

# Commonwealth Grants

## Overview

Commonwealth grants are an important source of revenue for all states. The grants are made necessary by the substantial mismatch between states' service delivery responsibilities and their capacity to raise own-source revenues.

The Territory is much more reliant on Commonwealth grants than other states, with about 81 per cent of its revenue sourced from the Commonwealth. In other states, Commonwealth grants account for about 50 per cent of revenues. This greater reliance on Commonwealth grants reflects the higher cost and demand for government services and the low revenue raising capacity of the Territory relative to other states.

There are two types of Commonwealth grants to states:

- general purpose grants, which include GST revenue payments and national competition payments. These are untied payments that can be used by the states for any purpose; and
- specific purpose payments (SPPs), which are generally earmarked for specific purposes.

The table below provides a summary of Commonwealth grants to the Territory and the states in 2004-05.

**Table 5.1: Summary of Commonwealth Grants to Northern Territory and All States, 2004-05**

	Northern Territory		All States	
	\$M	% of Total	\$M	% of Total
General Purpose Payments	1 700.1	83.7	35 567.7	59.4
GST	1 692.5	83.3	34 790.0	58.1
National Competition Payments	7.6	0.4	777.7	1.3
Specific Purpose Payments	330.2	16.3	24 287.7	40.6
<b>Total</b>	<b>2 030.3</b>	<b>100.0</b>	<b>59 855.4</b>	<b>100.0</b>

Note: To allow comparison with other states, SPP figures in this table are sourced from the 2004-05 Commonwealth Budget, and will not necessarily match the Territory's 2004-05 Budget estimates.

Source: Commonwealth Budget 2004-05

## Intergovernmental Agreement

The *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the Intergovernmental Agreement), signed by the Commonwealth and the states in June 1999, is the centre-piece of current financial relations between the two levels of government. Under the Intergovernmental Agreement, all GST revenue is provided to the states and distributed in accordance with the principle of horizontal fiscal equalisation.

The agreement requires the states to:

- forgo financial assistance grants, which provided the bulk of untied grants to the states before the introduction of the GST (\$17.3 billion in 1999-00);
- abolish a range of their own taxes, including financial institutions duty, stamp duty on shares and marketable securities and bed taxes;
- review the need to maintain debits tax (debits tax will be abolished in the Territory from 1 July 2005); and
- review the need to maintain a number of other taxes by 2005.

A key feature of the agreement is a guarantee that no state will be financially disadvantaged from the introduction of the GST. To satisfy that commitment, the Commonwealth provides budget balancing assistance to offset any shortfall. The Territory has been 'better off' since 2002-03, and therefore has not needed budget balancing assistance. It is expected that no state will require budget balancing assistance in 2004-05.

The Intergovernmental Agreement provided for the establishment of a Ministerial Council from 1 July 1999 to oversee its operation. The Ministerial Council comprises the Commonwealth and all state Treasurers.

The fourth annual meeting of the Ministerial Council, also known as the Treasurers' Conference, was convened in Canberra on 26 March 2004. The highlights of the meeting were:

- an agreement by all states to abolish debits tax from 1 July 2005;
- a discussion on the recommendations of the 2004 Review of the Commonwealth Grants Commission (the Commission); and
- establishment of a joint Commonwealth-State work program aimed at simplifying the Commission's methodology.

The Intergovernmental Agreement also provides for the establishment of a GST Administration Subcommittee to monitor the operation of the GST, make recommendations on changes to the GST and monitor the Australian Taxation Office's performance in administering the tax. The subcommittee reports and makes recommendations to the Ministerial Council.

## GST Revenue

The Territory expects to receive \$1 684.2 million in GST revenue in 2003-04, an 11 per cent increase from 2002-03. For 2004-05, a comparatively small increase of 0.5 per cent to \$1 692.5 million is expected, reflecting the lower outcome of the Commission's 2004 Review.

## Commonwealth Grants Commission

The Commission is responsible for recommending the distribution of GST revenue among the states. The Intergovernmental Agreement requires these recommendations to be based on the principle of horizontal fiscal equalisation, which is defined as:

*State governments should receive funding from the pool of goods and services tax revenue and health care grants such that, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each would have the capacity to provide services at the same standard. (CGC 2004 Report)*

The Commission's recommendations are expressed as per capita relativities for each state, which are used to determine the distribution of GST revenue among the states. They take into account differences in:

- states' expenditure needs, including both the cost and demand for government services; and
- states' capacity to raise their own revenues.

