




Australian Government
Commonwealth Grants Commission

Discussion Paper

2023 Update: New Issues

October 2022

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Submissions sought by	<p>11 November 2022. Submissions should be placed in your private state channel in CGC Engagement Teams, with a post notifying Carrie Dreese.</p> <p>Submissions of more than 10 pages in length should include a summary section.</p>
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Background

1. In expectation that the Commission will receive terms of reference for a 2023 Update of GST relativities, this paper sets out the new issues and Commonwealth payments identified by the Commission as relevant to the update. The Commission is seeking the views of Commonwealth and state and territory (state) treasuries on proposals for the treatment of new issues and Commonwealth payments.
2. States are asked to provide comments and raise any other issues relevant to this update by Friday 11 November 2022. States should upload their submissions to their private CGC Engagement channel in Teams. The contact officer for queries is Carrie Dreese (carrie.dreese@cgc.gov.au).
3. In addition to the formal submission process, Commission staff will continue to engage in discussions with state officials through the new issues consultation process.
4. The issues in this paper have been divided into four sections:
 - Data issues, including the incorporation of 2021 Census data into assessments, a new data source for the number of motor vehicle numbers for use in the Motor taxes assessment and analysis of non-admitted patients' data.
 - Response to COVID-19, in particular for health services and support for businesses.
 - Treatment of new taxes, including Victoria's electric vehicle surcharge and the mental health and wellbeing surcharge
 - Other issues, including the treatment of a potential negative no worse off relativity and the treatment of new Commonwealth payments.

Summary of Commission's preliminary views

Data issues

Census

- Use the 2021 Census based Estimated Resident Population data by state to calculate the total state and sub-state populations for the 2023 Update.
- Retain the 2016 Census-based projections of total Aboriginal and Torres Strait Islander Estimated Resident Population by state.
- Retain the 2016 Census measures of remoteness area and socioeconomic status as these will not be updated to take account of 2021 Census data until 2023.
- If the Commission considers the 2021 Census data for passenger numbers are not fit for purpose, retain the 2016 Census data for passenger numbers by mode in the urban transport assessment with no adjustment to account for changes in the level of service provision or the addition of new modes of transport.
- Integrate the 2021 Census data on income and rent in the Housing assessment for the 2023 Update if the Commission considers them reliable. If not, the Commission will engage states on alternative options.

New data source for number of motor vehicles

- Use Bureau of Infrastructure and Transport Research Economics (BITRE) data as the new source of data for the number of registered vehicles in each state.
- Use 2020-21 data from the ABS Motor Vehicle Census for 2021-22 if BITRE data are not published in time for inclusion in the 2023 Update.

Non-admitted patients' activity data

- Include imputed national weighted activity unit data for GP-type services in the non-admitted patient assessment.

Response to COVID-19

Health

- If terms of reference do not allow for a method change, continue to treat Commonwealth payments under the National Partnership on COVID-19 Response as no impact.
- If terms of reference allow for a change in method to respond to COVID-19:
 - treat the Commonwealth payments under the National Partnership on COVID-19 Response as impact; and
 - assess state spending associated with the national partnership on an actual per capita basis.

Business support

- If terms of reference do not allow for a method change, treat Commonwealth payments under the national partnerships on COVID-19 business support as no impact.
- If terms of reference allow for a change in method:
 - treat Commonwealth payments under the national partnerships on COVID-19 business support as impact; and
 - assess state expenses that meet the definition of *non-assessable non-exempt* using a driver of need based on the reduction in hours worked in each state; or
 - if data on state expenses that meet the definition of *non-assessable non-exempt* cannot be obtained, assess the state spending associated with the national partnerships on COVID-19 business support on an actual per capita basis.

New state taxes

Victoria's zero and low emissions vehicle tax (ZLEV)

- Include Victoria's ZLEV revenues in the Motor taxes category.

Victoria's mental health and wellness surcharge

- Include Victoria's mental health and wellbeing surcharge in the Payroll tax category.

Other issues

Negative average no worse off relativity

- Consider views on how to deal with a negative average no worse off relativity.

Commonwealth payments

- Consider views on the proposed treatment of new Commonwealth payments outlined in [Attachment D](#).

Data Issues

2021 Census

5. The 2021 Census was conducted on the 10 August 2021. Data from the 2021 Census will become available progressively during 2022, with major releases in June and October. Some data will not be available until 2023.
6. The Commission needs to consider if there are any calculations that cannot be updated using the available 2021 Census data. These includes:
 - Estimated resident population
 - Census variables used in the calculation of drivers of state spending. The assessments where Census data are used, and the measure used are listed in Table 1.
7. The Commission's terms of reference for previous updates required it 'where possible, [to] use the latest available data'. The Commission anticipates the 2023 Update terms of reference will contain a similar clause.
8. The 2021 Census took place on 10 August 2021, when a sizeable proportion of the population was either in a lockdown or transitioning into/out of a period of lockdown. Many people were experiencing disruptions to their normal lives.
9. The Commission will need to decide whether these disruptions mean the use of some 2021 Census data in the 2023 Update would not be fit for purpose. Data would be fit for purpose if it is the most reliable source of information on the drivers of state spending over the years of the 2023 Update. It would not be fit for purpose if the data reflect a temporary disruption.
10. The view of the Commission is to take a case-by-case approach to examining whether the available data are fit for purpose. The following sections outline how the Commission proposes to use 2021 Census data in the 2023 Update.

Table 1 Census variables used in CGC assessments by component

Category/Component	Census measure
310 Schools	
310-11 State funded government schools	nil
310-12 Commonwealth funded government schools	nil
310-20 State funded non-government schools	nil
320 Post-secondary education	Estimated Resident Population (ERP) disaggregated by Socio-Demographic Composition (SDC) (incl. Socio-Economic Indexes for Areas (SEIFA))
410 Health	
410-10 Admitted patients	ERP disaggregated by SDC (incl. (SEIFA))
410-21 Emergency departments	ERP disaggregated by SDC (incl. SEIFA)
410-22 Non-admitted patients	ERP disaggregated by SDC (incl. SEIFA)
410-30 Community and other health	ERP disaggregated by SDC (incl. SEIFA)
410-40 Non-hospital patients transport	ERP by remoteness
510 Housing	
510-01 First home owner expenses	nil
510-02 Social housing	Census housing counts, adjusted for undercount.
510-10 Social housing user charges	Census housing counts, adjusted for undercount.
520 Welfare	
520-10 Child protection and family services	ERP disaggregated by SDC (incl. SEIFA)
520-21 National Disability Insurance Scheme (NDIS)	ERP by state
520-22 Non-NDIS, aged care, national redress	nil
520-41 Concessions	nil
520-42 Other welfare	nil
530 Services to communities	
530-10 Water subsidies	ERP by very small area
530-20 Electricity subsidies	ERP by very small area
530-30 Indigenous community development	Indigenous ERP by small area
530-40 Other community development and amenities	nil
530-50 Environmental protection	nil
610 Justice	
610-10 Police	ERP disaggregated by SDC (incl. SEIFA)
610-21 Criminal courts	ERP disaggregated by SDC (incl. SEIFA)
610-22 Other legal services	nil
610-30 Prisons	ERP disaggregated by SDC (incl. SEIFA)
710 Roads	
710-11 Rural roads	ERP by area; whether town needs road
710-21 Urban roads	ERP by area
710-31 Bridges and tunnels	nil
720 Transport	
720-10 Urban transport	ERP by small area; Commuter patterns by transport mode
720-20 Non-urban transport	nil
810 Services to industry	
	Count of employed persons by place of work

Note: The table only lists Census measures used directly by the Commission. Other data inputs may have Census changes embedded in them.

Estimated resident population

Issue

11. The issue for the Commission for the 2023 Update is whether to incorporate updated state-level Aboriginal and Torres Strait Islander populations ahead of updated sub-state data becoming available in 2023.

Background

12. The Australian Bureau of Statistics (ABS) undertakes a Census of Population and Housing every five years. Between censuses, the ABS calculates estimated resident population by adding the flows of population change (births, deaths, and migration) to the stock population estimate (the base).
13. The differences between the 2021 Census-based estimate of estimated resident population for 30 June 2021 and the 2016 Census-based estimate for the same date, for each state, are shown in Table 2.

Table 2 Change in 30 June 2021 estimated resident population

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Total
Percent	-1.16	-1.52	-0.07	1.68	2.52	4.91	1.34	5.08	-0.19
Number	-94,836	-101,026	-3,580	29,796	67,607	26,594	3,291	21,947	-50,063

Source: CGC calculation using ABS cat.no. 3101.0

14. For the 2023 Update, the Commission will use the latest available state Estimated Resident Population data from the ABS. The data, based on the 2021 Census, have been adjusted by the ABS for over and undercounts using a post enumeration survey and further adjustments are not required.
15. Apart from the Census year, the ABS does not provide population data disaggregated by Indigenous status. Between censuses the Commission imputes the disaggregated Aboriginal and Torres Strait Islander and non-Indigenous populations. This is done by:
 - applying the Aboriginal and Torres Strait Islander share of the total population within each disaggregated population group (in the Census year) to the total population
 - adjusting these initial estimates of the Aboriginal and Torres Strait Islander population to match the ABS Aboriginal and Torres Strait Islander population projections, by age and state
 - subtracting the resulting estimated numbers of Aboriginal and Torres Strait Islander people in each state-age-remoteness-SES group from the group's total population to give the number of non-Indigenous people in the group.

Consultation

16. The 2021 Census-based sub-state Estimated Resident Population for Aboriginal and Torres Strait Islander and non-Indigenous Australians will be released by the ABS in August 2023. As such, the Commission will continue to use the 2016 Census-based Aboriginal and Torres Strait Islander shares of the total population for the 2023 Update.

17. For the 2023 Update, the Commission could apply these shares to either:
 - the 2016 Census-based projections for total state Aboriginal and Torres Strait Islander Estimated Resident Population; or
 - the 2021 Census-based preliminary estimate of total state Aboriginal and Torres Strait Islander Estimated Resident Population.
18. Applying the 2016 Census Aboriginal and Torres Strait Islander population shares in each state age-remoteness-socioeconomic status group to the 2021 Census Aboriginal and Torres Strait Islander population estimates implies that the growth in the Aboriginal and Torres Strait Islander population above that projected by the ABS has been uniform across the socio-demographic groups within each state. However, it would mean that the Commission would be using the latest estimate for state-level Aboriginal and Torres Strait Islander population.

