



# **COMMONWEALTH GRANTS COMMISSION**

**DRAFT ASSESSMENT PAPER CGC 2003/78**

## **TREATMENT OF SPECIFIC PURPOSE PAYMENTS**

Prepared for the Commission's 2003 Conferences on Draft Assessments

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## INTRODUCTION

1. This paper presents the Commission's proposed treatment of Commonwealth revenue payments (SPPs) for the 2004 Review. It builds on staff proposals set out in *Discussion Paper CGC 2003/2 Treatment of Commonwealth Revenue Payments* and responds to comments in State submissions and at the 2002 conferences.

2. This paper does not discuss the treatment of untied assistance (GST revenue grants, FAG grants and budget balancing assistance).

## COVERAGE OF OTHER COMMONWEALTH REVENUE PAYMENTS

### *The 1999 Review approach*

3. In the 1999 Review, SPPs were defined broadly as:

- (i) SPPs paid either to or through the States and used for recurrent purposes. It did not matter whether they were described as recurrent or capital payments in Commonwealth budget documents;
- (ii) payments by Commonwealth agencies to the States for services that were normally the responsibility of State governments;
- (iii) expenditure incurred by Commonwealth agencies in providing State-type services; and
- (iv) Commonwealth subsidies to non-government organisations providing State-type services.

4. The Commission described payments in groups (ii), (iii) and (iv) as notional SPPs. This paper also refers to them as Commonwealth Own Purpose Outlays (COPOs)<sup>1</sup>.

5. SPPs regarded as outside the scope of Commission assessments in the 1999 Review included:

- (i) payments for services normally provided by the Commonwealth or local governments; and
- (ii) payments for capital purposes.

### *Issues for the 2004 Review*

6. The main issues for the 2004 Review were:

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<sup>1</sup> The Commission's definition of COPOs has a wider scope than that defined by the Department of Finance.

- (i) the use of the absorption approach;
- (ii) the treatment to apply to capital SPPs;
- (iii) the treatment to apply to Commonwealth Own Purpose Outlays;
- (iv) the treatment to apply to SPPs quarantined by previous terms of reference;
- (v) non-compliance with SPP agreements; and
- (vi) the source of SPP data.

### ***The use of the absorption approach***

7. ***Preliminary proposal.*** In *Discussion Paper 2003/2 Treatment of Commonwealth Revenue Payments*, Commission staff proposed removing absorption as a method of treatment because it was no longer required. In the 2003 Update, absorption was used in limited circumstances. It was used for Health Care Grants and Special Revenue Assistance to the ACT. Absorption could potentially have been used in cases where an SPP was discontinued but the States continued to fund the service. However, there were no examples of this in the 2003 Update.

8. In the discussion paper, Commission staff proposed to treat:

- (i) Special Revenue Assistance to the ACT by the exclusion method, because this SPP financed needs which were outside the scope of equalisation; and
- (ii) situations where an SPP was discontinued but the States continued to fund the service by the inclusion method, because that provided greater consistency of treatment. An SPP's treatment would not change merely because it was discontinued.

9. Staff also proposed to continue to treat Health Care Grants as part of the pool because that was the treatment prescribed by the terms of reference.

10. ***State views.*** *Victoria* supported the continued treatment of Health Care Grants by absorption.

11. *Queensland* said it was premature to remove absorption from the SPP guidelines. It said Health Care Grants still needed to be treated in this manner and it argued that retaining absorption in the SPP guidelines would provide greater consistency between the 1999 and 2004 Review methods.

12. *Tasmania* did not support the removal of absorption from the SPP guidelines. It said the argument that it could be removed because of its limited use was not persuasive.

13. The *ACT* and the *Northern Territory* supported the removal of absorption from the SPP guidelines.

14. ***Analysis and evaluation.*** The Commission considers that:

- (i) Special Revenue Assistance for the ACT should be treated by exclusion, because the payment finances needs which are outside the scope of equalisation; and
- (ii) inclusion is a preferable treatment in cases where a payment is discontinued but States continue to fund the service. This approach would mean an SPP's treatment would not change merely because it was discontinued.

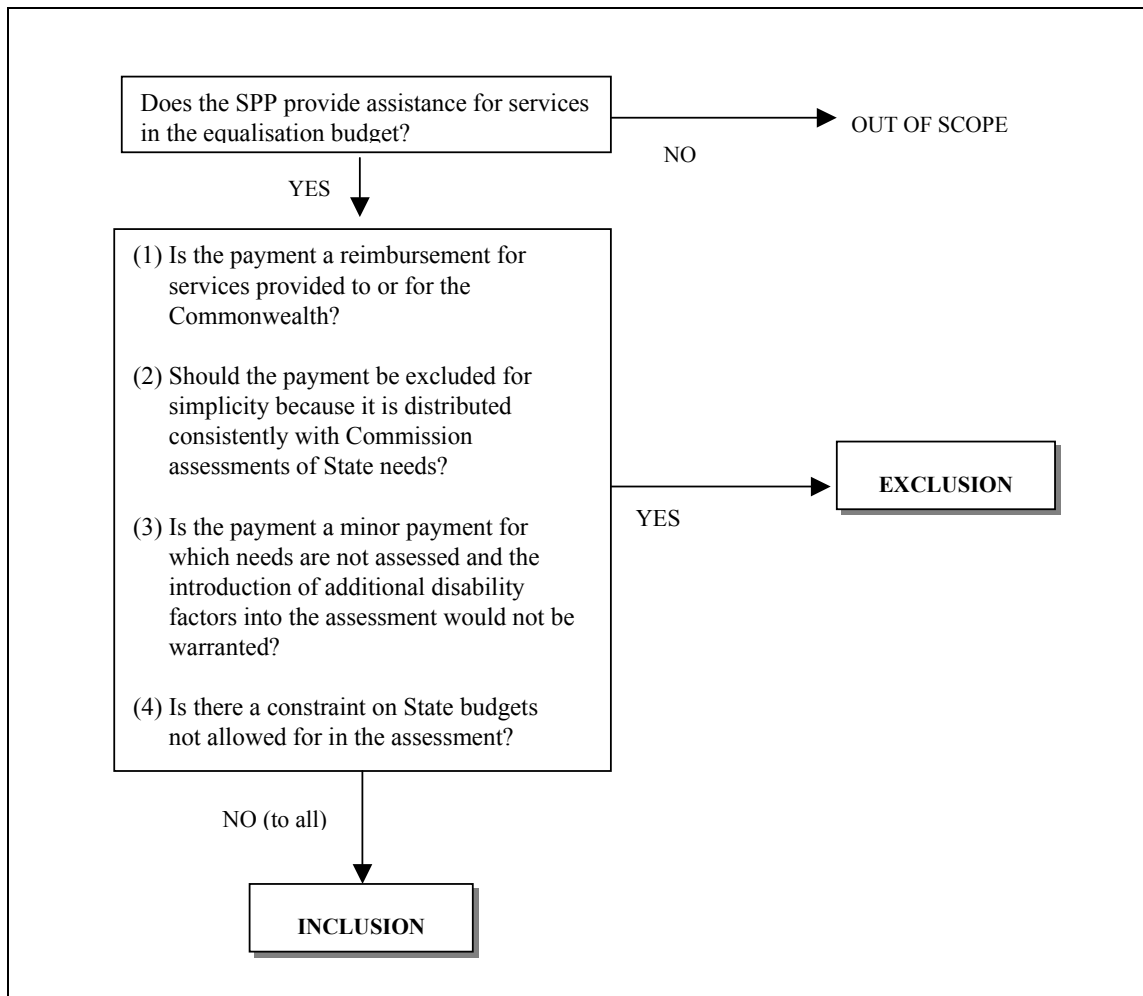
15. In addition, the terms of reference instruct the Commission to treat Health Care Grants as part of the pool. There are, therefore, no payments which will be treated by the absorption method in the 2004 Review.

16. ***Commission decisions.*** The Commission is satisfied that a conceptual case has been established for removing absorption as method of treatment. The evidence is that there are no payments which will be treated by the absorption method in the 2004 Review. For that reason, the Commission has decided to discontinue absorption as a method of treatment. It has also decided to:

- (i) treat Health Care Grants as part of the pool, as instructed by terms of reference;
- (ii) treat Special Revenue Assistance for the ACT by exclusion; and
- (iii) use inclusion in cases where an SPP was discontinued but the States continued to fund the service.

17. Figure 1 shows the Commission's SPP guidelines for the 2004 Review. These guidelines would be used to determine the treatment of all SPPs, except when the Terms of Reference direct the Commission to apply a particular method to nominated SPPs.

**Figure 1** METHODS OF TREATMENT OF COMMONWEALTH REVENUE PAYMENTS IN 2004 REVIEW



Note: When inclusion is used, the expenditure financed by the SPP is included in the equalisation budget and needs assessed in the relevant expenditure category. The SPP is treated as revenue, available to the recipient State to meet part of its aggregate needs.

### ***Treatment of capital SPPs***

18. In the 1999 Review, the Commission treated Commonwealth capital SPPs as out of scope. It did so because, under the cash budgeting practices that applied at that time, capital revenues and expenditures were generally excluded from States' recurrent budgets.

19. **Staff proposals.** In *Discussion Paper CGC 2002/11 Capital Grants*, Commission staff proposed treating capital SPPs consistently with recurrent SPPs because:

- (i) capital SPPs have been included as operating revenue in State government accounts and in ABS Government Finance Statistics (GFS) since the introduction of accrual budgeting; and
- (ii) capital SPPs are spent on functions for which needs are assessed.

20. Commission staff also sought States' views on whether:

- (i) it was appropriate to include the unadjusted value of the capital SPPs received in a particular year, or whether an amortised historical series would be required to overcome any problems of volatility; and
- (ii) any adjustments would be required to the Debt Charges assessment to avoid any double counting of needs already assumed to be met.

21. **State views.** States generally supported the Commission's proposal to treat capital SPPs consistently with recurrent SPPs.

22. **Western Australia** and the **Northern Territory** also supported the inclusion of the unadjusted value of capital SPPs in the year they were paid, rather than an amortised historical series.

23. **South Australia** said that if exclusion was used, it should be implemented in the same way as for recurrent SPPs. That is, the capital SPP and the expenditure it financed should both be removed from the equalisation budget.

24. **Tasmania** argued that capital SPPs should not be treated by inclusion because they were already taken into account in the Debt Charges assessment.

25. **Further staff proposals.** In *Discussion Paper 2003/2 Treatment of Commonwealth Revenue Payments*, Commission staff proposed using the Commission's SPP guidelines to determine the treatment of each capital SPP.