## 2004 Review

The *Report on State Revenue Sharing Relativities 2004 Review* details the results of the Commission's latest five-yearly review. It is the culmination of an extensive consultation process to review the methodology that underpins the Commission's

recommendations. Significantly, the outcome of this review will broadly determine the methodology to be applied to the distribution of GST revenues among the states over the next five years (2004-05 to 2008-09).

The table below shows the change in per capita relativities and each state's share of GST revenue using the 2003 GST pool for the 2003 Update (based on the 1999 Review methods) and the 2004 Review.

**Table 5.2: Impact of the 2004 Review**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
2003 Update									
Relativity	0.89117	0.87010	1.01902	0.96946	1.21215	1.59948	1.14979	4.38638	1.00000
Grant Share (%)	30.0	21.6	19.5	9.5	9.3	3.8	1.9	4.4	100.0
2004 Review									
Relativity	0.86750	0.86534	1.05504	1.03054	1.20407	1.55939	1.12930	4.26538	1.00000
Grant Share (%)	29.2	21.5	20.2	10.1	9.2	3.7	1.8	4.2	100.0
Impact (\$M)	-317.0	-51.2	262.7	230.9	-26.3	-37.9	-13.4	-47.7	0.0
Impact (\$ per capita)	-47.1	-10.3	68.6	117.3	-17.2	-79.8	-41.2	-240.4	0.0

Source: Commonwealth Grants Commission, Report on State Revenue Sharing Relativities 2004 Review

The outcome for the Territory was a decrease in its relativity from 4.38638 to 4.26538, which translates to a \$47.7 million decrease in the Territory's share of GST revenue based on the 2003 GST pool. In per capita terms, the Territory's loss of \$240 per capita is easily the largest of all states; Tasmania experienced the next biggest loss, about \$80 per capita. Queensland (\$69 per capita) and Western Australia (\$177 per capita) made significant gains, while all other jurisdictions suffered moderate losses.

The table below summarises the calculation of the relativities recommended by the Commission for 2004-05.

**Table 5.3: Per Capita Relativities and Needs (\$ per capita)**

		NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Equal per capita Share of GST Pool	a	1 912.02	1 912.02	1 912.02	1 912.02	1 912.02	1 912.02	1 912.02	1 912.02	1 912.02
Expenditure	b	-90.59	-392.30	50.14	414.17	-11.37	483.19	-52.15	6 676.77	0.00
Revenue	c	-170.58	96.28	66.90	-361.98	429.58	679.33	308.13	153.69	0.00
SPP	d	7.82	38.55	-11.80	6.22	-28.02	-92.95	-8.77	-587.00	0.00
Total Needs	e=b+c+d	-253.35	-257.47	105.24	58.40	390.19	1069.57	247.21	6243.45	0.00
Grant Entitlement	f=a+e	1 658.67	1 654.55	2 017.26	1 970.42	2 302.21	2 981.59	2 159.23	8 155.47	1 912.02
Relativity	g=f/a	0.86750	0.86534	1.05504	1.03054	1.20407	1.55939	1.12930	4.26538	1.00000

Source: Northern Territory Treasury

The table above shows that the Territory requires about 4.3 times its per capita share of GST funding in order to provide a standard level of government services. High needs in the Territory are primarily due to the higher cost and demand for services relative to other states. The Territory needs to spend \$6 677 more per person than the national average to provide a standard (or Australian average) level of services. Tasmania, Queensland and Western Australia also have expenditure needs, whereas the remaining states are assessed as needing to spend less than the Australian average to provide standard services. The high cost of delivering government services in the Territory is mainly due to substantial health and education needs,

particularly among the Territory's Indigenous population, and its small and widely dispersed population.

In addition, the Territory has low revenue-raising capacity relative to other states. The Territory's annual revenue-raising capacity is \$154 per capita below that of the 'average' state. The third broad component of the Commission's assessment is SPPs. The Territory has negative SPP needs as it receives greater than its per capita share of SPP funding, largely due to programs for Indigenous services.

Overall, the Territory needs \$8 155 per capita, compared to the national average of \$1 912, to provide a standard level of government services. New South Wales and Victoria are the only jurisdictions that require less than the national average.

The decline in the Territory's relativity is mainly due to a decrease in the Commission's assessment of the cost of providing services in the Territory and, to a lesser extent, an increase in the Territory's assessed capacity to raise revenue. By far the most significant change, compared to the Commission's last review, is the assessment of capital-related expenditures, where the Territory's needs were reduced by \$102 million. A more detailed discussion is provided in the following section.