Commission's preliminary view

- Use the 2021 Census based Estimated Resident Population data by state to calculate the total state and sub-state populations for the 2023 Update.
- Retain the 2016 Census-based projections of total Aboriginal and Torres Strait Islander Estimated Resident Population by state.

Measures of socio-economic status

19. The following ABS Remoteness Areas and the socio-economic status measures used in assessments will not be updated in time to use in the 2023 Update.
 - Socio-Economic Indexes for Areas (SEIFA)
 - Indigenous Relative Socio-Economic Outcomes index (IRSEO)
 - Non-Indigenous Socio-Economic Index for Areas (NISEIFA).
20. The Commission will continue to use the Remoteness Areas and the socio-economic status measures from the 2016 Census.

Urban transport

Issue

21. Urban transport usage was affected by COVID-19 lockdowns on the day of the 2021 Census. As a result, the Commission will need to decide whether the 2021 Census data for passenger numbers remain a fit for purpose measure of state urban transport service levels. If it holds, the Commission would update the assessment to use 2021 Census data.
22. In the 2020 Review the Commission found that 2016 Census data on actual passenger numbers were a fit for purpose measure of level of service and distance to work data were a fit for purpose measure of network complexity.
23. While 2021 Census data on commuter use are not yet available, data collected from selected state transport agencies indicate that the data collected for passenger numbers in the 2021 Census will not be a fit for purpose measure of supply.

24. A comparison of public transport use patterns based on ticketing data provided by states, shows a significant divergence of use patterns between jurisdictions on 2021 Census day compared with 2016 Census day.
25. While there is evidence that service use declined differentially by state during COVID-19 lockdowns, in recent bilateral discussions with Commission staff, states said that service levels were maintained. Some states said service levels actually increased during this period to allow for COVID-19 safe travel for essential workers.
26. Any relationship that may have existed between the use and supply of urban transport services on the day of the 2016 Census is unlikely to have been captured on Census Day 2021, at a time when exogenous factors largely dictated the use of urban transport services, rather than actual demand for those services.
27. If 2021 Census data are not fit for purpose, the Commission recognises that strictly retaining the 2016 Census data will not capture expansions to urban transport service levels that have occurred in the time between censuses. For example, light rail services have since been expanded in Sydney, the Gold Coast and Adelaide. In 2018 both Canberra and Newcastle added light rail to their mode mixes.
28. A nationally consistent adjustment to account for increases in service levels could not be identified. However, an adjustment to recognise jurisdictions that have added a mode of transport since the 2016 Census could be developed.
29. Such an adjustment would specifically apply to Canberra and Newcastle to match the use rate of the Gold Coast: a jurisdiction of comparable size that had a light rail service in 2016. While this adjustment aligns 2016 Census data more closely with current service provision arrangements, Table 3 shows it would not result in a material change in GST distribution.

Table 3 Impact on assessed relativities of adjustment recognising light rail in Canberra and Newcastle, 2020-21.

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
Light rail adjustment (\$m)	-0.04	-0.31	0.29	-0.12	-0.07	0.08	0.17	0	0.54
Light rail adjustment (\$pc)	0.00	-0.05	0.06	-0.04	-0.04	0.15	0.39	0.00	0.02

Note: Population data used in this analysis are the 2020-21 population figures used in the 2022 Update. Does not reflect impact on GST relativities

Source: Staff calculation.

Background

30. In the 2020 Review, the Commission decided that this assessment would be updated to reflect 2021 Census data for actual passenger numbers and distance to work when they become available.
31. The Distance to Work dataset will not be available until early 2023, but the Journey to Work dataset is expected to be released by the ABS in October 2022. This dataset is the basis of modelled passenger numbers updated annually in the Commission's assessment of state urban transport needs.
32. Public transport passenger numbers by mode (public transport use) represent the level of service offered across jurisdictions in the model. During the design process, the Commission considered that the national comparability and contemporaneity of Census data satisfied its criteria of 'fitness for purpose'. Census data were also adopted on the basis that any forthcoming updates would similarly satisfy these requirements.

Commission's preliminary view

- If 2021 Census data for passenger numbers are not fit for purpose, retain the 2016 Census data for passenger numbers by mode in the urban transport assessment with no adjustment to account for changes in the level of service provision or the addition of new modes of transport.

Housing

Issue

33. The issue for the Commission is whether to update the calculations to use 2021 Census data on income and rent.

Background

34. Two Census variables used to estimate per household costs and revenue in the housing assessment that may be distorted by the COVID-19 lockdowns are Equivalised Total Household Income (weekly) and Rent Ranges (weekly).
35. The ABS will release the data on these variables in October 2022. The data will be used for the 2023 Update if the Commission considers they are sufficiently reliable. If not, the Commission will engage with states on alternative options.
36. As agreed in the 2020 Review, the Commission will adjust the Census count of households in private occupied dwellings by Indigenous status and remoteness area using the adjustment factors for individuals derived from the ABS Post Enumeration Survey.

Commission's preliminary view

- Integrate the 2021 Census data on income and rent in the Housing assessment for the 2023 Update if the Commission consider it reliable. If not, the Commission will engage States on alternative options.

New data source for the number of motor vehicles

Issue

37. State capacity to raise Motor tax revenue is assessed using the number of registered vehicles in each state. These data were obtained from the ABS's Motor Vehicle Census publication, but the ABS ceased its publication in June 2021.
38. The Bureau of Infrastructure and Transport Research Economics (BITRE) and Austroads are in the process of establishing a new motor vehicle database. It will be based on the National Exchange of Vehicle Driver Information (NEVDIS).¹ The Commission proposes to use BITRE data for the 2021-22 assessment year and thereafter. As BITRE data are not yet available, it is not possible to determine the GST impact of changing the data source.

¹ NEVDIS is owned by Austroads on behalf of the states, who provide information to it on motor vehicle registrations.

39. If BITRE data are not published in time for the 2023 Update, the Commission proposes to use the number of vehicles in 2020-21 for 2021-22. The table below shows the GST effect of updating numbers of motor vehicles in the last two updates. Overall, the effect was not material (\$0.3 per capita), but it had the biggest impact on Tasmania (minus \$5 per capita).

Table 4 Estimated impact on GST distribution from a change in assessed relativities of updating motor vehicles data, 2021 and 2022 Updates

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Ave
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
2021 Update	0.0	0.4	-0.5	1.7	-0.4	-5.0	-0.1	-2.5	0.3
2022 Update	-0.4	0.6	-0.1	1.1	-0.4	-4.7	-0.3	0.6	0.3

Source: Commission calculation, 2021 and 2022 Updates.

Commission's preliminary view

- Use BITRE data as the new source of data for the number of registered vehicles in each state.
- Use 2020-21 data from the ABS Motor Vehicle Census for 2021-22 data if BITRE data are not published in time for inclusion in the 2023 Update.

Non-admitted patient service expenses and activity data analysis

Issue

40. The issue for the Commission is whether to estimate national weighted activity units for the GP-type services delivered by states in non-admitted patient settings to align the services covered by activity data with the services covered by expense data.

Background

41. The Commission's assessment of differences between states in the need for spending on non-admitted patient services uses cost weighted activity data.
42. In the 2021 Update, Tasmania raised concerns that the scope of non-admitted patient services expense data did not match the scope of the activity data. Tasmania was concerned that the mismatch could result in a material difference in states' shares of GST distribution resulting from the non-admitted patient assessment.
43. The expense data used in the assessment, which are based on the Government Finance Statistics classification framework, include general practitioner type services (GP-type services). However, the measure of activity, national weighted activity unit data from the Independent Hospital Pricing Authority² exclude these services.
44. During the 2022 Update, the Commission developed a method to estimate national weighted activity units for GP-type services. However, the Commission did not have approval at that time from the Independent Hospital Pricing Authority to share the data and analysis with states. Hence, no decision was made on this issue.

² In 2022, the Independent Hospital Pricing Authority (IHPA) was renamed the Independent Health and Aged Care Pricing Authority (IHACPA) in line with its expanded function into aged care.

45. The Commission can now share the relevant data and analysis. The analysis in [Attachment A](#) describes the approach taken by the Commission to include GP-type services in the non-admitted patient activity data.
46. After including GP-type services, relative per capita spending on non-admitted patient services is higher in remote and very remote areas. It is also higher for Aboriginal and Torres Strait Islander people. This has a material effect on GST distribution (an increase of greater than \$10 per capita) for the Northern Territory.

Consultation

47. The Commission is seeking state views on an approach to align the services covered by activity data with the services covered by expense data. The Commission would like feedback from the states on:
 - The quality and comprehensiveness of the data proposed to be used in the calculation of national weighted activity units for GP-type services. For example, does Table A1 provide an accurate reflection of the provision of GP-type and total non-admitted patient services by state? Has the Commission chosen the best price weights to validate the accuracy of the calculation of GP-type services?
 - Is the proposed approach to calculate national weighted activity units for GP-type services appropriate?
 - Does the outcome shown in Figure A1 align with states' understanding of GP-type service delivery arrangements? For example, is it reasonable to expect relative spending per capita on non-admitted patient services to exceed that on admitted patient services in remote and very remote areas?

Commission's preliminary view

- Include imputed national weighted activity unit data for GP-type services in the non-admitted patient assessment.

Response to COVID-19

48. For the 2021 and 2022 Updates, the Commission consulted with states on whether existing assessment methods adequately captured state expense needs given the impact of, and response to, COVID-19.
49. On balance, the Commission concluded that:
 - state responses to the COVID-19 pandemic largely reflected circumstances rather than state-specific policy choices
 - the Commission's revenue assessments largely captured the effects of the COVID-19 pandemic on states' revenue raising capacities
 - the drivers of state spending on COVID-19 related health services and business support were likely to differ from the drivers in the Commission's existing assessment methods.
50. The impact of COVID-19, and states' responses, have evolved since early 2020. It is appropriate that the Commission again consult with states as part of the 2023 Update. This section focuses on health and business support expenses. The Commission also welcomes state views on revenue and other expense assessments.

Health

Issue

51. The two issues the Commission needs to consider for the 2023 Update are:
- if terms of reference do not allow for a method change, whether to continue to treat the Commonwealth payments under the National Partnership on COVID-19 Response as no impact; and
 - if terms of reference allow, whether to assess spending under the National Partnership using an alternative method.