26. Commission staff confirmed that, in the 1999 Review, capital SPPs were taken into account in the Debt Charges assessment. In that assessment, they reduced States' assessed standardised net borrowings. However, treating capital SPPs by inclusion would reflect the impact they had in meeting part of States' depreciation and maintenance expenses.

27. Commission staff also proposed including capital SPPs in full in the year they were paid, because it reflected the way States accounted for them. They said the five year averaging process involved in determining relativities would dampen the impact of any annual volatility in capital SPPs in much the same way as it dampens volatility in other aspects of Commission assessments.

28. **Further State views.** **Western Australia, South Australia, ACT** and the **Northern Territory** supported treating capital SPPs consistently with recurrent SPPs.

29. **Queensland** supported the proposed treatment of capital SPPs in principle. It said the Commission should treat capital SPPs used to fund Commonwealth policies

(such as Road SPPs for National Highways) by exclusion. If this were not practical, the Commission should include the expense financed by the capital SPP to ensure the equalisation budget remained balanced.

30. **Western Australia** said that, when a capital SPP was treated by inclusion, the Commission should:

- (iii) deduct the standard amount of the SPP from each State's accumulation of standardised borrowings within the Debt Charges assessment; and
- (iv) make no adjustment to the Depreciation assessment.

31. **South Australia and Queensland** said that if a capital SPP were treated by exclusion, the capital SPP and the expense it financed should both be removed from the equalisation budget.

32. South Australia said that if SPPs for national highways were treated by exclusion, the Commission should remove the associated expense from the Depreciation standard because national highways and roads of national importance were included in State accounts and the related assets were depreciated in State accounts.

33. South Australia noted the Debt Charges assessment brought in the standard amount of capital SPPs prior to 1991-92 and the actual amount of capital SPPs from 1991-92. It said the assessment should treat capital SPPs prior to 1991-92 by exclusion to ensure that the assessment did not override the distribution of those payments. If this approach was not taken, it asked the Commission to consider applying its SPP guidelines to all SPPs in the Debt Charges assessment or to treat a standard proportion of them by exclusion.

34. **Tasmania** reiterated its concern that capital SPPs were taken into account in the Debt Charges assessment and to include them in the Depreciation assessment would be double counting. It said this would understate States' needs. It argued that if capital SPPs were treated by inclusion, they should be excluded from the Debt Charges assessment to ensure double counting did not occur.

35. Tasmania also said that Commission staff should not give undue weight to the fact that capital SPPs were included as State operating revenue. It argued that other capital revenue, such as revenue from sale of government assets was also included in States' operating statements. It would be inconsistent to treat capital SPPs by inclusion but revenue from sale of government assets by exclusion.

36. **Western Australia, Northern Territory** and the **ACT** supported including capital SPPs in the year they are paid.

37. **Analysis and evaluation.** The reasons for including capital SPPs in the equalisation budget are:

- (i) the expenses financed by capital SPPs are included in the equalisation budget and States use these SPPs to meet part of those expenses; and

- (ii) States report capital payments as operating revenue, so the payments have a direct impact on State budgets.

38. Treating capital SPPs consistently with recurrent SPPs would mean:

- (i) each capital SPP would be included in the year it was received;
- (ii) the SPP guidelines would be used to determine the treatment of each capital SPP; and
- (iii) if inclusion was used, both the capital SPP and the expense it financed would be included in the equalisation budget. If exclusion was used, both the capital SPP and the expense it financed would be excluded from the equalisation budget.

39. If a capital SPP was treated by inclusion, the expense financed by it would be included in the Depreciation standard if it was used to create/upgrade a State asset, otherwise it would be included in another expenditure category<sup>2</sup>.

40. Treating capital SPPs by inclusion has implications for their treatment in the Debt Charges assessment. In the 1999 Review, the Debt Charges assessment included:

- (i) the standard amount of capital SPPs received before 1991-92; and
- (ii) the actual amount of capital SPPs received since 1991-92, which meant the different interstate distribution of capital SPPs influenced States' assessed borrowing requirements.

41. The 2004 Review Debt Charges assessment will include:

- (i) the actual amount of capital SPPs received before 1991-92;
- (ii) the actual amount of capital SPPs received between 1991-92 and 1998-99; and
- (iii) the standard budget result for the assessment period (1998-99 to 2002-03) which includes the standard capital SPPs treated by the inclusion method<sup>3</sup>.

42. This approach treats capital SPPs received before 1991-92 consistently with those received between 1991-92 and 1998-99. Both the capital expenditure data and the

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<sup>2</sup> Examples of Capital SPPs that are not used to create State assets include payments to/through the States for Aboriginal purposes and payments through the States to non-government organisations.

<sup>3</sup> While this treatment differs from that of capital revenue from the sale of government assets, the effect is the same. Revenue from sale of government assets is excluded from the equalisation budget because it is considered to be policy-determined but the standard amount is deducted from capital expenditure in calculating State borrowing levels in the Debt Charges assessment.

capital SPPs should relate to only those services covered by the scope of the equalisation budget<sup>4</sup>.

43. Treating capital SPPs by inclusion means the differential interstate distribution will affect States' per capita relativities. It would be double counting if that differential distribution was also allowed to affect the Debt Charges assessment. For that reason, the Commission has decided that the Debt Charges assessment would only bring in the standard amount of capital SPPs received since 1998-99. This amount will be brought into the Debt Charges assessment through the equalisation budget result term.

44. *National highways.* South Australia said that national highways in States were considered as State assets. The expenses and depreciation relating to them are included in the State's operating statement. Information sought from other States indicates that this is the standard policy. Since national highways are recorded as State assets and revenues and expenses (including depreciation) have a direct impact on State accounts, the SPPs for national highways should be treated by inclusion. This is consistent with the treatment applied to other capital SPPs that create State assets. An equivalent amount of expenses would be included in the Roads expenditure category. Because the Commonwealth currently funds national highways, the Commission considers that the expenses associated with national highways should be assessed on an actual per capita basis. As long as the Commonwealth meets all the expenses of national highways, this assessment would offset the effect of the SPP on the relativities.

45. ***Commission decisions.*** The Commission considers that a strong conceptual case exists for including capital SPPs in the equalisation budget. The evidence is that these SPPs are used to finance expenses which are included in the equalisation budget. States report capital SPPs as operating revenue in their accounts and they have a direct impact on State budgets. For these reasons, the Commission has decided:

- (i) to include capital SPPs in the equalisation budget in the 2004 Review;
- (ii) to determine the treatment of each capital SPP by applying the Commission's SPP guidelines to them; and
- (iii) for those capital SPPs that are treated by inclusion, to include them in the year they are received.

46. The Commission also considers that a strong conceptual case exists for treating SPPs for national highways by inclusion. The standard policy is to treat national highways as State assets and the expenses relating to them, including depreciation, are in their accounts. Because national highway transactions affect State budgets, and consistent with the treatment of other capital SPPs used to fund State assets used in the provision of State-type services, the Commission has decided to treat the SPPs for national highways by inclusion. It has also decided to use the actual per capita method to assess this component of Roads expenditure.

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<sup>4</sup> Commission staff are still examining the data on capital expenditure and capital SPPs to ensure they are comparable and cover only services in the equalisation budget.

### ***Treatment of Commonwealth Own Purpose Outlays (COPOs)***

47. In addition to providing funding to the States through untied assistance and SPPs, the Commonwealth and its agencies also:

- (i) make payments to individuals;
- (ii) provide some State-type services;
- (iii) make payments to the States for the provision of State-type services;  
and
- (iv) make payments to non-government organisations for the provision of State-type services.

48. The Commission refers to these transactions as COPOs. In previous reviews, the Commission brought some of these transactions into the equalisation budget because it considered them to be similar to SPPs. In the 2003 Update, the following COPOs were included in the equalisation budget:

- (i) payments by the Aboriginal and Torres Strait Islanders Commission (ATSIC) to the States or to non-government organisations for services provided to Indigenous people;
- (ii) payments by the Torres Strait Regional Authority (TSRA) to the States or to non-government organisations for services provided to Indigenous people;
- (iii) payments by the Department of Health for Indigenous health purposes<sup>5</sup>; and
- (iv) payments by the Australian Emergency Management Institute for emergency services.

### ***Treatment of COPOs — payments to individuals***

49. The Commonwealth subsidises the cost to individuals of medical and pharmaceutical benefits and nursing home services through Medical Benefits, Pharmaceutical Benefits payments and Residential Care Subsidies<sup>6</sup>. In the 1999 Review, the Commission treated these payments as out of scope because it considered them to be a Commonwealth responsibility.

50. The Commission assessed economic environment disabilities in Health categories because it considered that there were differences between regions in the availability of the private services supported by Commonwealth payments to individuals and these differences affected the demand for State services in those areas.

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<sup>5</sup> These payments include payments for the Primary Health Care Access Program.

<sup>6</sup> Previously known as Nursing Home Benefits.

51. **State views.** The *Northern Territory* argued that Medicare and Pharmaceutical Benefits payments to individuals were similar to the Primary Health Care Access Program (PHCAP) payment and should be treated in the same way, by inclusion.

52. **Staff proposals.** In *Discussion Paper 2003/2*, Commission staff proposed treating payments to individuals as out of scope because they were a Commonwealth responsibility.

53. **Further State views.** The *ACT* supported the proposal, so long as disabilities are built into the relevant categories to recognise demand and/or cost impacts on service delivery.

54. The *Northern Territory* supported the proposal. It said PHCAP should also be treated as out of scope because it was a payment in lieu of Medical Benefits.

55. **Analysis and evaluation.** Payments to individuals do not have a direct impact on the State budgets. The Commission has decided that the scope of the equalisation budget would be restricted to transactions which have a direct impact on State budgets. This implies payments to individuals should continue to be treated as out of scope. If these payments have an indirect impact on the demand for State services, disabilities could be built into the relevant categories to capture any demand effects.

56. **Commission decision.** The Commission considers the conceptual case has been established for excluding Commonwealth payments to individuals as out of scope. These payments are a Commonwealth responsibility and they do not have a direct impact on State budgets. For these reasons, the Commission has decided to treat them as out of scope.

#### ***Treatment of COPOs — payments to States***

57. The Commonwealth and its agencies (for example, ATSIC) sometimes make payments to the States to help them fund the delivery of State-type services. Some of these payments were previously paid as SPPs. In the 1999 Review, the Commission treated them by inclusion because they had most of the characteristics of SPPs.

58. **Staff proposals.** In *Discussion Paper 2003/2*, Commission staff proposed to treat COPOs paid to States by inclusion.

59. **State views.** *South Australia* supported the proposal. No other State commented.

60. **Analysis and evaluation.** COPOs paid to States have most of the characteristics of SPPs. In particular, they have a direct impact on State budgets and they usually arise from negotiations between the Commonwealth and State agencies.