## Territory Special Needs

In its report, the Commission has identified an incapacity to fully recognise the unique circumstances of the Territory. The Commission has confirmed that the terms of reference for the 2004 Review constrained it from considering the special needs of the Territory, most notably in capital-related needs as assessed through the debt charges and depreciation categories. The changes in these two areas since the 1999 Review have resulted in a loss of about \$102 million.

In its assessment of debt charges, the Commission has assessed that the Territory would need to spend just \$6.8 million annually to meet the 'average' state benchmark, yet the Territory's actual expenditure is \$221.3 million, or about 33 times greater. The following extract from the Commission's Report refers:

*As with depreciation expenses, we are concerned at the very large difference between the amount the Northern Territory spends on debt charges and the amount we assess it would spend under standard policies... we suspect that the Northern Territory's unique circumstances give it borrowing needs that we have been unable to capture.*

(CGC 2004 Report)

In contrast to the Territory's assessment, the Australian Capital Territory, the next smallest jurisdiction, is assessed as needing to spend \$19.3 million annually on debt charges – about four times more than the Territory.

In the depreciation assessment, the Commission assesses the Territory as needing to spend \$53.2 million annually, compared to actual expenditure of \$115.2 million.

The Northern Territory Treasurer has sought assurance from the Commonwealth Treasurer that the Commission's terms of reference for 2005-06 will include an additional reference that will allow consideration of the Territory's special needs. The Commonwealth Treasurer has not, as yet, responded to that request.

## Work Program on Simplicity

At the 2004 Treasurers' Conference, the Commonwealth Treasurer, supported by a majority of states, agreed to a joint Commonwealth-State work program aimed at simplifying the Commission's methodology. It was agreed that this work program will be overseen by Commonwealth and state Heads of Treasuries and use resources

and expertise both from within and external to the Commission. The following areas would be covered:

- whether the present approach, which is based on a comprehensive assessment of virtually all receipts and expenses in the operating statements of states, is appropriate and necessary;
- the size and trend of the redistributions;
- simplification – the Commission’s current approach is based on high levels of disaggregation and large numbers of adjustments (is this necessary and does it deliver a better equalisation outcome than possible alternatives?); and
- data issues – a consultative examination of the robustness and comparability of key data sets and likely data availability in the future.

## GST Revenue Projections

The Territory’s high dependence on GST revenue, and the inherent difficulties in forecasting GST revenue, pose a significant risk to the Territory’s budget position. This risk is managed, to the extent possible, through informed assumptions and forecasts of the factors which determine GST revenue. The level of uncertainty increases with time. For 2005-06 to 2007-08, a down-side risk scenario has been developed. It should be considered as a conservative estimate of risk.

The Territory’s GST revenue grant is determined principally by:

- the total level of GST collected nationally;
- the Territory’s share of national population; and
- the Territory’s per capita revenue sharing relativity as determined by the Commission.

## GST Collections

National GST collections in any given year form the pool from which GST revenue is distributed among the states. Variations in the size of this pool have a direct impact on the size of the Territory’s GST revenue.

The Commonwealth provides the states with estimates of GST collections in its Budget and in its Mid Year Economic Fiscal Outlook (MYEFO). Limited experience since 2000 has shown GST collection estimates to be volatile. It is expected that GST collection estimates will become more accurate over time as forecasting expertise improves and as the relatively immature tax is ‘bedded down’.

The Commonwealth’s Budget estimate of \$34.8 billion in GST collections in 2004-05 is an increase of \$0.7 billion compared to its MYEFO estimates and growth of around 4.5 per cent on collections in 2003-04. The Commonwealth has direct and timely access to key statistical and collection data in preparing its estimates, and as such is considered to be the most informed source of estimates. On that basis, the Territory has adopted the Commonwealth estimate, however it should be cautioned that these estimates are heavily reliant on assumptions and judgement.

For 2005-06 and beyond, there is a greater level of uncertainty surrounding the Commonwealth’s GST collection estimates. The Commonwealth has forecast annual growth of 5.2 per cent and 5.8 per cent for 2005-06 and 2006-07 respectively. Although the states have agreed to adopt these estimates, a number of leading economic forecasters, including Access Economics and Econtech, are predicting a substantial national decline in dwelling investment and household consumption growth affecting GST growth. If these projections are realised, GST collections growth in 2005-06 of about 3.0 per cent is more likely. On that basis, 3.0 per cent growth has been used in calculating the down-side risk scenario. If realised, it would

translate to a decline in the Territory's GST revenue of about \$32 million per annum in 2005-06 and beyond. Commonwealth projections of a return to growth between 5 and 6 per cent in 2006-07 are broadly consistent with most private economic forecasts.

### Territory's Share of the National Population

The Territory's share of the national population is a second factor in determining its share of GST revenue.