Background

52. In the 2021 and 2022 Updates, the Commission treated Commonwealth payments under the National Partnership on COVID-19 Response as no impact. The basis of this decision was that the drivers of state spending (and in turn Commonwealth payments) on COVID-19 health services were different from the usual drivers of state health spending needs and as such this spending was not specifically assessed.
53. Analysis presented in [Attachment B](#) shows that, for both 2019-20 and 2020-21,³ the pattern of activity related to COVID-19 health services was different to the pattern implied by the Commission's health assessment. In terms of spending, [Attachment B](#) shows that over 2019-20, 2020-21 and 2021-22, New South Wales and Victoria spent more on COVID-19 hospital services (Figure B5) and community health services (Figure B6) than implied by the Commission's assessments, and other states less.
54. Hospital activity data for the 2021-22 year will be included in the 2024 Update. During 2021-22, COVID-19 became more widespread in the Australian community. Going forward, this may mean state health spending needs on COVID-19 will be estimated reasonably accurately by the Commission's health assessment method. The Commission will analyse the data and consider implications for the assessment in the 2024 Update New Issues paper.
55. Commission staff have had informal discussions with state treasury officials on alternative, policy neutral drivers of states spending needs for COVID-19 health services. None have been identified.
56. One option is for the Commission to assess states' spending under the National Partnership on COVID-19 Response on an actual per capita basis. This would only be applicable if it was judged that the spending was largely in response to state circumstances and not influenced by state specific policies.
57. As noted previously, the Commission indicated in the 2021 and 2022 Updates that it considered state responses to the COVID-19 pandemic largely reflected circumstances rather than state-specific policy choices. The impact on the distribution of GST revenue from this option is shown in Table 5.

³ 2019-20 and 2020-21 are the first two assessment years of the 2023 Update. Activity data for the third assessment year (2021-22) are not available until after the Update. 2020-21 data are used as a proxy for year three.

Table 5 Estimated impact on GST distribution from a change in assessed relativities in 2023-24 of an actual per capita assessment of state spending funded COVID-19 health services

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Scenario	27,419	21,543	18,457	10,042	6,517	2,448	1,328	1,548	89,303
Base	27,102	21,135	18,846	10,138	6,662	2,482	1,339	1,599	89,303
Difference \$m	317	408	-390	-96	-145	-33	-11	-50	0
Difference \$pc	39	61	-73	-35	-81	-61	-25	-201	0

Source: Commission calculation using GFS and National Health Funding Body expenses.

Consultation

58. The Commission welcomes state views on whether to use an alternative method to assess state needs for spending on COVID-19 health services if terms of reference allow.
- If so, how should COVID-19 related health spending be defined and how should needs be assessed?
 - If the actual per capita approach is used should a discount be applied and if so on what basis?

Commission's preliminary view

- If terms of reference do not allow for a method change, continue to treat Commonwealth payments under the National Partnership on COVID-19 Response as no impact on the basis that the differences between states in spending on COVID-19 cannot be fully explained by the Commission's health assessment of state spending needs on health services more broadly.
- If terms of reference allow for a change in method to respond to COVID-19:
 - treat the Commonwealth payments under the National Partnership on COVID-19 Response as impact; and
 - assess state spending associated with the national partnerships on an actual per capita basis.

Business support

Issue

59. The issues for the Commission in the 2023 Update are:
- If terms of reference do not allow for a method change, whether to treat the Commonwealth payments under the National Partnerships on COVID-19 business support as impact or no impact; and
 - if terms of reference allow, whether to assess state spending on COVID-19 business support using an alternative method.

Background

60. State support for businesses during the COVID-19 pandemic differs, both in nature and magnitude, from the usual business development spending states undertake.
61. State spending on business support increased significantly following the end of Commonwealth JobKeeper payments for employers in March 2021. The Commonwealth did not contribute to the funding of state spending in 2020-21.
62. In 2021-22 the Commonwealth entered into bilateral agreements with each state to jointly fund support payments for businesses impacted by COVID-19. Not all state support payments were covered under these agreements. Total state spending covered by the jointly funded payments in 2021-22 is expected to amount to \$14.4 billion.⁴ This is more than double the \$6 billion spent on the entire services to industry category in 2018-19, before COVID-19.
63. Under existing methods, state spending on COVID-19 business support will be divided mostly between the 'other industries regulation' component (53%) and the 'business development' component (47%).
64. The driver of need for other industries regulation is the level of economic activity in the sector (75%) and population size (25%). Wage and regional costs are also taken into account. Business development is assessed equal per capita with an adjustment for differences in wage costs.
65. The distribution of Commonwealth payments under the COVID-19 business support national partnership agreements differs significantly from the Commission's assessment of needs under existing assessment methods (Figure 1).

Figure 1 Distribution of Commonwealth payments under the COVID-19 business support national partnership agreements compared with distribution under existing assessment methods



Source: Commonwealth of Australia, Final Budget Outcome 2021-22. Assumes state funding share is 50%.

66. Commission staff have had informal discussions with officials from state treasuries on alternative, policy neutral drivers of states spending needs for COVID-19 business support payments. Discussions also covered how COVID-19 specific spending for business support could be defined.

⁴ Commonwealth of Australia, Budget 2022-23, Federal Fiscal Relations, Budget Paper no. 3, 2022-23.

Consultation

Treatment of Commonwealth payments

67. The Commission seeks state's views on the treatment of the Commonwealth payments for business support.

Potential definitions of COVID-19 business support spending

68. Two options for defining spending on COVID-19 business support for the purpose of a separate assessment of state needs are:

- Option 1: the spending on programs covered by the COVID-19 business support national partnerships.
 - The amount spent by the Commonwealth on the programs covered by the national partnerships is published in the Commonwealth of Australia, 2021-22 Final Budget Outcome. On the basis that the funding for the programs covered by the national partnerships was funded on a roughly 50:50 basis, the Commission could implement this option without requesting additional expense data from the states.
 - However, the national partnerships do not cover spending undertaken by states prior to 2021-22. This spending was particularly large in Victoria.
- Option 2: those business support payments that were made non-assessable non-exempt by the Commonwealth for income tax purposes.
 - Non-assessable non-exempt tax treatment is only provided in exceptional circumstances. Eligibility was limited to COVID-19 grant programs directed at supporting businesses who were the subject of a public health directive and whose operations were significantly disrupted because of the public health directive.
 - Not all business support spending by states in 2020-21 would be included.
 - States would need to provide the Commission with their expenses on the non-assessable non-exempt programs in time for the 2023 Update. This may not be practical.

Potential drivers of need

69. A measure of reduction in business turnover would accurately reflect what states did, and average state policy regarding support payments. However, it is unlikely the Commission would be able to access the required data in time for the 2023 Update.
70. The ABS Longitudinal Labour Force Survey includes measures of usual hours worked, actual hours worked and reasons for working less than usual hours. The ABS has stated that the COVID-19 period has been characterised by a much greater number of people losing hours than people losing jobs.⁵
71. An analysis by the Commission (see [Attachment C](#)) shows that a reduction in hours of work for economic or other than usual reasons is correlated with the following:
- lockdowns in major cities
 - Commonwealth and state jointly funded business support payments in the 2021-22 financial year

⁵ Insights into job attachment during the pandemic, March 2022.

- Commonwealth JobKeeper and JobKeeper extension payments in the 2020-21 financial year.
72. If a driver of need for state business support spending cannot be identified, the Commission could consider an actual per capita assessment of state spending, defined by either option 1 or 2. This would be on the assumption that spending was policy neutral given the Commonwealth's role in defining the programs eligible for joint funding and non-assessable non-exempt tax treatment.
73. The impact on GST distribution of an actual per capita assessment of state spending on COVID-19 business support covered by the national partnership agreements is shown in Table 6.

Table 6 Estimated impact on GST distribution from a change in assessed relativities in 2023-24 of an actual per capita assessment of COVID-19 business support.

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Difference (\$m)	398	471	-411	-254	-150	-47	16	-23	0
Difference (\$pc)	49	70	-77	-93	-84	-86	37	-91	0

Source: Commonwealth of Australia, Final Budget Outcome 2021-22. Assumes state funding share is 50%.

74. State views are sought on whether the Commission should (if practicable) use an alternative method to assess state needs for spending on COVID-19 business support payments, if terms of reference allow.
- If so, how should needs be assessed and which payments should be in scope?
 - What is the reporting burden associated with the options discussed above?

Commission's preliminary view

- If terms of reference do not allow for a method change, treat Commonwealth payments under the national partnerships on COVID-19 business support as no impact, on the basis that the drivers of state spending (and in turn Commonwealth payments) on COVID-19 business support were different from the usual drivers of state spending needs.
- If terms of reference allow for a change in method:
 - treat Commonwealth payments under the national partnerships on COVID-19 business support as impact; and
 - assess state expenses that meet the definition of *non-assessable non-exempt* using a driver of need based on the reduction in hours worked in each state; or
 - if data on state expenses that meet the definition of *non-assessable non-exempt* cannot be obtained, assess the state spending associated with the national partnerships on COVID-19 business support on an actual per capita basis.

New state taxes commencing in 2021-22

75. If states introduce new taxes in an update, the Commission needs to consider where it will assess the revenue raised.
76. In deciding where the revenue will be assessed, the Commission will consider:

- the nature of the tax and whether it is similar to existing taxes for which differences in capacity to raise revenue are assessed
- materiality.

Victoria's Zero and Low Emission Vehicle tax

77. Victoria has introduced a distance-based road-user tax on owners of zero and low emission vehicles (ZLEVs) from 1 July 2021 onwards.⁶ Three other states have announced plans to introduce distance-based charges for electric vehicles from July 2027.
78. Victoria raised \$1.18 million in ZLEV revenues in 2021-22. The ABS classifies these revenues as Motor taxes in the Government Finance Statistics collection used by the Commission. Leaving them in the Motor taxes category would not materially affect that assessment. Until the next review, the Commission proposes assessing these revenues in the Motor taxes category.

Commission's preliminary view

- Include revenue from Victoria's ZLEV revenues in the Motor taxes category.

