toll roads such as CityLink; or on its own motion to include such operations within the scope of the standard budget.

We would not accept that such an approach is tantamount to 'community equalisation' to a degree greater than already occurring in the recognition of the role of certain COPEs (including indigenous and non-government school funding) and the subtraction method for assessing community health needs. CityLink as an example fully meets the test of 'what States do' viz the Victorian Government fully integrates CityLink into the Melbourne road network (including closing off non-tolled routes), collect tolls under the ambit of State motor vehicles law, including the levying of fines and penalties for non-payment, and passes those revenues and other availability payments/ contributions to a service

provider/concession holder. The High Court indeed found that CityLink was in the nature of a government concession rather than a privately owned asset business.

Road toll revenue may indeed continue to be assessed EPC but it would bring consistency to the formulation of the standard budget if such an important component of the States' asset base were always wholly reflected gross on balance sheets, rather than dribble back over time as reversionary rights are sporadically recognised.

SA commends the Productivity Commission Staff Working paper 'Public Infrastructure Financing' as a resource document for consideration of this issue. Should PPPs remain off balance sheet it is suggested that a supplementary data collection be instituted to separate PPP type expenses from reported operating expenses to be grouped together with finance lease expenses, depreciation and holding cost in the standard budget.

#### Treatment of specific purpose capital grants

South Australia considers that Commonwealth specific purpose capital payments should have an impact on relativities if those grants relate to expenditures which would have occurred if the SPP/NPP were in fact a general purpose payment or relate to State responsibilities and truly reflect State level capital works decisions.

That is, SPPs should be included (have an impact on relativities) where the SPP is regarded as broadly fungible with other revenues over time.

In practice, this would cover most SPPs and project-specific NPPs. There may be a question mark in relation to National Highways (NH) construction funding, notwithstanding that NH funding is packaged into Auslink and notwithstanding that NHs appear on State balance sheets. It has been argued that a decision by national authorities to meet national transport needs by (say) duplicating the Hume Highway could not be said to provide a fungible revenue source for Victoria and NSW.

Further the CGC road needs assessment is based on current period needs, not anticipated future needs as would be the basis for national authorities' decisions – compounded by the lumpy nature of investment in new roads.

The CGC needs to be able to rebut these propositions and demonstrate the reliability of its roads needs assessments and related capital assessment aspects. South Australia notes there are important linkages between the treatment of capital grants and the formulation of the capital assessment.

South Australia also suggests that the 'methodology' for grants should generally avoid preventing treatment of particular grants on a case-by-case basis as particular details and circumstances emerge (eg Infrastructure Australia).

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