The Territory's share of the national population decreased from 1.0026 per cent to an estimated 0.9927 per cent between 2002-03 and 2003-04, based on Commonwealth Budget estimates. The 2003-04 population estimates will be finalised in June 2004, when the Australian Statistician makes his determination of the population as at 31 December 2003.

Population growth of 0.3 per cent is forecast for 2004-05, below the expected national growth rate of 1.2 per cent, resulting in a decline in the Territory's share of national population to 0.9832 per cent. The Territory population estimates for 2003-04 and 2004-05 are consistent with Commonwealth Budget estimates.

For 2005-06 and beyond, the Commonwealth is forecasting Territory population growth to be between 0.7 and 1.1 per cent, slightly below national growth estimates, and therefore a small decline in the Territory's population share is expected. The Territory has adopted a more conservative estimate of 0.5 per cent growth over this period for its forward estimates. Population growth of 0.25 per cent has been used in calculating the down-side risk scenario. If realised, it would translate to a decline in Territory GST revenue of about \$5 million in 2005-06 and beyond.

### Commonwealth Grants Commission's Relativities

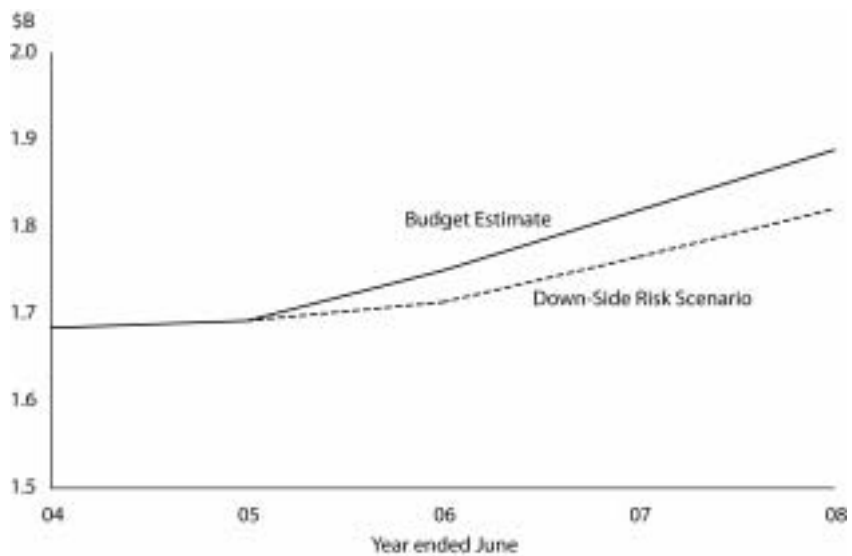
The third element in determining the Territory's share of GST revenue are the recommendations of the Commission. For 2004-05, the Commission has assessed a relativity of 4.26538 for the Territory. For 2005-06 and beyond, the Commission's relativities remain a source of considerable uncertainty. Neither the Commonwealth nor the Commission provides forecasts of future relativities as these depend on annual changes in underlying financial and non financial data for each state. A moderate decline in 2005-06 and 2006-07 is expected, reflecting the cyclical pattern of relativities and associated with a likely slowing of the property market in southern states and the resultant decline in property tax revenues. Under the Commission's assessment methods, any such decline would result in an increase in the grant shares of those states and a corresponding decline in the grant share of other states including the Territory. A relativity of 4.24538 is forecast for 2005-06 and 4.22538 for 2006-07 in the forward estimates. It should be noted that relativities are often subject to large unpredictable variations, however this has not been included in the down-side risk scenario.

The table and chart below show the budget and forward projections of the Territory's GST revenue and each of the key parameters. Also shown is the down-side risk scenario.

**Table 5.4: Northern Territory GST Revenue Projections**

	2003-04	2004-05	2005-06	2006-07	2007-08
Budget Estimates (\$M)	1 684.2	1 692.5	1 750.1	1 819.2	1 888.5
Total GST (\$M)	33 297	34 790	36 610	38 720	40 850
Growth (%)	9.2	4.5	5.2	5.8	5.5
Population	198 613	199 107	200 103	201 103	202 109
Growth (%)	0.3	0.3	0.5	0.5	0.5
Share <sup>1</sup> (%)	0.9927	0.9832	0.9769	0.9713	0.9666
CGC Relativities	4.38638	4.26538	4.24538	4.22538	4.20538
Change (%)	3.3	-2.8	-0.5	-0.5	-0.5
Down-side Risk (\$M)			1 713.8	1 765.8	1 820.9
Total GST (\$M)			35 834	37 625	39 507
Growth (%)			3.0	5.0	5.0
Population			199 605	200 104	200 604
Growth (%)			0.25	0.25	0.25
Share <sup>1</sup> (%)			0.9745	0.9666	0.9594
CGC Relativities			4.24538	4.22538	4.20538
Change (%)			-0.5	-0.5	-0.5
Variation (\$M)			-36.3	-53.4	-67.6