61. **Commission decision.** As no State has opposed this proposal, the Commission has decided to continue to treat COPOs paid to States by inclusion.

***Treatment of COPOs — payments to non-government organisations and direct provision of services by the Commonwealth***

62. The Commonwealth sometimes chooses to provide services that complement or substitute for services normally provided by States. For example, prior to transferring them to States, the Commonwealth provided services to State residents in repatriation hospitals. It also funds non-government organisations to provide State-type services. For example, the Department of Health makes payments to Indigenous organisations for the provision of medical services to Indigenous people.

63. While these COPOs might fund services that States normally provide, they differ from SPPs because they do not have a direct impact on State budgets.

64. In the 1999 Review, the Commission treated Commonwealth payments to non-government agencies by inclusion if they financed services similar to those included in its disability assessments. For example, the services provided by Indigenous community controlled health organisations were considered similar to those provided by State community health services. The differential costs of providing community health services to Indigenous people were reflected in the Commission's disability assessments.

65. In some cases, only part of the payment was included. This happened when the Commission decided the service financed by the payment was being provided at a standard above that provided by States or where there was an overlap between the services financed by the payment and those provided by the State. For example, the Commission excluded one third of the ATSIC payments to non-government organisations because it considered that the payments were used to finance an above standard level of services.

66. ***State views. Queensland*** said COPOs such as the Community Development Employment Program (CDEP) and the National Aboriginal Health Strategy (NAHS) should be treated by exclusion because they did not substitute for State services. It said States would discontinue these services if the COPO was discontinued.

67. ***Tasmania*** and the ***ACT*** said COPOs spent on State-type services should be treated by inclusion. The ACT argued that services delivered through the CDEP and NAHS programs were normally the responsibility of States, and that the COPOs relieved States of spending in the relevant area.

68. The ***Northern Territory*** said the CDEP and NAHS COPOs should be treated by exclusion. It said the on-cost amounts for CDEP were equivalent to the Work for the Dole program, a Commonwealth function which the Commission treated as out of scope.

69. ***Commonwealth views.*** The Commonwealth argued COPOs could be treated as notional SPPs where:

- (i) the COPO was paid directly into States' consolidated revenue funds and was explicitly intended to contribute towards State expenditures in functions covered by the Commission's equalisation budget;

- (ii) the COPO was paid to third parties whose sole source of funding was State and Commonwealth governments and whose expenditures relate to equalisation budget functions (for example, bodies involved in the delivery of State-like services to Indigenous communities); and
- (iii) the COPO gave rise to identifiable and measurable spill-overs into the standardised demand for State services.

It acknowledged that most COPOs did not fall into any of these categories.

70. **Staff proposals.** In *Discussion Paper 2003/2* Commission staff proposed to:

- (i) include COPOs where the standard practice was to pay the COPO to States. In this case, the standard practice was that the payments would have a direct impact on State budgets; and
- (ii) exclude COPOs where the standard practice was to pay the COPO to non-government organisations. In this case, the standard practice was that the payments would not have a direct impact on State budgets.

71. Commission staff said that they would examine each COPO to determine the standard practice.

72. **Further State views.** *Western Australia* did not support the proposal. It said the Commission should treat any COPO which was highly substitutable for State expenditure by inclusion, even if it was paid to an individual. It should treat any COPO which was partially substitutable by exclusion. If these partially substitutable COPOs had an indirect impact on States' expenditure requirements, the Commission could consider whether or not to assess a disability factor.

73. *Western Australia* argued that COPOs that increased service standards by addressing unmet needs should only be treated by inclusion if the Commission assessed disabilities on the basis of the higher standards.

74. **South Australia** questioned whether disabilities ought to be assessed for the indirect impact ATSIC payments to non-government organisations might have on State budgets. It said if these payments were treated by exclusion, there should be no impact on the Commission assessments.

75. **Tasmania** supported the proposal to examine each COPO to determine whether the standard practice was to pay the COPO to States or to non-government organisations. It said the Commission could neatly apply its SPP guidelines to the three different types of COPOs identified in the discussion paper.

76. **Northern Territory** said COPOs for functions that were the responsibility of both the States and the Commonwealth should be treated by exclusion if the payments were made to non-government organisations.

77. The **ACT** did not support treating COPOs paid to non-government organisations by exclusion. It said they had a direct impact on State budgets and they are

fully substitutable. It said excluding these payments was inconsistent with the three pillars approach adopted by the Commission, particularly in regard to the capacity equalisation and internal standards (what States do) components. It suggested that the Commission treat at least a proportion of funding paid to non-government organisations by inclusion.

78. ***Analysis and evaluation.*** COPOs paid to non-government organisations do not have a direct impact on State budgets, they do not appear in State budget documents. Consistent with the Commission's decision to confine the scope of equalisation to expenses and revenues which have direct impact on State budgets, these payments would be treated by exclusion.

79. Some COPOs are paid to non-government organisations in one State but a State agency in another. In these cases, the Commission would need to determine the standard practice. There is a strong argument for treating the COPO by inclusion if the standard practice is to pay it to State agencies.

80. It would be difficult to use substitutability as a criterion for deciding the treatment of COPOs paid to non-government organisations. There is no way of knowing whether or not States would continue to finance a service if the Commonwealth ceased the payment. For example, Queensland said services funded by CDEP and NAHS COPOs were not substitutable because States would discontinue the service if the COPO was discontinued. The ACT said the opposite.

81. In cases where the exclusion approach was used, the Commission would want to leave open the possibility of assessing a disability if, in its consideration, the COPO had a material, indirect impact on State budgets because it affected the demand for State services. The Medicare Benefits payment is an example. In the 1999 Review, the Commission assessed an economic environment disability in the Hospitals and Community Health categories. The disabilities recognised the differences between regions in the availability of private services supported by Commonwealth. These differences affected the demand for State services in those areas with below average numbers of general practitioners.

82. ***Commission decision.*** The Commission considers that the conceptual case has been established for treating COPOs by inclusion where the standard practice is to pay them to State agencies and by exclusion where the standard practice is to pay them to non-government organisations. The latter payments do not have a direct impact on State budgets. Therefore, the Commission has decided to:

- (i) treat COPOs paid to States and non-government organisations by inclusion where the standard practice is to pay them to State agencies; and
- (ii) treat COPOs paid to States and non-government organisations by exclusion where the standard practice is to pay the COPO to non-government organisations. In these cases, it would exclude both the payment and the expenditure it financed.

### ***SPPs quarantined by previous terms of reference***

83. Terms of reference can prescribe the treatment the Commission is to apply to particular SPPs. The terms of reference for the 1999 Review and subsequent updates instructed the Commission to quarantine certain payments.<sup>7</sup> The Commission complied with these instructions by treating them by the exclusion method.

84. The 2004 Review terms of reference does not instruct the Commission to quarantine any payments. During the November 2002 staff conference, Commission staff asked States for their views on how it should treat SPPs which were quarantined by previous terms of reference.

85. ***State views. Tasmania*** said the Commission should continue to quarantine these payments because:

- (i) in the absence of a specific instruction to the contrary, the Commission should continue the practice that was in place when the terms of reference was drafted. Tasmania noted this was the approach the Commission adopted when the issue of the definition of equalisation was debated at the October 2001 Priority Issues Conference; and
- (ii) the Commission should not ignore the statements of intention included in Commonwealth-State agreements, for example:
  - the agreements signed between the Commonwealth and all States for the National Competition Payments, Budget Balancing Assistance and some aspects of the Health Care Grants provide for those payments to be quarantined from the Commission's assessments; and
  - a letter from the Prime Minister to the Tasmanian Premier saying the Intelligent Island and Connecting Tasmanian Schools payments would be quarantined from the Commission's assessments.

86. No other State commented.

87. In April 2003, the Commission wrote to the Commonwealth seeking its advice. The Commonwealth said:

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<sup>7</sup> The payments were: Mental Health, National Health Development Fund and Critical and Urgent Treatment (CUT) Waiting List Initiative components of the Australian Health Care Agreements (ACHAs); National Competition Payments; States' contributions to the Commonwealth's Deficit Reduction Strategy; payments to the States to reimburse them for revenue lost as a result of the establishment of a national scheme of companies, securities and future regulation; payments funded from the Natural Heritage Trust of Australia and the Regional Telecommunications Infrastructure Fund; payments for the Fringe Benefit Tax Transitional Grants for public and not-for-profit hospitals; payments for Building IT Strengths — Tasmanian 'Intelligent Island'; payments for Connecting Tasmanian Schools; payments for the Extension of the First Home Owners Schemes; and payments for the Roads to Recovery Program.

‘Given the unchanged nature of government policy on this issue and the previously issued terms of reference, the CGC should continue with the quarantining of all payments identified in previous terms of reference supplied to the CGC.’

88. The Commonwealth confirmed the omission of a specific reference on quarantining was not deliberate. After considering its advice, the Commission wrote to the States indicating its intention to quarantine those payments explicitly quarantined by terms of reference for the 1999 Review and subsequent updates. It also said that, unless instructed otherwise by terms of reference, it would determine the treatment of new SPPs by applying its SPP guidelines to them.

89. **Further State views.** *South Australia* supported the Commission’s proposal. Other States did not comment.

90. **Analysis and evaluation.** The Commission quarantines payments only when it receives terms of reference telling it to do so.

91. The Commonwealth’s response indicates that the omission of explicit reference to the quarantining of certain SPPs was not deliberate. It also indicates that the Commonwealth’s intention was to continue to quarantine payments quarantined in previous terms of reference.

92. **Commission decisions.** Given no State has opposed the Commission’s proposal, the Commission has decided to:

- (i) quarantine, in the 2004 Review, those SPPs which were quarantined by the terms of reference for the 1999 Review and subsequent updates; and
- (ii) to apply its SPP guidelines to new SPPs.

#### ***Non-compliance with SPP conditions***

93. **Commonwealth view.** The Commonwealth asked the Commission to consider how to treat the case where a State accepts an SPP and then foregoes part of it by not complying with all of the conditions of the SPP agreement.

94. The Commonwealth argued that it would be inappropriate for that State to benefit from its decision by way of an increased share of GST revenue, which would happen if the Commission followed its usual practice. The non-complying State’s share of GST revenue would be lower if the Commission treated the amount of SPP the State would have received (had it complied with the SPP agreement) by inclusion rather than the amount of the SPP it actually received.

95. The Commonwealth proposed a different approach. It suggested that where a State chose to forego part of an SPP, the Commission would replace the State’s actual receipt with a ‘standardised’ receipt. The standardised receipt would be the amount the State would have received had it complied with all of the SPP’s conditions.