Victoria's mental health and wellbeing surcharge

79. Victoria's mental health and wellbeing surcharge, levied on taxable wages paid by an employer, is intended to provide additional funding for its mental health system. Victoria introduced the surcharge on 1 January 2022 raising \$319 million in the six months it was enacted. It expects to raise \$819 million from this levy in 2022-23.
80. Queensland is introducing a similar surcharge from 1 January 2023 and expects to raise \$184 million from its surcharge in 2022-23.
81. As the surcharges are raised under states' payroll tax legislation, the Commission proposes assessing the surcharge as part of the Payroll tax assessment. By increasing the revenue raised, the surcharges will affect the assessment's average rate in the dollar.

Commission's preliminary view

- Include Victoria's mental health and wellbeing surcharge in the Payroll tax category.

⁶ Victoria applies one tax rate to electric and other zero emission vehicles and hydrogen vehicles and a lower rate to plug-in hybrid electric vehicles. ZLEV registered operators receive a \$100 annual registration discount.

Other issues

Negative average no worse off relativity

82. In the 2022 Update, Western Australia had an assessed relativity for 2020-21 of less than zero. Western Australia's three-year average assessed relativity for the 2022 Update remained positive. For the 2022 Update, the Commission decided to allow the negative annual relativity in the three-year assessment period to flow through to the calculation of relativities, including no worse off relativities. In coming to this decision, the Commission considered several factors, including the objective of fiscal equalisation and avoiding unnecessary complexity.
83. In this update, there is the possibility that Western Australia's assessed relativity in 2021-22 will be less than zero and, therefore, its three-year average assessed relativity could be negative.
84. The Commission does not use average assessed relativities as part of its calculation of GST relativities. Rather, annual assessed relativities are first blended with annual standard state relativities. The averaging occurs in the final stages of the process, where negative relativities are not a realistic prospect. As such, no adjustments will be required to the calculation of GST relativities.
85. This issue is only relevant for the calculation of no worse off relativities. No worse off relativities are derived from assessed relativities, with an adjustment to remove the impact of the GST pool top-up. For simplicity, this discussion refers to these relativities as if they are the same.
86. No worse off relativities are the relativities that would have applied if the 2018 legislated changes had not been enacted. These are used by the Commonwealth Government to calculate the payments it makes to states to ensure they are no worse off during the transition period for the 2018 legislated changes. The Commission needs to consider what it would have done with a negative assessed relativity if the legislated changes had not been implemented.
87. A negative assessed relativity has not arisen since the introduction of the GST. Further, it has never been contemplated that the GST pool would be insufficient to achieve fiscal equalisation. Faced with a negative relativity, the Commission could have increased the negative relativity to zero and adjusted the other relativities down in proportion to each state's population to accommodate this increase. The GST pool would then have been distributed according to these relativities. Alternatively, it could have allowed the negative relativity to stand, but this would have implied that the GST pool was insufficient to achieve equalisation. In other words, to achieve equalisation, either the state with the negative relativity or the Commonwealth Government would have needed to supplement the GST pool – neither of these possibilities were contemplated prior to 2018.

Consultation

88. Given the unprecedented nature of this issue, the Commission is seeking the views of the Commonwealth and the states on the appropriate approach.

Commission's preliminary view

- Consider views on how to deal with a negative no worse off relativity.

New Commonwealth payments

89. Each year the Commission needs to decide whether new Commonwealth payments and associated expenses should impact the calculation of state needs for GST.

Treatment of Commonwealth payments commenced in 2021-22

90. The Commission has examined new Commonwealth payments commencing in 2021-22, as listed in the Final Budget Outcome⁷ and proposes to treat them as set out in [Attachment D](#), Table D1 and Table D2. The proposals are based on the following guidelines adopted in the 2020 Review:
- Payments which support state services, and for which expenditure needs are assessed, will impact on state fiscal capacities. If needs are not assessed, it will have no impact on state fiscal capacities.
 - If a payment has multiple components, and the Commission decides that one or more component should not affect state fiscal capacities, staff will collect information to split the payment to ensure the appropriate treatment is applied.
91. Table D2 of [Attachment D](#) provides a list of projects under the City and Regional deals that commenced in 2021-22 and the proposed treatment for each project.
92. The Commission is yet to receive terms of reference for the 2023 Update. The proposed treatment of some new Commonwealth payments would change, if directed by terms of reference.

Treatment of Commonwealth payments commencing in 2022-23

93. Table D3 of [Attachment D](#) provides a list of new payments that will commence in 2022-23. Some of those payments shown will also affect the year in which the 2023 Update relativities will apply. The Commission does not propose to backcast any of them because they do not represent a major change in federal financial arrangements. Staff will consider their treatment in the relevant future updates.

Commission's preliminary view

- Consider state views on the proposed treatment of new Commonwealth payments outlined in [Attachment D](#).

⁷ Commonwealth of Australia, Final Budget Outcome for 2021-22.

Attachment A – Non-admitted patients data analysis

94. There is a mismatch between the activity and cost data used in the non-admitted patient component of the health assessment. The mismatch relates to GP-type services.
95. This attachment outlines the Commission preliminary views on how to adjust for this difference and the impact of the adjustment.

Scope of GP-type services

96. Non-admitted patient services are classified based on the [Tier 2 non- admitted services classification](#).⁸ There are about 140 types of Tier 2 classes grouped into four broad categories — Procedures, Medical consultations, Diagnostic services, and Allied health. GP-type services are classified either as medical consultations (series 20) or allied health services (series 40).
97. The GP-type Tier 2 classes that do not qualify for funding under the National Health Reform Agreement (and hence do not have national weighted activity unit data) are:
 - Tier class 40.08 primary health care - allied services
 - Tier class 20.06 GP and primary care - medical consultations
 - Tier class 40.33 and 40.27 general counselling/family planning - allied services.
98. For simplicity these are referred to as GP-type services. Australian Institute of Health and Welfare data indicate that these represented 4.9% of total non-admitted patient services in 2019-20 (Table A1) and slightly less at 4% in 2020-21.⁹
99. The distribution of GP-type and total non-admitted patient services by state are shown in Table A1.

Table A1 Number of GP-type separations, 2019-20

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total	
	'000	'000	'000	'000	'000	'000	'000	'000	'000	%
Primary health care	1,454	0	134	5	0	0	100	1	1,694	4.4
GP and primary care	38	1	63	0	0	0	0	7	110	0.3
General counselling / family planning	33	0	14	0	0	0	11	0	59	0.2
No. services GP-type	1,525	1	211	6	0	0	110	8	1,862	4.9
No. services Total NAP	17,492	5,918	7,411	3,144	2,215	535	844	602	38,163	100.0
Distribution GP-type (%)	81.9	0.1	11.4	0.3	0.0	0.0	5.9	0.4	100.0	
Distribution total NAP (%)	45.8	15.5	19.4	8.2	5.8	1.4	2.2	1.6	100.0	

Source: AIHW Australian hospital statistics, [Non admitted patient care 2019-20 tables \(Table 3.3 to Table 3.6\)](#).

⁸ A classification for non-admitted patient service events based on the type and specialty of the health care professional providing the service and the nature of the non-admitted service.

⁹ IHACPA data for 2019-20 are used in this analysis as the Commission has IHACPA's approval to share these data. Approval has not yet been requested for 2020-21 as these data only recently became available and the approval process takes some time.

Activity data

100. The Independent Hospital Pricing Authority uses price weights to convert data on hospital separations to national weighted activity units.
101. The Independent Hospital Pricing Authority has data on the total number of GP-type services. However, since these are not in scope for National Health Reform Funding, national weighted activity units are not calculated.

Imputing national weighted activity units for GP-type services

102. An option for the Commission is to calculate national weighted activity units for GP-type services, using separation and price weight data for medical consultations and allied health services from the Independent Hospital Pricing Authority. These would be added to the national weighted activity units for the non-admitted patient services that are already included in the Commission's assessment.
103. The aggregates used in the next steps are shown in Table A2. The steps in the calculation are:
- Estimate the number of GP-type separations that are funded by state governments.
 - Some separations are funded by the Department of Veterans Affairs, compensation or out-of-pocket by individuals.
 - It is assumed that the ratio of state funded GP-type separations to total GP-type separations is the same as the ratio of state funded non-admitted patient separations to total non-admitted patient separations (i.e., 79%).
 - To get a price weight for GP-type services, national weighted activity units for all medical consultations and allied health services are divided by the number of in-scope separations (i.e., 0.047).
 - The share of in-scope services (79%) and average price weight (0.047) are then applied to the Independent Hospital Pricing Authority's disaggregated data on GP-type services to generate the number and distribution of national weighted activity units (by age, Indigenous status, socio economic status, and age) for GP-type services.

Table A2 Aggregates on non-admitted medical consultations and allied health services

Indicator	Value
No. of total separations (A)	26,132,871
No. of in-scope separations (B)	20,756,802
NWAU (C)	975,591
Proportion of in-scope to total separations (B/A)	79%
Price weight (NWAU per in-scope separation) (C/B)	0.0470

Source: Commission calculation using IHACPA data on non-admitted patients by Tier 2 clinic, 2019-20.

Impact of including GP-type national weighted activity units

104. The Commission has used the price weights for non-admitted patient services that most closely correspond to GP-type services to cross-check the calculation of the average price weight that is assumed to apply to GP-type services. The average price weight of 0.0470 is reasonably close to the price weights for the selected Tier 2 classes in Table A3.