Source: Northern Territory Treasury

<sup>1</sup> Share of national population**Chart 5.1: GST Revenue Projections**

## National Competition Payments

Competition payments were introduced in 1997, in accordance with the National Competition Policy agreements between the Commonwealth and states signed in 1995. Under these agreements, the Territory is required to review legislation that restricts competition, ensure competitive neutrality in the operations of government businesses and comply with national reform frameworks relating to the gas, water and road transport sectors. The payments are conditional on compliance with reform commitments, as assessed by the National Competition Council (NCC).

In the negotiations in the lead up to the signing of the agreements, it was generally recognised that the costs of the reform program – in lost revenues and managing the adjustment process – would largely be borne by the states. On the other hand the Commonwealth, through its broader tax base, would capture most of the fiscal benefits. Therefore, competition payments were devised as the mechanism through which the Commonwealth would share the dividends of national micro-economic reform with the states.

Competition payments are distributed among the states on an equal per capita basis. The Territory was entitled to about \$7.4 million in competition payments in 2003-04. However, similar to other states, as the Territory's legislation review program was incomplete as at the 30 June 2003 deadline, the NCC recommended that 2003-04 payments be reduced by 20 per cent (\$1.5 million). Of this amount, \$1.1 million was a temporary suspension, with reinstatement of payments dependent on completion of reforms by June 2004. The Territory's competition payment entitlement for 2004-05 is about \$7.6 million. This amount has been included as the estimate for 2004-05, however the amount will be contingent upon the Commonwealth Treasurer's consideration of the NCC's recommendations for the Territory.

## Specific Purpose Payments

Specific Purpose Payments (SPPs) are grants from the Commonwealth which are usually tied to some specific program or function against which they must be acquitted. SPPs are a major mechanism by which the vertical fiscal imbalance between the Commonwealth and state levels of government is addressed.

SPPs represent about 40 per cent of all Commonwealth grants to the states, including GST revenue. In 2004-05, the Territory will receive about \$317 million in SPPs, representing about 40 per cent of Commonwealth grants and about 12 per cent of total general government revenue.

SPPs are usually governed by formal agreements between Commonwealth and state agencies which set out conditions such as:

- the programs / functions for which the funds may be used;
- restrictions on how funded programs may be delivered;
- matching obligations of states;
- performance and reporting requirements; and
- punitive sanctions for the breach of other conditions in the agreements.

## General Issues with SPPs

SPPs are a means of addressing vertical fiscal imbalance while also allowing the Commonwealth to exert policy influence over areas of service provision which are the historical or constitutional responsibility of the states. Although SPPs can be used

effectively to promote consistent policy among the states in areas of common interest, they are also used by the Commonwealth to modify the delivery of state services to better align with its own policy objectives.

SPPs are an accepted feature of Australian intergovernmental financial relations, and are an important source of revenue for the states. Nonetheless, there exist numerous problems with the current implementation of SPP arrangements.

### Reduced Accountability

The blurring of accountability is an immediate consequence of the Commonwealth's use of SPPs to selectively influence services which it does not directly deliver.

### Inefficiency

SPPs are a major source of administrative duplication and inefficiency. The administration of SPP agreements, including negotiation, performance reporting, and financial reporting, requires a layer of bureaucracy, at both the Commonwealth and state levels of government, which is not directly engaged in the delivery of services. For a small jurisdiction such as the Territory, the cost of meeting Commonwealth reporting requirements and other controls can sometimes exceed the value of the funding offered under minor SPP agreements.

Further inefficiencies arise if SPPs are too narrowly targeted and fail to accommodate the broader policy context within which a particular service is delivered. Health is a function which has attracted large numbers of small SPPs as Commonwealth priorities have evolved, potentially contributing to a loss of coherence in the delivery of health services.

### Distortion of Services

The Commonwealth policy objectives underlying many SPP agreements are notionally protected by the use of input controls, typically relating to the acquittal of Commonwealth funds, the matching of Commonwealth funds by the states and the maintenance of pre-existing funding levels by the states. However input controls do not directly reflect performance against policy objectives, and the budgetary inflexibility imposed by input controls can have the effect of diverting available public funds from more effective to less effective areas of service delivery.