96. **Staff proposals.** In *Discussion Paper 2003/2*, Commission staff proposed continuing the current approach of treating the amount States actually received by inclusion. They said the Commonwealth's proposal raised a number of difficulties:

- (i) Who would tell the Commission when a standardised amount should be used rather than an actual amount?
- (ii) What would the Commission do if there was disagreement between the Commonwealth and the relevant State on this issue? and
- (iii) How would the Commission interpret standard policy in these circumstances?

97. **State views. Queensland, Western Australia, Tasmania** and the **Northern Territory** said the Commission should continue to treat the actual amount of SPPs received by each State by inclusion rather than the standardised amount. They were concerned the Commonwealth's proposal would lead to increased complexity and would make it difficult to determine standard policy.

98. The **ACT** supported the Commonwealth's proposal. It said including the standardised level of SPP in cases of non-compliance would prevent the non-complying State from receiving a 'windfall gain' through an increased share of GST revenue.

99. No other State commented on this issue.

100. **Analysis and evaluation.** One of the pillars of the Commission's equalisation principle is to reflect what States do. In terms of the financial standard, this means including only those transactions in State operating statements.

101. Where a State foregoes part of its revenue from the Commonwealth SPP, its operating statement would not show the foregone amount. It only shows the actual amount received by the State. The Commission will use this amount in deriving its financial standard.

102. **Commission's decision.** The Commission does not accept that a conceptual case has been made for treating the standardised amounts of SPPs by inclusion. This is consistent with the Commission's principle to follow what States do and to confine the scope of equalisation to direct impact on State budgets. The Commission therefore proposes to:

- (i) continue to include the actual amounts of SPPs States receive; and
- (ii) include the standardised amounts of SPPs only where instructed to do so by terms of reference.

### ***The source of SPP data***

103. In the 1999 Review and subsequent updates, the Commission sourced its SPP data from the Commonwealth's *Final Budget Outcome* publication.

104. **Preliminary proposal.** In *Discussion Paper 2003/02* Commission staff proposed to continue to use the Commonwealth's *Final Budget Outcome* as the source of its SPP data.

105. **State views.** The *ACT* supported the Commission's proposal because of its transparency and consistency. Other States did not comment.

106. **Commission decision.** Given no State has opposed this proposal, the Commission has decided to continue to source its SPP data from the Commonwealth's *Final Budget Outcome* document.

## **THE TREATMENT TO APPLY TO INDIVIDUAL SPPs IN THE 2004 REVIEW**

107. In *Discussion Paper 2003/2*, Commission staff proposed treatments for each SPP in the 2004 Review. Attachment A provides a summary of the Commission's decisions on the treatment of each recurrent payment, each capital payment and each COPO.

### ***The treatment of project specific SPPs***

108. **State views.** *South Australia* argued that the Commission should not treat specific capital projects by the inclusion method. It said that, in many cases, these funds were provided to allow the States to undertake a project or acquire an asset that might not otherwise have been undertaken/acquired.

109. *South Australia* also asked for a consistent approach to the treatment of project specific SPPs. It was concerned that if some project specific SPPs were treated by inclusion and others by exclusion, some States might be disadvantaged.

110. **Analysis and evaluation.** The Commission includes Commonwealth assistance because the assistance finances expenses for which the Commission has assessed needs. The expense could be used to finance a service or an asset. In both cases, the provision of the assistance finances part of the service/assets the State provides.

111. The Commission has developed its SPP guidelines to ensure consistency in its approach to determining which treatment to apply to each Commonwealth SPP.

112. **Commission decision.** The Commission does not accept that a conceptual case has been made for treating all project specific capital SPPs by exclusion. The Commission does not consider that equalisation would be improved by treating project specific capital SPPs differently from other SPPs. Therefore, the Commission has decided to determine the treatment of each recurrent and capital SPP using its SPP guidelines.

### ***Payments for National Action Plan for Salinity and Water Quality***

113. In November 2000, the Commonwealth agreed to allocate \$1.4 billion to the States over seven years to implement the National Action Plan for Salinity and Water

Quality (NAPSWQ) Program. The program aims to motivate and enable regional communities to use coordinated and targeted action to:

- (i) prevent, stabilise and reverse trends in dry land salinity affecting the sustainability of production, the conservation of biological diversity and the viability of infrastructure; and
- (ii) improve water quality and secure reliable allocations for human uses, industry and the environment.

114. At the launching of the plan, States were advised that the amounts they were likely to receive were based on need — that is, the relative dry land salinity and water quality control difficulties faced by each State.

115. Expenditure on the plan was \$1.6 million in 2000-01 and is expected to increase rapidly over the next few years. The payments were paid as COPOs in the years 2000-01 to 2002-03 and as SPPs from 2003-04 onwards. The Commission treated these payments by exclusion in the 2002 and 2003 Updates because the amount of the SPP was small and it could find little information on how the SPP was allocated.

116. *State views.* *New South Wales* and *Western Australia* said the existing distribution of funding under NAPSWQ adequately reflected the States' relative needs. They proposed using this distribution as the basis for a needs assessment.

117. *Victoria* said an assessment of needs should be made in the soil conservation component of the Services to Industry group of categories. It proposed using actual levels of funding on all land care as the basis of a disability assessment.

118. *South Australia* said if all soil conservation expenses were not assessed using the distribution of NAPSWQ, then the NAPSWQ payment should be excluded.

119. *Queensland* and *Tasmania* did not support using the distribution of NAPSWQ funds as the basis for a needs assessment.

120. The *ACT* questioned why the Commission planned to recognise salinity problems when funding was already provided by the Commonwealth through NAPSWQ. It did not support using the affected areas as the basis for a needs assessment. It said that if affected areas were used as the basis of a needs assessment, the resultant factors should be heavily discounted.

121. The *Northern Territory* opposed the assessment of any disability for salinity because State expenses were heavily policy influenced.

122. *Staff proposal.* In *Discussion Paper 2003/2*, Commission staff proposed treating the NAPSWQ payment by inclusion. They said the payment had a direct impact on State budgets and it supplemented State funding for salinity control. They also said a needs assessment would be made for salinity control expenses.

123. *Further State views.* *Queensland*, *Western Australia* and the *ACT* supported the Commission's proposal and *Northern Territory* did not.

124. **Northern Territory** did not support the assessment of salinity disabilities because expenses in this area were significantly influenced by policy. It argued that if disabilities were assessed, they should be heavily discounted. The NAPSWQ payments should be treated by inclusion if disabilities were assessed.

125. **Analysis and evaluation.** The NAPSWQ payment provides assistance for a State type service (salinity control) and it has a direct impact on State budgets. The SPP guidelines suggest the payment should be treated by the inclusion method.

126. **Commission decision.** The Commission accepts that a conceptual case has been made for treating the NAPSWQ payment by inclusion. The payment is material and that it has a direct impact on State budgets. For these reasons, the Commission has decided to treat the payment by inclusion. Further discussion on the methods for assessing needs relating to salinity control are in *Draft Assessment Paper CGC 2003/48 Primary Industry*.

### **Federation Fund**

127. To commemorate the Centenary of Federation, the Commonwealth provided funding totalling \$1 billion to assist projects of national significance. Those payments were made for many purposes with the aim of contributing 'to the enrichment of Australia's cultural heritage and infrastructure'.

128. The funds were dispersed to a large number of Commonwealth, State and local government bodies and to many community organisations. Of the \$1 billion, \$748 million was spent as Commonwealth Own Purpose Outlays. These were paid to Commonwealth agencies, direct to local government agencies and to community organisations. The remaining \$252 million was paid as SPPs to or through the States.

129. **Staff proposal.** In *Discussion Paper 2003/2*, Commission staff proposed treating the Federation Fund payments as out of scope because:

- (i) commemorating nationhood was a Commonwealth function;
- (ii) the Commonwealth made the final decisions on which programs would be funded; and
- (iii) it was likely that many of the projects would not have proceeded without Commonwealth money.

130. **State views.** The ACT opposed the proposal to treat Federation Funds as out of scope because:

- (i) it was inconsistent with the Commission's decision to include capital grants in its equalisation process;
- (ii) it was inconsistent with the scoping guidelines and the SPP guidelines;
- (iii) it was inconsistent with equalisation because disabilities associated with the payments are assessed;

- (iv) the payments substituted for State-type expenditure — States had a significant say through their bids to the Commonwealth;
- (v) there were very significant differences in the per capita payments paid to each of the States — ranging from approximately \$2.09 per capita for the ACT to \$1 010.10 per capita for the Northern Territory;
- (vi) the payments were paid for State expenditure functions; and
- (vii) the funds, in many cases, would provide differential assistance for capital provision in support of services and/or economic development and increased revenues.

131. The *Northern Territory* supported the proposal to treat Federation Fund payments as out of scope.

132. No other State commented on this issue.

133. *Analysis and evaluation.* The main issues appear to be:

- (i) Whether the Federation Fund represents a State or Commonwealth responsibility. These payments commemorated nationhood which is a Commonwealth responsibility. The States submitted bids, but it was the Commonwealth that decided which bids would be successful. On the evidence available, it appears that the distribution of payments reflected Commonwealth choices.
- (ii) Whether we should apply the same treatment to all payments made from the Federation Fund. The Commission's practice is to apply the same treatment to SPPs paid under the same program, for example, Rural Adjustment Scheme or Natural Heritage Trust of Australia.
- (iii) The majority of the Federation Fund SPPs were paid to public trading enterprises. The equalisation budget includes only State subsidies to trading enterprises. The detailed revenues and expenses of trading enterprises are excluded from the Commission's assessments.
- (iv) Whether the projects would go ahead without the Commonwealth payment. There is no way of knowing whether or not States would have financed the project if the Commonwealth had not provided assistance.

134. *Commission decision.* The Commission considers that on balance, a conceptual case has not been made for treating the Federation Fund payments by inclusion. Decisions on the distribution of the payments were made by the Commonwealth and the payments were for a Commonwealth responsibility. In addition, most payments were paid to trading enterprises or services which did not have a direct impact on State budgets. For these reasons, the Commission has decided to treat Federation Fund payments as out of scope.

### ***Sinking Fund on State Debt***

135. The Commonwealth contributed to the Debt Retirement Reserve Trust Account on behalf of the States and Northern Territory for the redemption of their debt as governed by the *Financial Agreement Act 1994*. The contribution rate was 0.28 per cent of the net public debt of each State and the Northern Territory as at the preceding 30 June.

136. In the 1993 Review, the Commonwealth instructed the Commission to quarantine this payment. In the 1999 Review and subsequent updates, the Commission treated the payment (and the related part of the Debt Redemption Assistance payment) as out of scope because it was a capital transaction.

137. ***Staff proposal.*** In *Discussion Paper 2003/2*, Commission staff proposed treating these payments by inclusion.