Table A3 Price weights for selected non-admitted patient Tier 2 classes

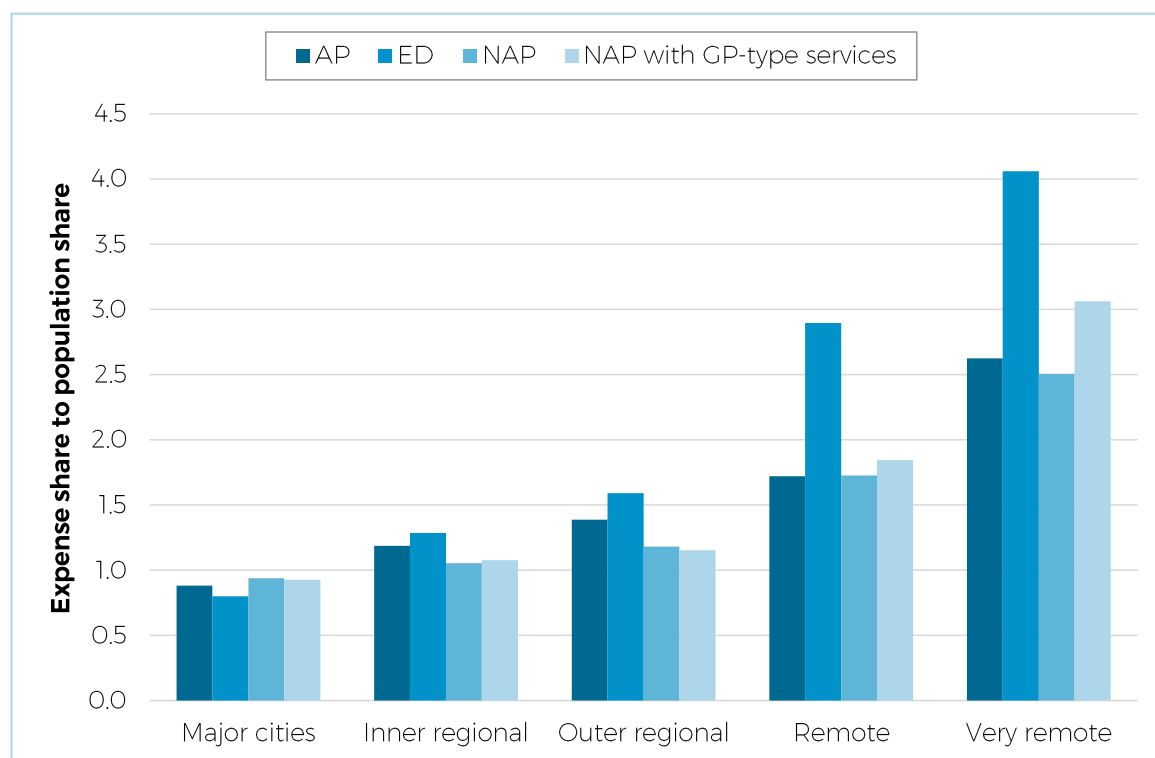
Tier 2 class	Price weight
20.05 General medicine (Medical consultations)	0.0566
20.07 General surgery (Medical consultations)	0.0490
40.53 General medicine (Allied health)	0.0471
40.54 General surgery (Allied health)	0.0218
Average for medical consultations	0.0511
Average for allied health	0.0415

(a) A price weight of 1 is equivalent to 1 national weighted activity unit.

Source: [Non-admitted price weight tables – Tier 2 classification version 7.0.](#)

105. Figure A1 shows relative spending rates per capita for non-admitted patient services (with and without GP-type services) alongside that for other types of hospital services. These were used to compare assessed expenses, with and without these services, to determine if including these would have a material impact.

Figure A1 Relative per capita spending by hospital component and remoteness, 2019-20



Note: Relative per capita spending is calculated by dividing the share of spending attributed to each population group by its share of total population.

Source: Commission calculation using IHACPA data for 2019-20.

106. The relative per capita spending rate for non-admitted patient services after including GP-type activity is higher in remote and very remote areas. It is also higher for Aboriginal and Torres Strait Islander people. This has a material effect (greater than \$10 per capita) for the Northern Territory (Table A4). This result used the assumptions in Table A2. Using the alternative price weights in Table A3 did not have a material effect.

Table A4 Illustrative impact on GST distribution from a change in assessed relativities of including GP-type activity, 2019-20

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
With GP services	1,987	1,528	1,302	667	469	149	87	98	6,287
Base	1,982	1,551	1,296	660	472	147	88	92	6,287
Difference (\$m)	5	-23	6	7	-2	2	0	6	0
Difference (\$pc)	1	-4	1	3	-1	4	-1	24	0

Source: Commission calculation using IHACPA data for 2019-20.

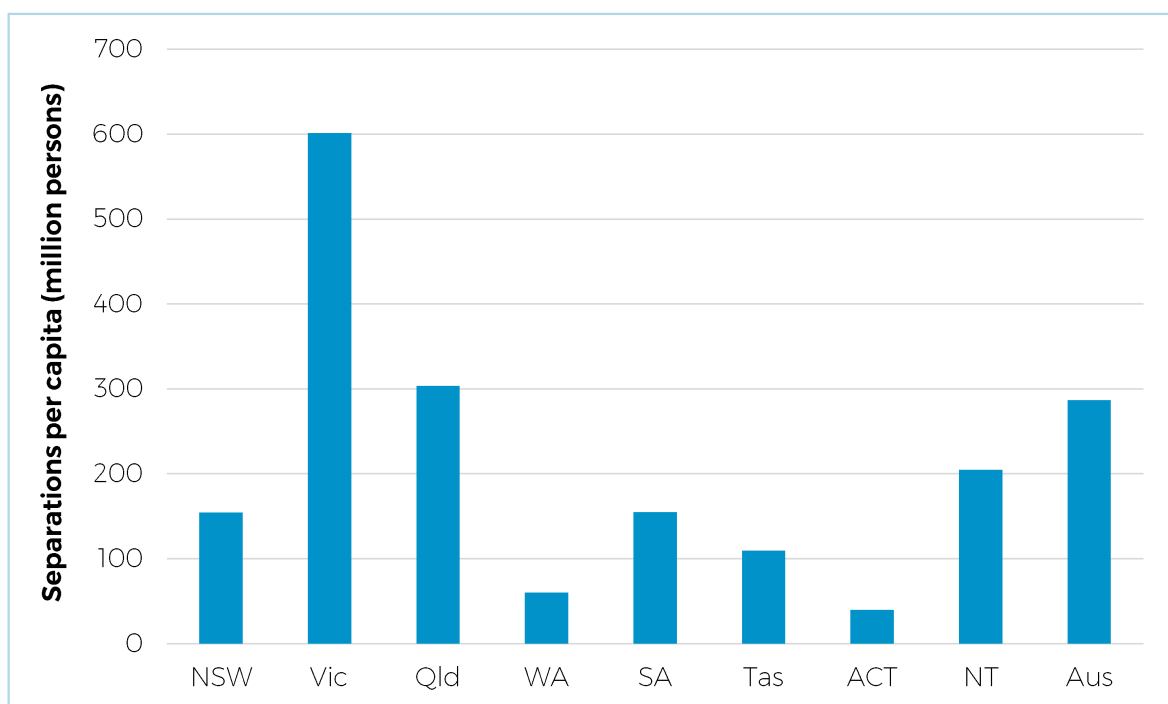
Attachment B – Analysis of COVID-19 health services activity and state spending

Hospital services

Activity

- 107. Hospital separation data from the Australian Institute of Health and Welfare provide details on the number of episodes of hospital treatment for COVID-19 during 2019-20 and 2020-21.
- 108. There were 7,346 COVID-19 admitted patient separations over 2019-20 and 2020-21. This represented 0.03% of total admitted patient separations.
- 109. In per capita terms, COVID-19 hospitalisations were highest in Victoria, and Queensland and lowest in Western Australia and the ACT.

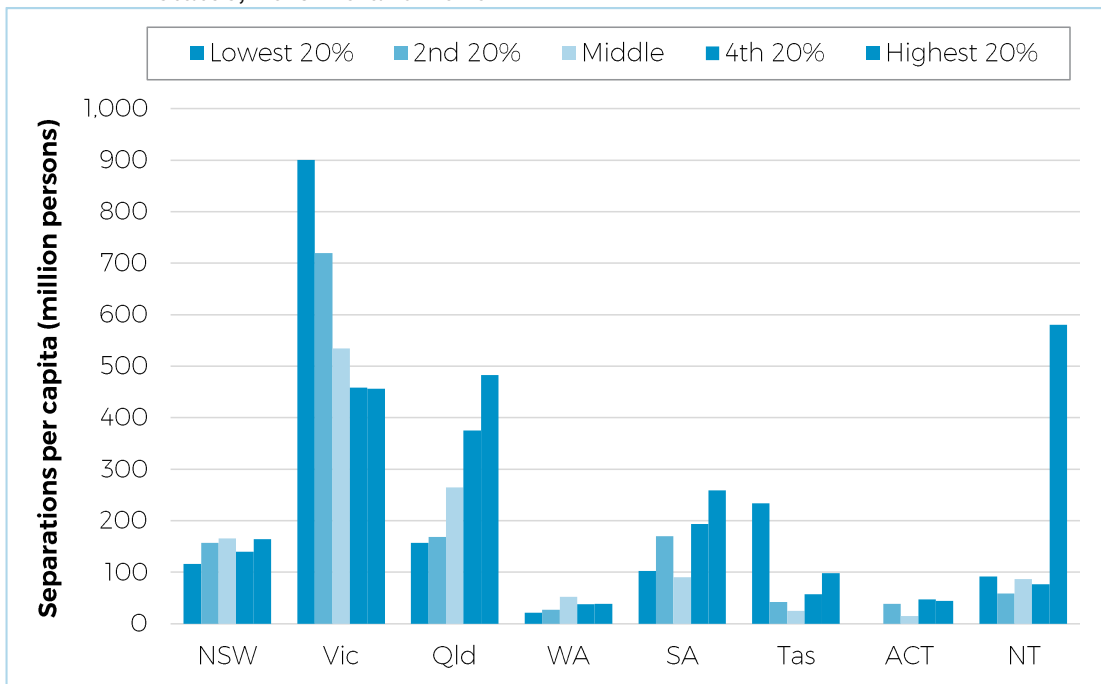
Figure B1 Admitted patient separations with a COVID-19 diagnosis, by state, 2019-20 and 2020-21



Note: Per capita figures calculated by dividing the number of separations in each state by the total number of people in each state.