### Risks to State Budgets

SPP agreements pose risks to state budgets in several ways. Importantly, the budgetary flexibility of state governments is restricted by certain features of SPP agreements, such as matching and maintenance of effort provisions, which are used by the Commonwealth to leverage its own financial contributions.

Inadequate indexation of SPP grants can also cause pressure on state budgets, particularly where the injection of Commonwealth SPP funding generates a rate of growth in demand for services which is more rapid than the rate of growth in Commonwealth funding.

Through fixed-term SPP agreements, it is also possible for the Commonwealth to seed-fund programs, leaving state governments to meet their financial burden when the original agreements expire.

### The Way Forward

The states have approached the Commonwealth repeatedly in recent years to obtain agreement on a set of principles and guidelines for the negotiation of future SPP agreements. These may include:

- the simplification of reporting requirements;
- the broadbanding of SPPs;

- the use of output performance measures in preference to input controls; and
- greater flexibility in the use of SPP funding.

No resolution of the states' concerns has yet been achieved, and recent SPP negotiations have suggested a hardening of the Commonwealth stance on SPP policy.

## Recent Developments

SPP negotiations finalised in 2003-04, including the Australian Health Care Agreements (AHCA) and the Commonwealth-State Housing Agreement (CSHA), produced poor outcomes for the states. Aspects of the negotiation and outcome of these two agreements suggest that the Commonwealth is not prepared to accommodate the major criticisms of existing SPP arrangements, and in fact that it has hardened its position on the administration of SPPs. In addition to funding reductions, the new AHCA and CSHA impose more stringent reporting burdens and non-compliance penalties than previous agreements.

The Commonwealth also appears to be using SPPs more aggressively to promote its broader agenda. Following the Cole Royal Commission into the Building and Construction Industry, the Commonwealth has indicated that, in the future, it will require all significant construction projects to which it contributes funds to be subject to the National Code of Practice for the Construction Industry and the Commonwealth Implementation Guidelines. Although the states have never endorsed the guidelines, SPP funding for significant capital items will be conditional on both the code and guidelines being applied.

A concern among the states is that the tightening of Commonwealth SPP policy partially reflects a misconception that growth in GST revenue will, over time, reduce state reliance on SPP funding. Contrary to this view, unless aggregate SPPs are maintained in at least real per capita terms, the proportion of national revenue directed towards state services will continue to decline. The Intergovernmental Agreement provides recognition of the ongoing importance of SPPs to state finances, however it does not guarantee the adequacy of future levels of SPP funding.

## Major Agreements Negotiated in 2003-04

### Australian Health Care Agreements (AHCA)

The AHCA is a primary source of funding for public hospital services. The 2003-2008 AHCA for the Northern Territory was finalised in August 2003, following protracted negotiations and despite the Territory's serious reservations about aspects of the new agreement. New indexation arrangements applying to the new agreement will reduce funding to the Territory by at least \$16 million over the next five years compared with projected funding under previous arrangements. Nationally, the funding reduction amounts to \$1 billion over five years.

New reporting requirements and non-compliance penalties have also been introduced in the 2003-2008 AHCA, including a grant reduction for failure to meet required rates of growth in state own-source funding, or other conditions specified by the Commonwealth. Compliance penalties of up to \$13.5 million may be applied to the Territory in 2004-05.

The new agreement was formulated without reasonable regard for valid concerns expressed by the states, and amounts to a reduced Commonwealth commitment to the provision of public hospital services.

The AHCA will deliver an estimated \$96 million to the Territory in 2004-05.

### Commonwealth-State Housing Agreement (CSHA)

The CSHA provides for public housing assistance, Indigenous housing and short-term crisis accommodation. A five year multilateral agreement between all states and the Commonwealth was signed in 2003-04, setting out aggregate funding levels, indexation arrangements and matching state contributions for the term of the agreement.

The new CSHA reduces base funding through the abolition of GST compensation for the cost of providing housing services, and the continuation of an annual 1 per cent efficiency dividend. However, grant indexation has been restored to provide some growth in CSHA funding over the next five years.

Reporting and performance measures for the CSHA are detailed in a bilateral agreement between the Northern Territory and the Commonwealth. The bilateral agreement was due to be signed by October 2003, but was delayed over the negotiation of an acceptable suite of performance measures. CSHA funds past 31 December 2003 have been withheld until bilateral agreements have been signed, however all outstanding funds are expected to be repaid when the bilateral agreement is signed. The Northern Territory's bilateral CSHA is expected to be finalised before the end of 2003-04.