138. ***State views.*** *Queensland* argued the payment should be treated as out of scope because it:

- (i) was not made under a SPP agreement;
- (ii) was not utilised for general recurrent expenditures nor was it utilised for asset or capital purchases;
- (iii) was not spent on a function for which needs were assessed;
- (iv) was not an operating revenue in the State's general accounts; and
- (v) did not meet the SPP guidelines.

139. The *ACT* supported the proposal to treat these payments by inclusion. It said the payments compensated the States and the Northern Territory for the lower Commonwealth sinking fund contributions, and thus supplemented States' budgets by reducing overall debt charges. It also said treating the payment by inclusion was consistent with the approach of treating capital grants by inclusion.

140. The *ACT* argued treating these payments by exclusion would not be consistent with the Debt Charges assessment, particularly the *ACT*'s phase-in adjustment for Debt Charges. It said exclusion would not recognise the advantage accruing to the States which received debt servicing assistance from the Commonwealth through these sinking fund contributions. If exclusion were used, the States and the Northern Territory would receive an interest cost supplementation (through this payment) and their full debt charges disability. The *ACT*, on the other hand, received no interest cost supplementation and only a partial debt charges disability because of its phase-in adjustment.

141. ***Analysis and evaluation.*** Extending the equalisation budget to include capital SPPs means that this payment falls within scope and it has a direct impact on State budgets. It supplements State budgets and reduces their overall debt charges. The borrowing needs of States is considered within the Debt Charges assessment.

142. **Commission decision.** The Commission considers that the conceptual case has been established for treating Sinking Fund on State Debt payments by the inclusion method. The payments have an impact on State budgets and they finance expenses for which disabilities are assessed within the Debt Charges assessment. For this reason, the Commission has decided to treat the Sinking Fund on State Debt payment by inclusion.

### ***Debt Redemption Assistance***

143. These payments compensate the States for the additional costs borne as a result of the revised debt redemption arrangements formally agreed by the Commonwealth and the States at the May 1991 Loan Council meeting and reflected in the *Financial Agreement Act 1994*. The payment has two components:

- (i) compensation for the States' higher interest costs for borrowing in their own names — ***the interest component***,
- (ii) compensation for the reduced Commonwealth contributions towards redemption of the Commonwealth government securities on issue for the States resulting from the new arrangements — ***the contribution to sinking fund component***.

144. **Staff proposal.** In *Discussion Paper 2003/2*, Commission staff proposed treating the interest component of the payment by inclusion and the contribution to sinking fund component as out of scope.

145. **State views.** *South Australia* queried the proposal to treat the interest component of this SPP by inclusion. It argued the SPP directly reflected the relative borrowing costs of each State for the debt that was transferred at the time of the agreement.

146. The *ACT* said that both the interest component as well as the contribution to the sinking fund component of the payment should be treated by inclusion. This was consistent with the proposal to treat the Sinking Fund on State Debt payment by inclusion.

147. **Analysis and evaluation.** The interest component has a direct impact on State budgets. This payment finances part of States' borrowing needs, which are assessed in the Debt Charges assessment. Application of the Commission's SPP guidelines would suggest that the payment should be treated by inclusion.

148. The contribution to sinking fund component is linked to the Sinking Fund on State Debt payment which the Commission has decided to treat by inclusion. For consistency, the same treatment (inclusion) should be applied to the contribution to sinking fund component.

149. **Commission decision.** The Commission accepts that the conceptual case has been established for treating Debt Redemption Assistance payments by the inclusion method. These payments have an impact on State budgets and they finance expenses for which disabilities are assessed within the Debt Charges assessment. For this reason, the Commission has decided to treat the full amount of Debt Redemption Assistance payment by inclusion.

### ***Non-government schools***

150. Commonwealth SPPs paid for non-government school education include recurrent and capital payments for:

- (i) Non-government Schools;
- (ii) Targeted Program — Non-government Schools; and
- (iii) Indigenous Education Strategic Initiatives Program — Non-government Schools.

They are shown as payments through the States in Commonwealth budget papers. In the 1999 Review, these payments were treated by inclusion.

151. ***State views. South Australia*** and the ***Northern Territory*** supported treating these SPPs by inclusion because they financed States' expenditure needs.

152. South Australia also asked the Commission to consider whether the revised formula for distribution of the Commonwealth SPPs met equalisation criteria.

153. ***Staff proposal.*** In *Discussion Paper 2003/2*, Commission staff proposed to treat non-government SPPs by exclusion because the distribution of the payments was determined by the Commonwealth and States passed the full amount of the payments on to the relevant non-government schools. Commission staff considered that the States were acting as agents of the Commonwealth.

154. Commission staff also foreshadowed that the proposed treatment would be reviewed in the light of final decisions on the non-government education assessments.

155. ***State views. Victoria*** and ***Northern Territory*** supported treating these payments by exclusion.

156. Victoria said that this is because:

- (i) non-government schools were not primarily a State government responsibility;
- (ii) the payments were on-passed to non-government schools;
- (iii) the SPP had no direct impact on State budgets; and
- (iv) the SPP was distributed in line with the Commonwealth's assessment of the needs of non-government school students.

157. ***Western Australia*** argued that both recurrent and capital SPPs to non-government schools should be treated by inclusion because they were not distributed in accordance with needs. It said that these SPPs were substitutable for State expenditures because States also provided funding to non-government schools.

158. *South Australia* said recurrent non-government school SPPs should be treated by inclusion because they had a direct impact on States' expenditure requirements. It said State governments provided considerable assistance to non-government schools over and above the non-government schools grants (approximately \$70 per capita).

159. South Australia supported the proposal to treat capital payments to non-government schools by exclusion because they had no impact upon State government owned depreciable assets.

160. The *ACT* reserved its comments pending receipt of the non-government schools draft assessment papers.

161. *Analysis and evaluation.* Treating these payments by exclusion is consistent with the Commission's decision to confine the scope of equalisation to expenses and revenues which have direct impact on State budgets. The States pass on the full amounts of these SPPs to non-government schools and there is no impact on their budgets. It is not clear that the size of the Commonwealth payments to non-government schools has an impact on State support for them.

162. Treating capital SPPs to non-government schools by exclusion is consistent with the fact that State governments generally do not have responsibility for constructing (or upgrading) infrastructure in non-government schools. These are not assets which States would depreciate in their State budgets.

163. *Commission Decision.* The Commission accepts that the conceptual case has been established for treating the non-government SPPs by exclusion. These payments do not have an impact on State budgets because they are passed on in full to non-government schools. In addition, the construction and upgrade of non-government schools is not a State responsibility. For these reasons, the Commission has decided to treat the non-government schools SPPs by exclusion.

#### ***Indigenous Education Strategic Initiatives Program (IESIP) – Government***

164. *Staff proposal.* In *Discussion Paper 2003/2*, Commission staff proposed treating this payment by inclusion.

165. *State views.* *Western Australia* argued that the Commission's assessments underestimated its costs of educating Indigenous students and the Commonwealth method of distributing IESIP funding was a superior assessment of needs in this area. It argued that if the 1999 Review assessment methods were retained in this review, it would be appropriate to treat this SPP by exclusion.

166. It said its argument also applied to the IESIP for non-government schools SPP which Commission staff had proposed treating by exclusion.

167. *Analysis and evaluation.* The IESIP payment for government schools finances expenses for which needs are assessed. This SPP is paid to States and has a direct impact on their budgets. Applying the SPP guidelines to this payment leads to the conclusion that it ought to be treated by the inclusion method.

168. Western Australia's concerns about the how needs for Indigenous education should be assessed will be addressed in the Schools Education draft assessment paper.

169. **Commission decision.** The Commission accepts that a conceptual case has been established for treating the IESIP payment to government schools by inclusion. The payment finances expenses for which needs are assessed and it has a direct impact on State budgets. For these reasons, the Commission has decided to treat the IESIP payment to government schools by the inclusion method.

#### ***Concessions for Commonwealth Seniors Health Card (CSHC) Holders***

170. This program provides assistance to States for the cost of extending pensioner concessions to CSHC holders for electricity, council rates, water and sewerage, and motor vehicle registration. The payment commenced in 2002-03.

171. **Staff proposal.** In *Discussion Paper 2003/2*, Commission staff proposed treating this SPP by inclusion.

172. **State views.** *Western Australia* said that it was likely that most States would choose to decline the SPP. Therefore, it asked the Commission to standardise the SPP to reflect the standard practice to decline the SPP.

173. **Analysis and evaluation.** The Commission has decided not to standardise SPPs in cases where States forego part (or all) of an SPP. This SPP, if it is paid, would finance expenses for which needs are assessed and it would impact on State budgets. Applying the SPP guidelines would imply that the payment should be treated by inclusion if any State accepted it.

174. **Commission decision.** The Commission accepts that a conceptual case has been established for treating the Concessions for Commonwealth Seniors Health Card (CSHC) Holders payment by inclusion. The payment finances expenses for which needs are assessed and it has a direct impact on State budgets. For these reasons, the Commission has decided to treat the payment by the inclusion method.

#### ***Royalties***

175. This payment has three components:

- (i) reimbursement to the Western Australian Government for royalties under Section 129 of the *Petroleum (Submerged Lands) Act 1967 (PSLA)* and for the cost of Barrow Island Resource Royalty (BIRR);
- (ii) reimbursement to the Western Australian Government for royalties under Section 130 of the PSLA; and
- (iii) payment to the Northern Territory Government in lieu of uranium royalties from the Ranger project.

176. In the 1999 Review, payments under Section 130 of the PSLA were treated by exclusion because they were considered to be compensation to the State for complying with contract conditions relating to natural gas sales. The Section 129 component of PSLA and BIRR payment, and payment to the Northern Territory were treated by inclusion.

177. **Staff proposal.** In *Discussion Paper 2003/2* Commission staff proposed to continue to treat the Section 130 component by exclusion and to classify the other components to the Mining Revenue category.

178. **State views. Western Australia** supported these proposals.

179. The *ACT* queried why the reimbursement to Western Australia for royalties under the PSLA and the Barrow Island Resource Royalty were to be treated by exclusion when other royalty reimbursements were to be treated by inclusion. It asked the Commission to provide additional information on the Western Australia related royalties. It said only the compliance/contract component of the Western Australia payment should be treated by exclusion, the remainder should be treated by inclusion.

180. **Analysis and evaluation.** Section 129 and BIRR payments and the payment of grants in lieu of uranium royalties in the Northern Territory were part of revenue sharing agreements between the relevant States and the Commonwealth. The payments were comparable to royalties States raised from other minerals. Those payments were previously treated by inclusion.

181. The Section 130 payments, which the Commonwealth ceased paying in 2000-2001, were paid to Western Australia in return for the State complying with contract conditions relating to natural gas sales. These conditions were the subject of negotiations between the Commonwealth and the State and Joint Venture Participants. The Commission has treated these payments by exclusion since they commenced.