Source: <https://www.aihw.gov.au/reports-data/myhospitals>

Figure B2 Admitted patient separations with a COVID-19 diagnosis by socioeconomic status, 2019-20 and 2020-21

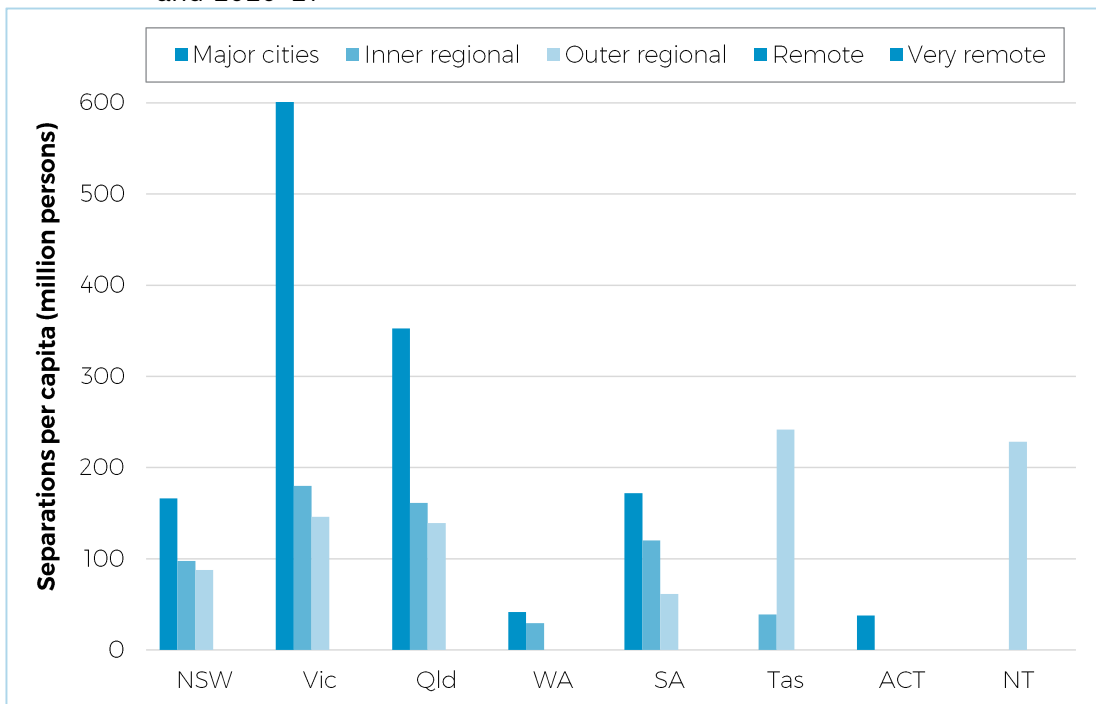


Note: Per capita figures calculated by dividing the number of separations in each SES cohort by the total number of people in each SES cohort.

Source: <https://www.aihw.gov.au/reports-data/myhospitals>

110. In terms of the location of patients, in most states people living in major cities were more likely to seek hospital care for COVID-19 than people living in regional and remote areas. In Tasmania and the Northern Territory, people living in outer regional areas were more likely to be hospitalised (Figure B3).

Figure B3 Admitted patient separations with a COVID-19 diagnosis by location, 2019-20 and 2020-21

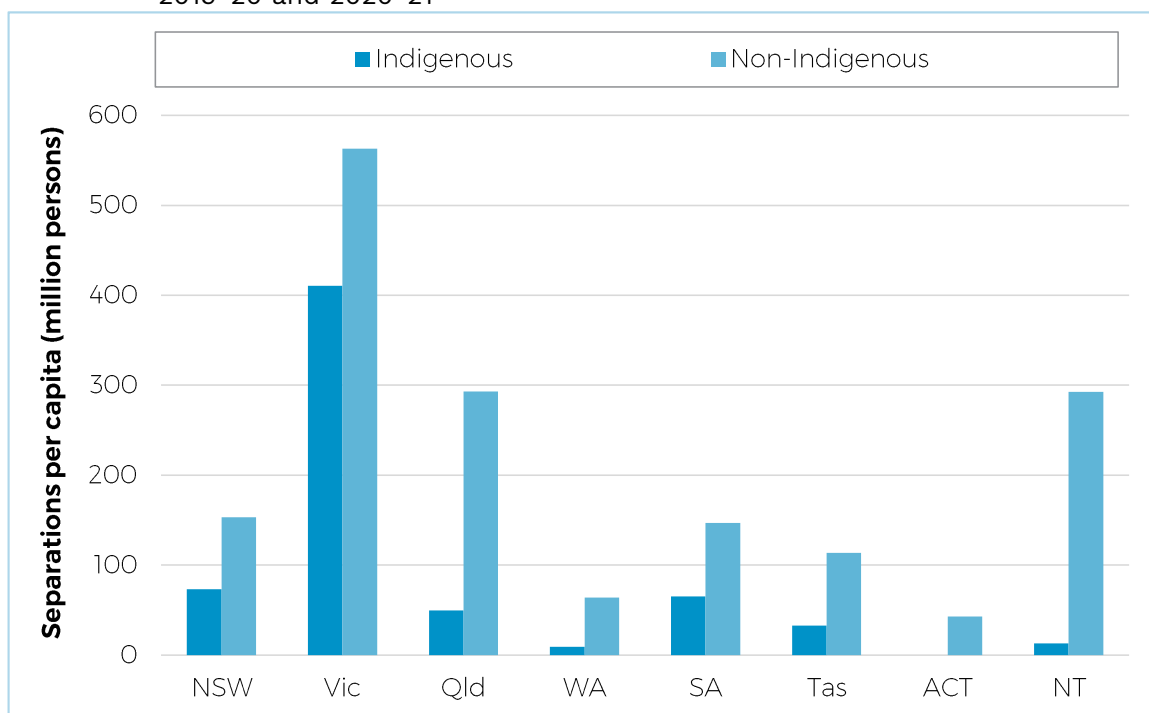


Note: Per capita figures calculated by dividing the number of separations in each geographic area by the total number of people in geographic area. Excludes separations less than 5 for each state-remoteness region.

Source: <https://www.aihw.gov.au/reports-data/myhospitals>

111. Non-Indigenous people in all states were more likely to seek hospital care for COVID-19 than Aboriginal and Torres Strait Islander people (Figure B4).

Figure B4 Admitted patient separations with a COVID-19 diagnosis by Indigenous status, 2019-20 and 2020-21



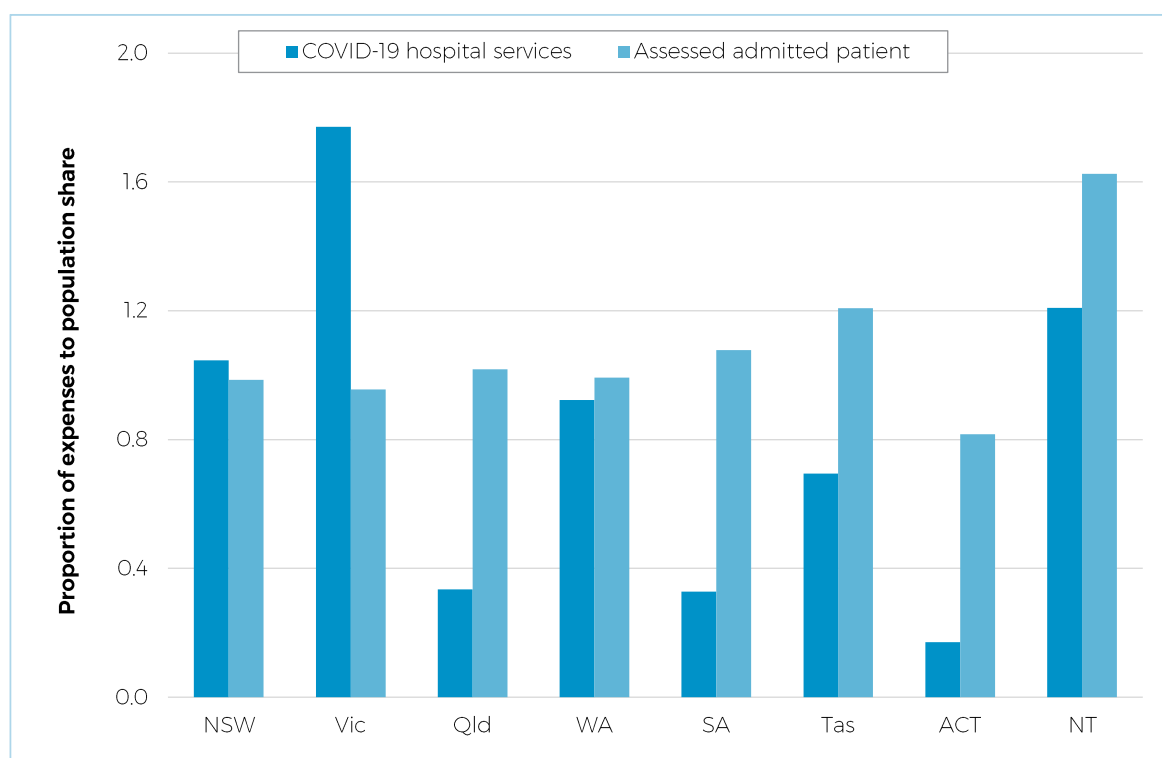
Note: Per capita figures calculated by dividing the number of separations for Indigenous and non-Indigenous people by the total number of people classified as Indigenous or non-Indigenous.

Source: <https://www.aihw.gov.au/reports-data/myhospitals>

Spending

112. The National Partnership on COVID-19 Response (NPCR) supported joint Commonwealth state funding of COVID-19 hospital services during 2019-20, 2020-21 and 2021-22. Over these three financial years, states spent \$5.3 billion on COVID-19 hospital services covered by the National Partnership, with funding shared 50:50 with the Commonwealth. This spending is around 3% of total state spending on admitted patient hospital services over this period.
113. It is likely that states incurred additional hospital costs related to the pandemic. These costs may not have been covered by the National Partnership and/or not fully reflected in the Independent Hospital Pricing Authority's National Efficient Price for hospital services.
114. Figure B5 compares state spending on COVID-19 hospital services covered by the National Partnership with the Commission's assessment of state spending needs on other hospital services. It does not include state spending outside the National Partnership. New South Wales and Victoria spent more on COVID-19 than the Commission assesses it needs for other hospital services, and the others states less.