CSHA funding to the Territory in 2004-05 is estimated to be \$34 million, including \$19 million through the Aboriginal Rental Housing Program.

### Commonwealth-State/Territory Disability Services Agreement (CSTDA)

The CSTDA provides a framework between the Commonwealth and the states for the provision of specialist services for those under 65 years of age experiencing severe disabilities. A new CSTDA was finalised in 2003 following difficult negotiations.

The most contentious issue was the Commonwealth's insistence that states match growth in total Commonwealth funding under the agreement. This condition places a disproportionate burden on state budgets, as the states contribute the majority (70 to 80 per cent) of the cost of providing disability services covered by the agreement. In addition, states will be required to match notional growth in Commonwealth funding of around 6 per cent per annum, due to its funding of disability employment programs, even though funding to the states will only increase by around 3.7 per cent per annum.

The Territory is estimated to receive \$5.8 million in CSTDA funding in 2004-05.

## Major Agreements Due for Negotiation in 2004-05

### AusLink

The Federal Minister for Transport and Regional Services launched the Commonwealth Green Paper "AusLink – Towards the National Land Transport Plan" on 7 November 2002. AusLink proposes a new approach to planning, developing and managing Australia's national land transport infrastructure. The Commonwealth has indicated its intention to release a White Paper in May 2004. The Commonwealth also announced a four year extension to the Roads to Recovery Program in February 2004 as part of a \$1.2 billion funding boost to transport infrastructure, particularly in regional and outer-metropolitan areas.

The development of an Intergovernmental Agreement on national transport planning is expected to commence in 2004-05.

## Australian National Training Agreement (ANTA)

The ANTA provides funding to the states for the provision of vocational education and training. Negotiations for a new ANTA for 2004-2006 broke down at the end of 2003.

In December 2003, the Commonwealth issued the states with an ultimatum to accept the Commonwealth offer for the new agreement or face financial penalties totalling \$109.5 million for the three years 2004 to 2006.

All states rejected the Commonwealth's offer and expressed a preference, if issues could not be resolved, to roll-over the 2001-2003 agreement for a further year while negotiations continued on a new agreement.

In January 2004 the Commonwealth agreed to roll-over the 2001-2003 ANTA and imposed the threatened financial penalties. The 2004 ANTA is now in place.

Negotiations on a new agreement have not continued. The Commonwealth has indicated its intention not to commence negotiations regarding a new agreement for 2005 onwards until late October 2004. The states are seeking an earlier return to negotiations.

The Territory will receive an estimated \$14 million in ANTA funding in 2004-05.

## Government Schools Grants

The Government Schools (Primary and Secondary) SPP is due to expire on 31 December 2004. The Commonwealth is yet to make an offer to the states for a new agreement, however the Commonwealth provided some insight into what might feature in the offer when the Hon. Dr Brendan Nelson, MP, Commonwealth Minister for Education, released his National Education Framework in November 2003.

Previous agreements have been relatively free of matching or reporting requirements. However, in launching the framework, Dr Nelson stated clearly that he will "use funding as a lever" and insist the states adhere to some of the Commonwealth policies "as a condition of funding".

Government schools grants to the Territory are estimated to be \$21 million in 2004-05.

## Indigenous Education Strategic Initiatives Program (IESIP)

The current IESIP Agreements are due to expire on 31 December 2004.

The Commonwealth has indicated its intention to focus Commonwealth Indigenous education funding on areas of need, and to redirect resources to comparatively successful programs. The reform agenda referred to in a speech by the Hon. Dr Brendan Nelson, MP, Commonwealth Minister for Education, in November 2003 – 'Taking Schools to the Next Level' – is a likely feature of the upcoming IESIP negotiations.

Negotiations over the 2005-2008 IESIP agreements are expected to commence in the first half of 2004.

The Northern Territory has budgeted to receive \$12 million in IESIP funding in 2004-05.

## Reconciliation of Specific Purpose Payment Revenue

Table 5 provides a reconciliation of SPPs reported by the Commonwealth and Territory governments. Variations between Commonwealth and Territory budget estimates are attributable to a number of differences in scope and treatment.

## Payments to Off-Budget Entities

Payments identified by the Commonwealth as SPPs may be paid to organisations outside the scope of the Northern Territory Budget. The most significant is an estimated \$5.4 million from the Indigenous Education Strategic Initiatives Program which is paid directly to school councils and other non-government organisations.

## SPPs Classified as Goods and Services Revenue

A payment classified as an SPP by the Commonwealth may be treated as goods and services revenue in the Territory budget if the funding agreement has the characteristics of a fee for service. Health Program Grants are the only payments affected by this difference in treatment in 2004-05.