182. **Commission decision.** The Commission considers that the conceptual case has been established for treating the Section 130 payment by exclusion. This payment is not payment in lieu of royalties but relates to a commercial transaction. The Commission has, therefore, decided to continue to treat the 130 payment by exclusion.

183. The Commission also considers that a conceptual case has been established for treating the Section 129 and BIRR payments to Western Australia and the uranium royalties payment to Northern Territory as mining revenue. The Commission has therefore decided to include these payments in the Mining Revenue category.

### ***Renewable Remote Power Generation***

184. This program provides financial support to increase the use of renewable energy generation in remote areas which presently rely on diesel fuel for electricity generation. The payment provided up to 50 per cent of the initial capital funding to eligible groups in States that changed isolated generation systems to renewable power sources. These groups include Indigenous communities, isolated households and commercial operations including pastoral properties, tourist operations and mining operations. Funding

was based on the relevant amount of the Diesel Fuel Excise paid in each State by public electricity generators. In the 2003 Update, this payment was treated as out of scope because of its capital nature.

185. **Staff proposal.** In *Discussion Paper 2003/2* Commission staff proposed treating this payment by inclusion.

186. **State views. Western Australia** did not agree with the proposal to treat this payment by inclusion. It argued that it was a Commonwealth policy to impose an excise on public use of diesel for off-grid power generation and return it to the States for renewable power generation in remote areas. It further added that needs for expenditures on promoting renewable remote power generation were not reflected in the Commission's current assessments.

187. **Analysis and evaluation.** This payment provides rebates to eligible groups of up to 50 per cent of the initial costs of renewable energy installations in remote areas. The States pass on the full amount of these SPPs to the eligible groups and there is no impact on their budgets. Application of the SPP guidelines leads to the conclusion that the payment should be treated by the exclusion method.

188. **Commission decision.** The Commission considers that the conceptual case has been established for treating the Renewable Remote Power Generation payment by exclusion. These payments do not have an impact on State budgets because they are passed on in full to eligible groups. For this reason, the Commission has decided to treat the payment by exclusion.

#### **Native Title**

189. This funding is paid under the *Native Title Act 1993* to assist the States and Territories to implement a consistent framework for dealing with native title issues and for meeting native title compensation costs. No payments were made before 2002-03.

190. **Staff proposal.** In *Discussion Paper 2003/2*, Commission staff proposed treating this payment by inclusion.

191. **State views. South Australia** said this SPP provided direct re-imbusement of costs incurred by the States in the process of administering, hearing or compensating native title claims. It argued that the payment should be considered to be 're-imbusement for services provided to or for the Commonwealth' and treated by the exclusion method.

192. **Analysis and evaluation.** The Commission assessed needs for State expenses in relation to administering native title. In the 2004 Review, it will also assess needs in relation to compensation payments. As the payment finances expenses for which needs are assessed and as the payment has a direct impact on State budgets, application of the SPP guidelines would lead to the Commission treating the payment by inclusion.

193. **Commission decision.** The Commission considers that the conceptual case has been established for treating the Native Title payment by inclusion. The payment finances expenses, for which needs are assessed, and it has a direct impact on State budgets.

For these reasons, the Commission has decided to treat the Native Title payment by inclusion.

### ***Road Safety Blackspots***

194. This capital payment is made for the treatment of road sites where casualty crashes occur. Separate funding is available for declared national highways and roads of national importance. In the 1999 Review, this payment was treated as out of scope because of the capital nature of the payment.

195. ***Staff proposal.*** In *Discussion Paper 2003/2* Commission staff proposed treating the payment by inclusion.

196. ***State views. Tasmania*** argued that the State roads part of the Blackspots funding should be treated by inclusion and the local roads part by exclusion. It said that if the funding was directed at a State road, the revenue should be treated by inclusion due to the direct impact the grant had on State budgets. Conversely, funding allocated to local roads should be treated by exclusion because the grant is passed through State Governments to Local Governments, it has no impact on State budgets.

197. ***South Australia*** said this SPP should be treated by exclusion because it reflects the relative needs of States to eradicate road safety black spots. Although the funding was not provided on a project by project basis, States had to apply it on a project by project basis. South Australia said it would be simpler to treat all roads grants by exclusion.

198. ***Analysis and evaluation.*** The SPP guidelines imply that the inclusion approach should be used where the payment finances expenses for which needs are assessed and it has a direct impact on State budgets. Inclusion would be appropriate for Black Spot Funding for State roads. It would not be appropriate for Black Spot Funding for local roads. The Commission will ask the relevant Commonwealth and State agencies to disaggregate the payment into its two components.

199. ***Commission decision.*** The Commission accepts that the conceptual case has been established for treating Black Spot Funding payment for State roads by inclusion. The payment finances expenses for which needs are assessed and it has a direct impact on State budgets. For these reasons, the Commission has decided to treat the Black Spot Funding payment for State roads by inclusion and the payment for local roads as out of scope.

### ***Farm Assistance/West 2000 Plus/Citrus Market Diversification***

200. The Commonwealth provides a range of small payments to the States to improve the viability of farm businesses:

- (i) Farm Assistance — to facilitate structural adjustment in the rural sector which contributes to the enhanced viability of farm business enterprises within Central North East of South Australia (paid to South Australia only; \$1.0 million in 2001-02; treated by inclusion in 2003 Update);

- (ii) West 2000 Plus — to assist landholders in the Western Division of New South Wales to enhance their economic performance, improve their business and management skills, better manage the natural resource base and, where possible, develop alternative industries (paid to New South Wales only; \$0.8 in 2001-02; treated by exclusion in 2003 Update because it is a successor of Rural Adjustment Scheme); and
- (iii) Citrus Market Diversification — to provide assistance to facilitate adjustment within, and improve the international competitiveness and long term growth prospects for the Australian Citrus industry (paid in 2000-01 only; \$0.2m in 2001-02; treated by exclusion in 2003 Update because it is a successor of Rural Adjustment Scheme).

These payments were paid under the Commonwealth's Regional Assistance programs.

201. **Staff proposal.** In *Discussion Paper 2003/2* Commission staff proposed treating these payments by inclusion.

202. **State views. South Australia** argued that these programs all related to the Rural Adjustment Scheme, which was treated by exclusion. On grounds of consistency, it suggested treating these payments by exclusion.

203. **Analysis and evaluation.** The West 2000 Plus and Citrus Market Diversification programs were previously treated by exclusion because they were successors to the Rural Adjustment Scheme which the 1999 Review terms of reference instructed the Commission to treat by exclusion.

204. Were it not for that instruction, the Commission would have treated the payments by inclusion because they were similar to extension services offered by States, for which needs were assessed, and the payments had a direct impact on State budgets. Having regard for its intention to continue to quarantine those payments which were quarantined by the 1999 Review terms of reference, the West 2000 Plus and Citrus Market Diversification programs will, therefore, continue to be treated by exclusion.

205. The Farm Assistance payment was not a successor to the Rural Adjustment Scheme. The SPP guidelines would suggest that it should be treated by inclusion.

206. **Commission decisions.** The Commission considers that a conceptual case has been made for treating the West 2000 Plus and Citrus Market Diversification payments by inclusion.

207. However, the West 2000 Plus and Citrus Market Diversification payments were successors to the Rural Adjustment Scheme, a payment the 1999 Review terms of reference told the Commission to quarantine. Consistent with its intention to continue to quarantine those payments as instructed by the 1999 Review terms of reference, the Commission has decided to treat them by exclusion.

208. The Commission accepts that a conceptual case has been made for treating the Farm Assistance payment by inclusion. The payment finances expenses, for which needs are assessed, and it has a direct impact on State budgets. For these reasons, the Commission has decided to treat the Farm Assistance payment by inclusion.

### ***FarmBis/Plant Disease Eradication***

209. The Commonwealth provides a range of payments for the betterment of the farm sector:

- (i) Farm Business Improvement Program (FarmBis) — to provide a framework for promoting a positive approach to change and build on the farm sector's culture of continual improvement to help farmers improve the productivity, profitability and sustainability of their business. In the 1999 Review, this payment was treated by exclusion because the allocation reflected needs; and
- (ii) Plant Disease Eradication — to assist in the eradication of plant disease. This payment was paid in 2001-02 only. It was treated by exclusion in the 2003 Update because the allocation reflected needs.

210. ***Staff proposal.*** In *Discussion Paper 2003/2* Commission staff proposed treating these payments by inclusion.

211. ***State views. South Australia*** said both of these programs were previously excluded on the basis that their allocation reflected needs. It queried Commission staff's proposal to change their treatment to inclusion in spite of the fact that the historical allocation of the payments appears to be unchanged.

212. ***Analysis and evaluation.*** These payments finance expenses for which needs are assessed. They also have a direct impact on State budgets. The SPP guidelines suggests that inclusion should be used in these circumstances.

213. ***Commission decision.*** The Commission considers that the conceptual case has been established for treating the FarmBis and Plant Disease and Eradication payments by inclusion. The evidence suggests that these payments finance expenses for which needs are assessed and they have a direct impact on State budgets. For these reasons, the Commission has decided to treat the FarmBis and Plant Disease and Eradication payments by inclusion.

### ***Blood Transfusion Services***

214. These capital payments fund the Australian Red Cross Society for the cost of its approved capital program in providing a national blood transfusion service. In the 1999 Review, these payments were treated as out of scope because of their capital nature.

215. ***Staff proposal.*** In *Discussion Paper 2003/2* staff proposed to treat these payments by inclusion and assess the related expenses in the Depreciation category.

216. **State views. South Australia** said that the capital component of this payment was effectively passed on by the States to the Australian Red Cross Society (a non-government organisation). It argued it did not create a government owned depreciable asset and, as such, should not be included in the Depreciation assessment.

217. **Analysis and evaluation.** As these payments are passed on in full to the Australian Red Cross Society they do not create State assets and do not impact on State budgets. The SPP guidelines would suggest that the payment be treated by exclusion.

218. **Commission decision.** The Commission accepts that the conceptual case has been established for treating the Blood Transfusion Services capital payment by exclusion. The payment does not finance expenses for which needs are assessed and they do not have a direct impact on State budgets. For these reasons, the Commission has decided to treat the Blood Transfusion Services capital payment by exclusion.

### ***Upgrade of Tasmanian Sporting Facilities***

219. The Commonwealth provided funding for the upgrading of York Park in Launceston and Bellerive Oval in Hobart. In the 1999 Review these payments were treated as out of scope because of their capital nature.

220. **Staff Proposal.** In *Discussion Paper 2003/2*, staff proposed treating these payments by inclusion.