Figure B5 COVID-19 hospital services spending (2019-20, 2020-21 and 2021-22) versus Commission's assessment of needs for admitted patient services



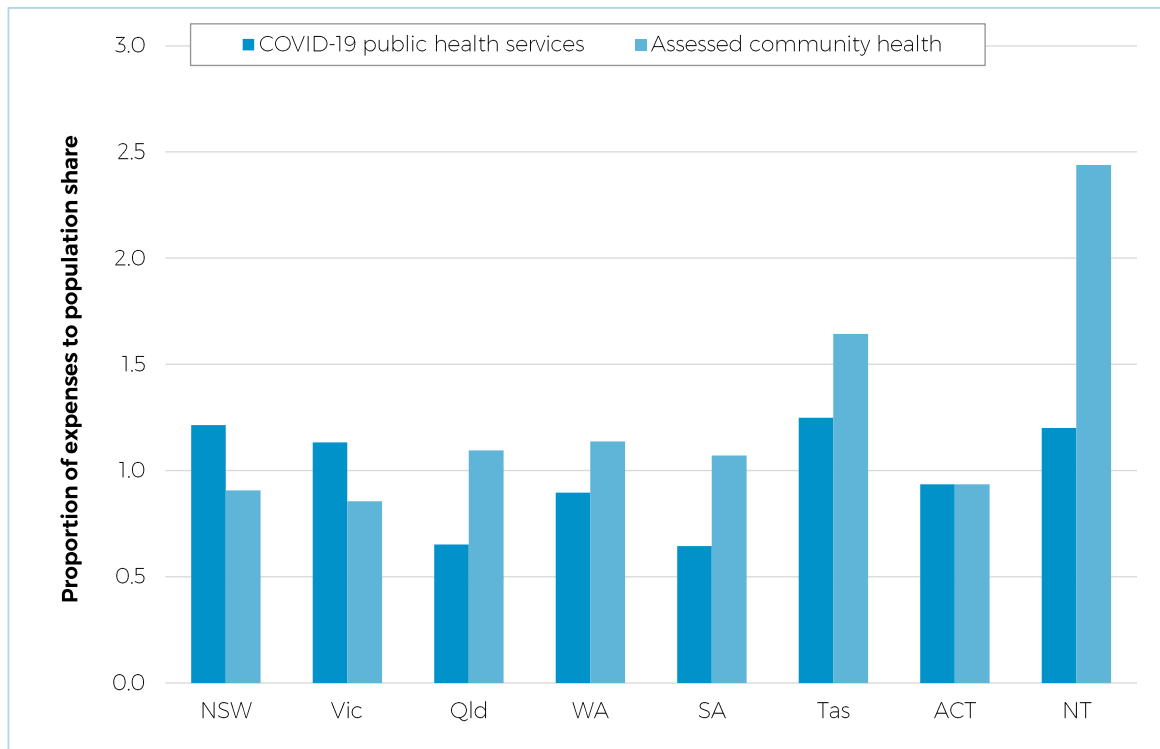
Source: CGC calculation using NPCR expenses, assessed admitted patient expenses and ABS population data.

Community and public health services

115. Comprehensive activity data are not available for state community and public health services.¹⁰
116. The National Partnership on COVID-19 Response supported joint Commonwealth state funding of COVID-19 public health services during 2019-20, 2020-21 and 2021-22. Over these three financial years, states spent \$15.3 billion on COVID-19 public health services covered by the National Partnership, with funding shared 50:50 with the Commonwealth. This spending is around 38% of total state spending on community and public health services over this period.
117. Figure B6 compares state spending on COVID-19 public health services covered by the National Partnership with the Commission's assessment of state spending needs on other community and public health services. It does not include state spending outside the National Partnership. New South Wales and Victoria spent more on COVID-19 than the Commission assesses it needs for other community and public health services. All other states spent less (the ACT about the same) than the Commission's assessment of non-COVID-19 needs.

¹⁰ AIHW publications are available on some community health services, such as on alcohol and drug treatment, cancer screening, community mental health and dental health. However, information on COVID-19 related activity is limited and mostly relates to impact on Medicare Benefits Scheme and Pharmaceutical Benefits Scheme subsidised activity.

Figure B6 COVID-19 public health spending (2019-20, 2020-21 and 2021-22) versus Commission's assessment of needs for community and public health spending



Source: CGC calculation using NPCR expenses, assessed community health expenses and ABS population data.

Attachment C - Reduction in hours as a driver of needs for COVID-19 business support payments

Background

118. If terms of reference for the 2023 Update allow method changes to account for COVID-19 responses, and the Commission determines that a new method for assessing COVID-19 related business support payments is warranted, a driver of state needs will need to be found.
119. The average state policy for such business support payments was to provide support to businesses based on a demonstrated reduction in turnover, using Business Activity Statements (BAS). BAS data are confidential, and the Commission will not be able to access these data for an assessment of needs.
120. The Longitudinal Labour Force Surveys (LLFS) collect measures of usual hours worked, actual hours worked and reasons for working less than usual hours. The ABS stated that the COVID-19 period has been characterised by a much greater number of people losing hours than people losing jobs.¹¹

Conceptual case

121. Many businesses experienced reduced productivity during COVID-19 lockdowns because staff were unable to attend work, and unable to work remotely. Other businesses experienced reductions in turnover as lockdowns or travel restrictions reduced demand for their services. Some businesses were prohibited from trading during lockdowns. There is a conceptual case that a measure of hours of work lost because of workers inability to attend workplaces would approximate the relative need for compensation for affected businesses.
122. Staff who are stood down or working reduced hours are represented in the LLFS data as employed persons who are working less than their usual hours. This is how most of the economic impact of COVID-19 on workers is measured, with relatively few people losing their jobs.
123. The survey provides fourteen possible reasons for working less than usual hours:
 - Annual leave, holidays, flextime, or long service leave
 - Own illness or injury or sick leave
 - Standard work arrangements or shift work
 - Personal reasons, study, caring for sick or injured family
 - Maternity leave
 - Paternity leave
 - Parental leave
 - No work, not enough work available (underemployed)

¹¹ Insights into job attachment during the pandemic, March 2022.

- Stood down (underemployed)
- Bad weather or plant breakdown
- On strike, locked out, or industrial dispute
- Seasonal work or end of season
- Began, left, or lost a job during the week
- Worked fewer hours than usual for other reasons

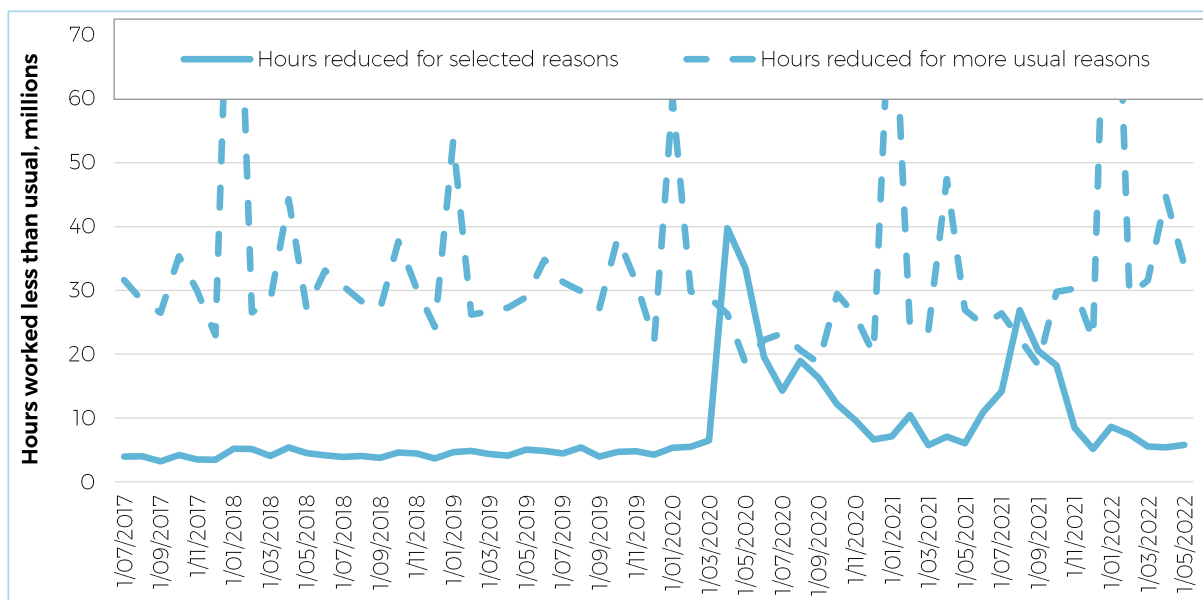
124. Working less than usual hours for three of these reasons was correlated with COVID-19 lockdowns. Working less than usual hours for these reasons was very unusual outside the context of COVID-19 lockdowns. These three reasons are:

- No work, not enough work available (underemployed)
- Stood down (underemployed)
- Worked fewer hours than usual for other reasons

125. The estimated total of hours worked that were less than usual for Australian workers is displayed in Figure C1. The total is divided between reduction for the reasons listed above, and all other reasons. It can be seen from Figure C1 that these specific responses accounted for very little of the reduction in usual hours worked for survey respondents before the COVID-19 outbreak.

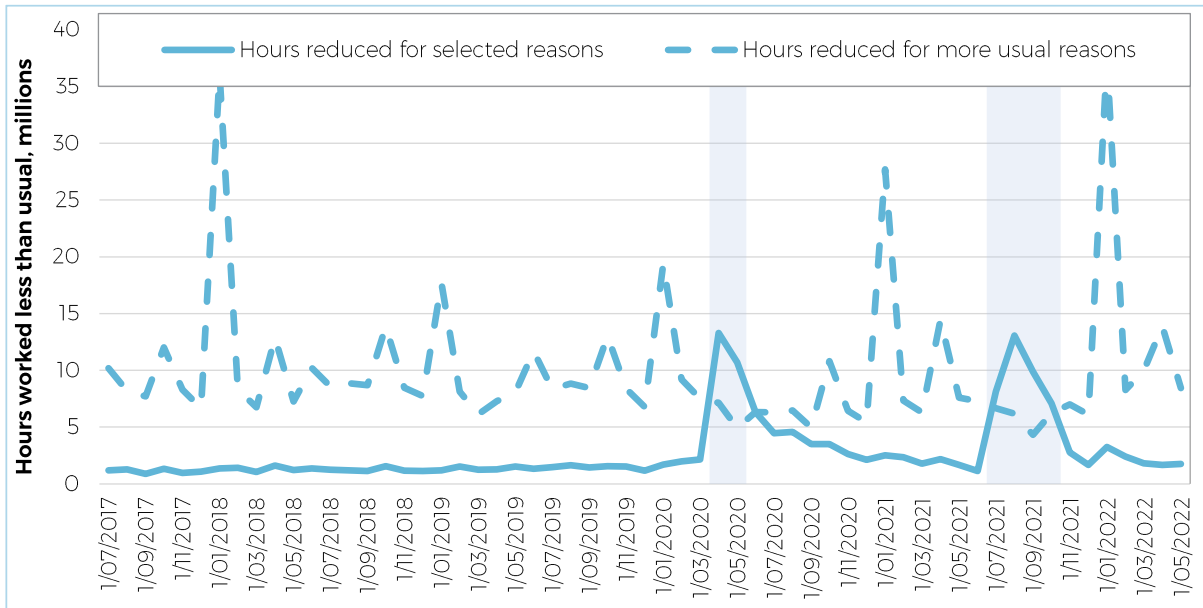
126. Similar charts are shown for each state separately in Figure C2 to, Figure C9. The shaded areas show the announced lockdown periods (noting that the severity and duration of lockdowns varies). These charts show how the relevant measure of reduced hours relates to lockdowns.