## Provision for Unfinalised Agreements and Contingencies

The Commonwealth makes provision for the payment of SPPs that have not yet been negotiated, or which will only become payable if particular circumstances eventuate. These amounts are not incorporated in the Territory budget as there is no basis for estimating whether provisional grants will be paid, or in what amount. A significant example is the Commonwealth provision for \$11 million in natural disaster relief in 2004-05, an amount the Territory is unlikely to receive.

## New Payments in the 2004-05 Commonwealth Budget

New payments announced in the 2004-05 Commonwealth Budget cannot be incorporated in the 2004-05 Territory Budget due to time constraints.

## Differences Due to Timing, Estimation and Takeup

Commonwealth and Territory SPP estimates may vary due to different information on budget year funding, legitimate differences of opinion about the parameters used to escalate previous years' grants, and on the timing of the receipt of payments. In addition, some program funds notionally available to the Territory cannot be accessed due to lack of opportunity in the Territory's environment, or may be only partially accessed where payments are conditional upon matching funding and other controls.

The most significant difference in the 2004-05 Budget is the \$29 million overestimate of roads programs funding; this funding has been rolled into the broader AusLink initiative. Details of the Territory's share of AusLink funding will not be known until the release of the Commonwealth White Paper in June 2004.

Differences in estimates of schools grants, remote power generation and aged care assessment are largely the result of funding increases announced in the 2004-05 Commonwealth Budget.

Natural Heritage Trust funding also increased substantially in the 2004-05 Commonwealth Budget, contributing to a \$4.3 million difference compared with the Territory budget estimate.

**Table 5.5: Reconciliation of Specific Purpose Payment Revenue**

	2004-05 Budget
	\$000
TOTAL SPECIFIC PURPOSE PAYMENTS - COMMONWEALTH	330 237
<i>less</i>	
Payments to off-budget entities and non-government organisations <sup>1</sup>	10 033
Indigenous Education Strategic Initiatives Program <sup>2</sup>	5 439
Legal Aid	3 324
Petroleum Products Freight Subsidy Scheme	1 270
<i>less</i>	
SPPs classified as general revenue or goods and services revenue	650
Health Program Grants <sup>3</sup>	650
<i>less</i>	
Commonwealth provision for unfinalised agreements and contingencies <sup>4</sup>	13 416
State Senior's Card Reciprocal Transport Concessions	8
Native Title	2 000
Natural Disaster Relief	11 000
Federal Flood Mitigation Program	192
Skilling Farmers for the Future	180
<i>less</i>	
New payments announced in the Commonwealth 2004-05 Budget <sup>5</sup>	1 960
Disaster Mitigation Package	960
Roads to Recovery - unincorporated areas	1 000
<i>less</i>	
Net differences attributable to timing, estimation and takeup	-12 988
Commonwealth payments lower than Northern Territory estimates:	
Road Programs <sup>6</sup>	-29 091
Vocational Education and Training Funding Act	-1 073
National Public Health	- 722
Targeted Programs - Government Schools and Joint Schools Programs	- 382
Highly Specialised Drugs	- 536
Other <sup>7</sup>	-4 249
Commonwealth payments exceeding Northern Territory estimates: <sup>8</sup>	
Natural Heritage Trust	4 315
Housing Assistance for Indigenous People <sup>9</sup>	3 715
Government Schools	2 768
Targeted Programs Non-Government Schools	2 152
National Action Plan for Salinity and Water Quality	1 000
Renewable Remote Power Generation	995
Aged Care Assessment	555
Other <sup>7</sup>	7 565
TOTAL SPECIFIC PURPOSE PAYMENTS - NORTHERN TERRITORY	317 166

<sup>1</sup> Includes payments to off-budget agency trust accounts.

<sup>2</sup> Difference between Commonwealth and Territory estimates of IESIP funding.

<sup>3</sup> Recorded as Goods and Services revenue by the Department of Health and Community Services.

<sup>4</sup> No provision is made in the Northern Territory Budget for new agreements still under negotiation.

<sup>5</sup> New initiatives which have not been incorporated in the Northern Territory Budget.

<sup>6</sup> Funding for Roads Programs was rolled into the new AusLink initiative in the 2004-05 Commonwealth Budget.

<sup>7</sup> Differences less than ± \$0.5 million.

<sup>8</sup> Large variations mostly relate to funding increases announced in the 2004-05 Commonwealth Budget.

<sup>9</sup> A portion of the funds available under this agreement are not incorporated in the Territory Budget estimate as matching funding arrangements have not been finalised.