221. **State views. Tasmania** argued these payments should be treated by exclusion because the funding was provided as a Commonwealth Government election promise and therefore should be considered as a Commonwealth project.

222. **Analysis and evaluation.** These payments finance expenses similar to those undertaken by other States and for which a needs assessment is undertaken. The payments have an impact on Tasmania's budget. The SPP guidelines would suggest that inclusion should be applied to these payments.

223. **Commission decision.** The Commission considers that the conceptual case has been established for treating the Upgrade of Tasmanian Sporting Facilities payment by inclusion. The payments finance expenses, for which needs are assessed, and they have a direct impact on State budgets. For these reasons, the Commission has decided to treat the Upgrade of Tasmanian Sporting Facilities payment by inclusion.

### ***Bovine Brucellosis and Tuberculosis***

224. This payment was paid for funding the Brucellosis and Tuberculosis Eradication Campaign. The program ceased in 1998-99. In the 1999 Review, the payment was treated by inclusion because needs were assessed for the expenses it financed. However, the Commission has decided not to assess needs for brucellosis and tuberculosis eradication in the 2004 Review. Therefore, application of the SPP guidelines would suggest that this payment should now be treated by exclusion.

225. **Commission decision.** The Commission accepts that the conceptual case has been established for treating the Bovine Brucellosis and Tuberculosis payment by

exclusion. The payment will not finance expenses for which needs will be assessed in the 2004 Review. For that reason, the Commission has decided to treat the Bovine Brucellosis and Tuberculosis payment by exclusion.

## ATTACHMENT A

### TREATMENT OF INDIVIDUAL SPPs

**Table A-1** TREATMENT OF SPECIFIC PURPOSE PAYMENTS SHOWN IN COMMONWEALTH BUDGET PAPER NO. 3 - CURRENT PURPOSES

Payment	Year of Payment	Treatment in 2003 Update	Treatment in 2004 Review
<b>PUBLIC ORDER AND SAFETY</b>			
Legal aid	1998-99 to 2002-03	Out of Scope	Out of Scope
Confiscated Assets Trust Fund	1998-99	State Revenue	State Revenue
Gun Buyback Scheme	1998-99 and 2002-03	Exclusion	Exclusion
Film and Literature Classifications	1998-99 to 2002-03	Exclusion	Exclusion
Human Rights Co-operative Arrangements with the States	1998-99	Exclusion	Exclusion
Commonwealth Heads of Government Meeting – payment to Queensland Police	2000-01 to 2001-02	Out of Scope	Out of Scope
<b>EDUCATION</b>			
Advanced English for Migrants Program	1998-99 to 2000-01	Inclusion	Inclusion
Government Schools	1998-99 to 2002-03	Inclusion	Inclusion
Non-government Schools	1998-99 to 2002-03	Inclusion	Exclusion
Vocational Education and Training Funding Act	1998-99 to 2002-03	Inclusion	Inclusion
Targeted Programs – Government Schools and Joint Initiatives	1998-99 to 2002-03	Inclusion	Inclusion
Targeted Programs – Non-govt Schools	1998-99 to 2002-03	Inclusion	Exclusion
Indigenous Education Strategic Initiatives Program – Government	1998-99 to 2002-03	Inclusion	Inclusion
Indigenous Education Strategic Initiatives Program – Non-Government	1998-99 to 2002-03	Inclusion	Exclusion

**Table A-1** TREATMENT OF SPECIFIC PURPOSE PAYMENTS SHOWN IN COMMONWEALTH BUDGET  
PAPER NO. 3 - CURRENT PURPOSES (continued)

<b>Payment</b>	<b>Year of Payment</b>	<b>Treatment in 2003 Update</b>	<b>Treatment in 2004 Review</b>
<b>HEALTH</b>			
Blood Transfusion Services	1998-99 to 2002-03	Inclusion	Inclusion
Health Program Grants	1998-99 to 2002-03	Exclusion	Exclusion
Health Care Grants	1998-99 to 2002-03	Absorption	As required by terms of reference
National Health Development Fund	1998-99 to 2002-03	Exclusion	Exclusion
Magnetic Resonance Imaging (MRI)	1998-99	Inclusion	Inclusion
Highly Specialised Drugs	1998-99 to 2002-03	Exclusion	Out of scope
Youth Health Services	1998-99 to 2002-03	Inclusion	Inclusion
National Public Health	1998-99 to 2002-03	Inclusion	Inclusion
University Departments of Rural Health	1998-99	Out of Scope	Out of scope
National Youth Suicide Strategy	1998-99	Exclusion	Exclusion
Essential Vaccines	1998-99 to 2002-03	Inclusion	Inclusion
Repatriation General Hospitals	1998-99 to 2002-03	Exclusion	Exclusion
Fringe Benefit Tax transitional grants for public and not-for-profit hospitals	2000-01 to 2002-03	Exclusion	Exclusion
<b>SOCIAL SECURITY AND WELFARE</b>			
Aged Care Assessment	1998-99 to 2002-03	Inclusion	Inclusion
Home and Community Care	1998-99 to 2002-03	Inclusion	Inclusion
Disabilities Services	1998-99 to 2002-03	Inclusion	Inclusion
Children's Services	1998-99 to 2002-03	Exclusion	Exclusion
Supported Accommodation Assistance Program	1998-99 to 2002-03	Inclusion	Inclusion
Unaccompanied Humanitarian Minors	1998-99 to 2002-03	Exclusion	Exclusion
Exceptional Circumstances (EC) Administration	1998-99 to 1999-00	Exclusion	Exclusion
Extension of Fringe Benefits	1998-99 to 2002-03	Inclusion	Inclusion
National Illicit Drugs Strategy	2000-01 to 2002-03	Inclusion	Inclusion
Native Title	2002-03	N/A	Inclusion
Victorian Gas Emergency Assistance Fund	1998-99	Exclusion	Exclusion
Transition for Independent Living	2002-03	N/A	Exclusion
Concessions for Commonwealth Seniors Health Card Holders	2002-03	N/A	Inclusion
State Seniors Card Reciprocal Transport Concessions.	2002-03	N/A	Inclusion

**Table A-1** TREATMENT OF SPECIFIC PURPOSE PAYMENTS SHOWN IN COMMONWEALTH BUDGET  
PAPER NO. 3 - CURRENT PURPOSES (continued)

<b>Payment</b>	<b>Year of Payment</b>	<b>Treatment in 2003 Update</b>	<b>Treatment in 2004 Review</b>
<b>HOUSING AND COMMUNITY AMENITIES</b>			
Assistance for Housing	1998-99 to 2001-02	Inclusion	Inclusion
Assistance for Water and Sewerage	1998-99 to 2002-03	Exclusion	Exclusion
Tasmanian Regional Forest Agreement	1998-99 to 1999-00	Out of Scope	Out of Scope
Natural Heritage Trust of Australia (NHTA) – Bushcare	1998-99 to 2002-03	Exclusion	Exclusion
NHTA – Coasts and Clean Seas Initiative	1998-99 to 2002-03	Exclusion	Exclusion
NHTA – National Rivercare Program	1998-99 to 2002-03	Exclusion	Exclusion
NHTA – Endangered Species Program	1998-99 to 2001-02	Exclusion	Exclusion
NHTA – National Feral Animal Control Program	1998-99 to 2001-02	Exclusion	Exclusion
NHTA – Air Pollution in Major Cities	1998-99 to 2002-03	Exclusion	Exclusion
NHTA - Oceans Policy	2000-01 to 2001-02	Exclusion	Exclusion
Newcastle Structural Adjustment Fund	2000-01	Exclusion	Exclusion
<b>RECREATION AND CULTURE</b>			
NHTA – National Wetlands Program	1998-99 to 2001-02	Exclusion	Exclusion
NHTA – National Reserve System	1998-99 to 2001-02	Exclusion	Exclusion
NHTA – World Heritage Area Management and Upkeep	1998-99 to 2001-02	Exclusion	Exclusion
Management of World Heritage Properties	1998-99 to 2001-02	Exclusion	Exclusion
Payments to the Sydney Organising Committee for the Olympic Games	1999-00 to 2000-01	Exclusion	Exclusion
Upgrade Tasmanian Sporting Facilities	1998-99	Out of Scope	Inclusion
Inveresk Woodchopping Stadium	1998-99	Exclusion	Exclusion
Contemporary Music Package – State Pilots	1998-99 to 2000-01	Exclusion	Exclusion
Brisbane Goodwill Games 2001	2000-01	Exclusion	Exclusion
<b>AGRICULTURE, FORESTRY AND FISHING</b>			
NHTA – National Weeds Strategy	1998-99 to 2001-02	Exclusion	Exclusion
NHTA – National Landcare Program	1998-99 to 2001-02	Exclusion	Exclusion
NHTA – Farm Forestry Program	1998-99 to 2001-02	Exclusion	Exclusion
NHTA – Murray Darling 2001	1998-99 to 2001-02	Exclusion	Exclusion
Tasmania Wheat Freight - Shipping	1998-99 to 2002-03	Out of Scope	Out of Scope
Bovine Brucellosis and Tuberculosis	1998-99	Inclusion	Exclusion
Exotic Disease Preparedness Program	1998-99 to 2002-03	Exclusion	Exclusion

**Table A-1** TREATMENT OF SPECIFIC PURPOSE PAYMENTS SHOWN IN COMMONWEALTH BUDGET  
PAPER NO. 3 - CURRENT PURPOSES (continued)

<b>Payment</b>	<b>Year of Payment</b>	<b>Treatment in 2003 Update</b>	<b>Treatment in 2004 Review</b>
National Landcare Program	1998-99 to 2002-03	Exclusion	Exclusion
Farm Business Improvement Program	1999-00 to 2001-02	Exclusion	Inclusion
Farm Assistance	2000-01 to 2001-02	Inclusion	Inclusion
West 2000 Plus	2000-01 to 2001-02	Exclusion	Exclusion
Plant Disease and Eradication	2001-02	Exclusion	Inclusion
Rural Adjustment Scheme (RAS)	1998-99 to 2002-03	Exclusion	Exclusion
Queensland Trawling Industry Restructure Package	2000-01	Exclusion	Exclusion
NHTA – National River Health Program	1998-99 to 2001-02	Exclusion	Exclusion
NHTA – Waterwatch Australia	1998-99 to 2001-02	Exclusion	Exclusion
NHTA – Waste Management Awareness	1998-99 to 2002-03	Exclusion	Exclusion
NHTA – Fisheries Action Program	1998-99 to 2000-01	Exclusion	Exclusion
NHTA – National Land and Water Resources Audit	1998-99	Exclusion	Exclusion
NHTA – FarmBis – Advanced Property Management Planning	1998-99 to 2000-01	Exclusion	Exclusion
NHTA – Riverworks Tasmania	2001-02	Exclusion	Exclusion
Great Artesian Basin Sustainability Initiative	1999-00 to 2002-03	Exclusion	Exclusion
Citrus Industry Market Diversification	2000-01	Exclusion	Exclusion
Forest Industry Structural Adjustment Package	1999-00 to 2002-03	Out of Scope	Out of Scope
Skilling Farmers for the Future	2001-02 to 2002-03	Inclusion	Inclusion
War Service Land Settlement Scheme	1999-00 to 2002-03	Out of Scope	Out of Scope
Eradication of Red Imported Fire Ant	2001-02 to 2002-03	Exclusion	Exclusion
<b>MINING AND MINERAL RESOURCES (OTHER THAN FUELS), MANUFACTURING AND CONSTRUCTIONS</b>			
Regional Minerals Program	1999-00 to 2000-01	Exclusion	Inclusion
Enterprise Development Program	1998-99 to 2000-01	Exclusion	Inclusion
Textiles, Clothing and Footwear Development	1998-99 to 1999-00	Exclusion	Exclusion
National Business Information Service	2001-02	Exclusion	Inclusion
<b>TRANSPORT AND COMMUNICATION</b>			
Interstate Road Transport	1998-99 to 2002-03	State Revenue	State Revenue
AN – payments for Regional Assistance	1998-99	Exclusion	Exclusion
Petroleum Products Freight Subsidy Scheme	1998-99 to 2002-03	Exclusion	Exclusion
Roads to Recovery – Unincorporated Areas	2001-02 to 2002-03	Exclusion	Exclusion
Gold Coast Light Rail	2002-03	N/A	Inclusion

**Table A-1** TREATMENT OF SPECIFIC PURPOSE PAYMENTS SHOWN IN COMMONWEALTH BUDGET  
PAPER NO. 3 - CURRENT PURPOSES (continued)

Payment	Year of Payment	Treatment in 2003 Update	Treatment in 2004 Review
<b>OTHER PURPOSES</b>			
Training for Aboriginal Program	1998-99	Inclusion	Inclusion
Debt Redemption Assistance	1998-99 to 2002-03	Interest Cost – Inclusion; Contribution to Sinking Fund – Out of Scope	Inclusion for the full amount
Financial Assistance Grants for Local Govt - General Assistance	1998-99 to 2002-03	Out of Scope	Out of Scope
Financial Assistance Grants for Local Govt – Untied Local Roads Grants	1998-99 to 2002-03	Out of Scope	Out of Scope
Compensation - Companies Regulation	1998-99 to 2002-03	Exclusion	Exclusion
Natural Disaster Relief	1998-99 to 2002-03	Exclusion	Exclusion
Natural Disaster Risk Management Studies	2001-02 to 2002-03	Exclusion	Exclusion
Exmouth Cyclone Relief	1999-2000	Out of Scope	Out of Scope
Royalties	1998-99 to 2002-03	WA: Exclusion for payment under Section 130 of the <i>Petroleum (Submerged Lands) Act 1967</i> and Inclusion for other components. NT: Inclusion	WA: Exclusion for payment under Section 130 of the <i>Petroleum (Submerged Lands) Act 1967</i> and State revenue for other components; NT: State revenue
ACT National Capital Influences	1998-99 to 2002-03	Out of Scope	Out of Scope

**Table A-2** TREATMENT OF SPECIFIC PURPOSE PAYMENTS SHOWN IN COMMONWEALTH BUDGET  
PAPER NO. 3 – CAPITAL PURPOSES

<b>Payment</b>	<b>Year of Payment</b>	<b>Treatment in 2003 Update</b>	<b>Treatment in 2004 Review</b>
<b>EDUCATION</b>			
Government Schools	1998-99 to 2002-03	Out of Scope	Inclusion
Non-government Schools	1998-99 to 2002-03	Out of Scope	Exclusion
Indigenous Education Strategic Initiatives Program – Non-government	1998-99 to 2001-02	Out of Scope	Exclusion
<b>HEALTH</b>			
Blood Transfusion Services	1998-99 to 2002-03	Out of Scope	Exclusion
Federation Fund – Queensland Institute of Medical Research	2000-01 to 2001-02	Out of Scope	Out of Scope
<b>SOCIAL SECURITY AND WELFARE</b>			
Home and Community Care	1998-99 to 2002-03	Inclusion as payment for recurrent purposes	Inclusion
Children’s Services	1998-99	Exclusion	Exclusion
Crisis Accommodation Assistance	1999-00 to 2002-03	Inclusion of a standard proportion for all States as recurrent	Inclusion for full amount
<b>HOUSING AND COMMUNITY AMENITIES</b>			
NT Indigenous Health Infrastructure	1998-99	Out of Scope	Inclusion
Housing Assistance for Indigenous People	1999-00 to 2002-03	Inclusion of a standard proportion for all States as recurrent.	Inclusion for full amount
Community Housing	1999-00 to 2002-03	Inclusion of a standard proportion for all States as recurrent.	Inclusion for full amount
Commonwealth-State Housing Agreement (CSHA) Block Assistance / Base Funding	1999-00 to 2002-03	Inclusion of a standard proportion for all States as recurrent	Inclusion for full amount
Social Housing Subsidy Program	1998-99 to 2002-03	Inclusion as payments for recurrent purposes	Inclusion
Federation Fund – Development of the Tuggeranong Homestead	1999-00 to 2000-01	Out of Scope	Out of Scope
Federation Fund – Centennial Moore Park Trust	1999-00 to 2001-02	Out of Scope	Out of Scope
Tasmanian Regional Forest Agreement	1998-99 to 1999-00	Out of Scope	Out of Scope
Federal Flood Mitigation Program	1999-00 to 2002-03	Inclusion	Exclusion
Additional First Home Owners Scheme	2001-02 to 2002-03	Out of Scope	Exclusion
Lismore Levee Program	2001-02	Out of Scope	Exclusion

**Table A-2** TREATMENT OF SPECIFIC PURPOSE PAYMENTS SHOWN IN COMMONWEALTH BUDGET  
PAPER NO. 3 – CAPITAL PURPOSES (continued)

<b>Payment</b>	<b>Year of Payment</b>	<b>Treatment in 2003 Update</b>	<b>Treatment in 2004 Review</b>
<b>RECREATION AND CULTURE</b>			
Sugar Coast Environment Rescue Package	1998-99 to 2000-01	Inclusion as payments for recurrent purposes	Inclusion
NHTA – National Reserve System	1999-00 to 2000-01	Out of Scope	Exclusion
<b>FUEL AND ENERGY</b>			
Photovoltaic Rebate Program	2001-02 to 2002-03	Out of Scope	Out of Scope
Renewable Remote Power Generation	2000-01 to 2002-03	Out of Scope	Exclusion
<b>AGRICULTURE, FORESTRY AND FISHING</b>			
NHTA – Murray Darling 2001	1999-00 to 2001-02	Out of Scope	Exclusion
NHTA – National Landcare Program	1999-00 to 2002-03	Out of Scope	Exclusion
Sugar	1998-99 to 1999-00	Out of Scope	Inclusion
Federation Fund - National Wine Centre	1999-2000	Out of Scope	Out of Scope
Great Artesian Basin Sustainability Initiative	2001-02 to 2002-03	Out of Scope	Out of Scope
Warner Creek Dam and Northern Midlands Water Project	2001-02 to 2002-03	Out of Scope	Out of Scope
<b>TRANSPORT AND COMMUNICATION</b>			
Building IT Strengths – Tasmania ‘Intelligent Island’	1999-00 to 2001-02	Out of Scope	Exclusion
Connecting Tasmanian Schools	1999-2000	Out of Scope	Exclusion
Alice Springs to Darwin Railway	2001-02 to 2002-03	Out of Scope	Out of Scope
Adelaide Airport Runway	1999-2000	Out of Scope	Exclusion
Road Program (National Highways)	1998-99 to 2002-03	Out of Scope	Inclusion
Road Safety Blackspots – States	1998-99 to 2002-03	Out of Scope	Inclusion – State Roads. Out of scope – Local Roads
Federation Funds Projects – Northern Territory	2001-02	Out of Scope	Out of Scope
Federation Funds Projects – Tasmania	1999-00 to 2002-03	Out of Scope	Out of Scope
Federation Funds Projects – Queensland	2001-02 to 2002-03	Out of Scope	Out of Scope
Federation Funds Projects – New South Wales/ Victoria	1999-00 to 2002-03	Out of Scope	Out of Scope
Payment to Tasmania for Track Upgrading	1998-99 to 2000-01	Out of Scope	Exclusion
<b>TOURISM</b>			
Tasmanian Regional Forest Agreement	1998-99 to 2000-01	Out of Scope	Out of Scope
Inveresk Redevelopment	1998-99	Out of Scope	Inclusion
<b>OTHER PURPOSES</b>			
Sinking Fund on State Debt	1998-99 to 2002-03	Out of Scope	Inclusion
Natural Disaster Relief	1998-99 to 2002-03	Out of Scope	Out of Scope

**Table A-3** TREATMENT OF EACH COMMONWEALTH OWN PURPOSE OUTLAY

<b>Payment</b>	<b>Year of Payment</b>	<b>Treatment in 2003 Update</b>	<b>Treatment in 2004 Review</b>
<b>Payments by Aboriginal And Torres Strait Islander Commission for Indigenous purposes</b>			
Payment to States	1998-99 to 2002-03	Capital – Out of Scope Recurrent – Inclusion	Inclusion for full amount
Payments to non-government organisations	1998-99 to 2002-03	Capital – Out of Scope Recurrent – Inclusion	Out of Scope for full amount
<b>Payments by Torres Strait Regional Authority for Indigenous purposes</b>			
Payments to non-government organisations	1998-99 to 2002-03	Capital – Out of Scope Recurrent – Inclusion	Out of Scope for full amount
<b>Payments by Office of Aboriginal and Torres Strait Islander Health for Indigenous health</b>			
Payment to States	1998-99 to 2002-03	Capital – Out of Scope Recurrent – Inclusion	Inclusion for full amount
Payments to non-government organisations	1998-99 to 2002-03	Capital – Out of Scope Recurrent – Inclusion	Out of Scope for full amount
<b>Payments by Emergency Management Australia for emergency services</b>			
Payment to States	1998-99 to 2002-03	Inclusion	Inclusion
<b>Payments by Australian National Training Authority for vocational education</b>			
Payment to States	1998-99	Inclusion	Inclusion
<b>Payments by Agriculture, Fisheries and Forestry Australia for National Action Plan for Salinity and Water Quality</b>			
Payment to States	2000-01 to 2002-03	Exclusion	Inclusion
<b>Other payments</b>	1998-99 to 2002-03	Out of Scope	Out of Scope