Figure C1 Total hours worked less than usual, Australia, monthly



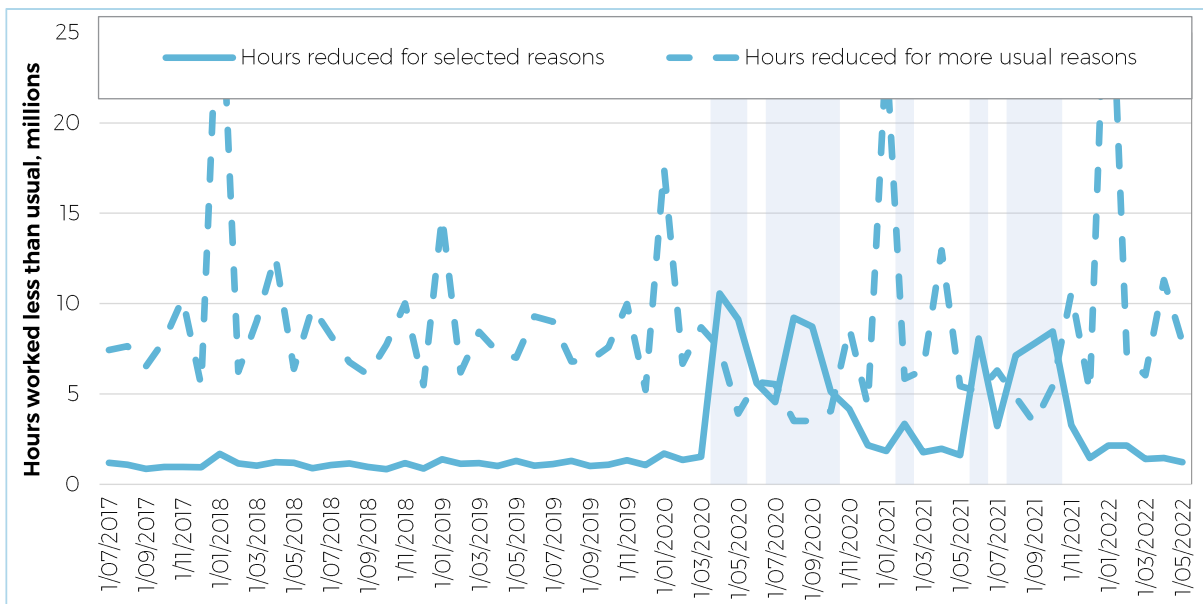
Source: Custom extract from the Longitudinal Labour Force microdata

Figure C2 Total hours worked less than usual, New South Wales, monthly



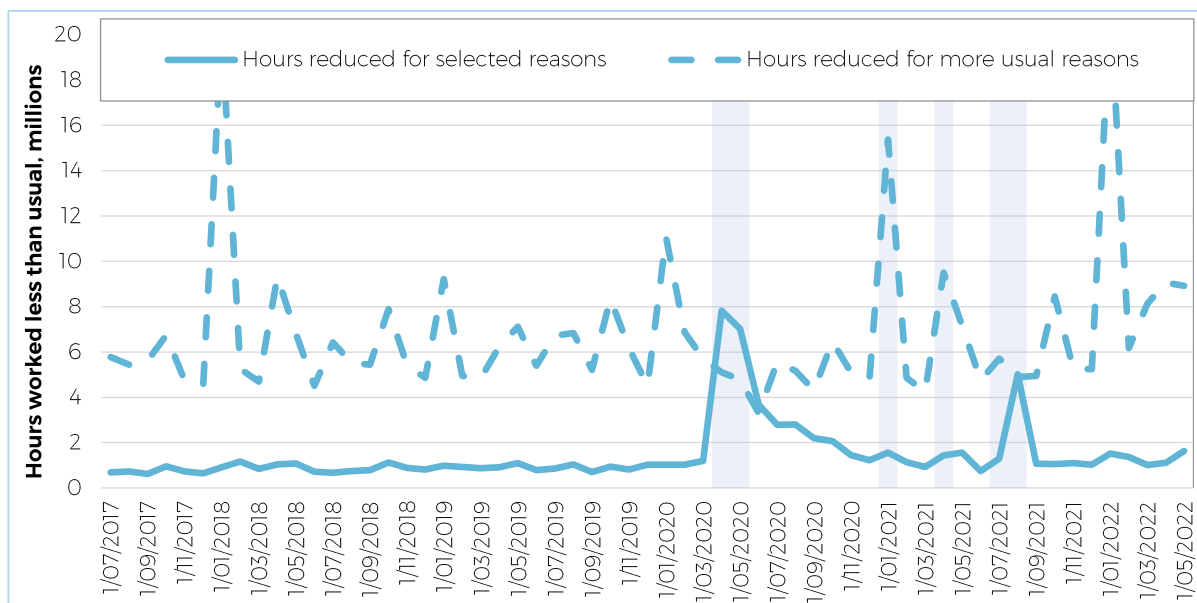
Source: Custom extract from the Longitudinal Labour Force microdata

Figure C3 Total hours worked less than usual, Victoria, monthly



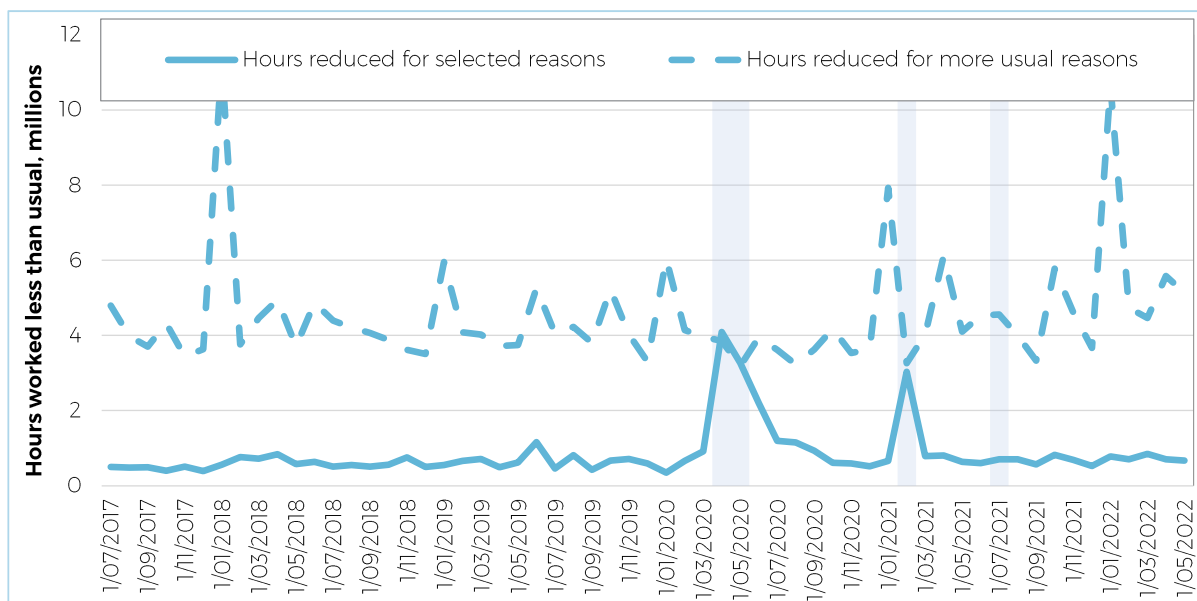
Source: Custom extract from the Longitudinal Labour Force microdata

Figure C4 Total hours worked less than usual, Queensland, monthly



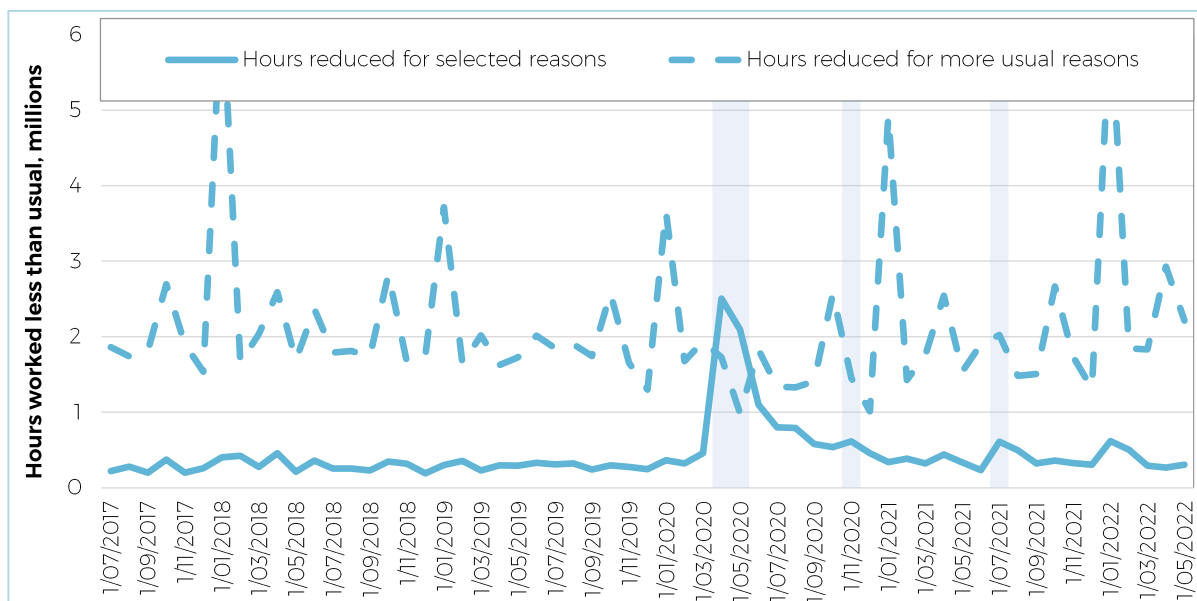
Source: Custom extract from the Longitudinal Labour Force microdata

Figure C5 Total hours worked less than usual, Western Australia, monthly



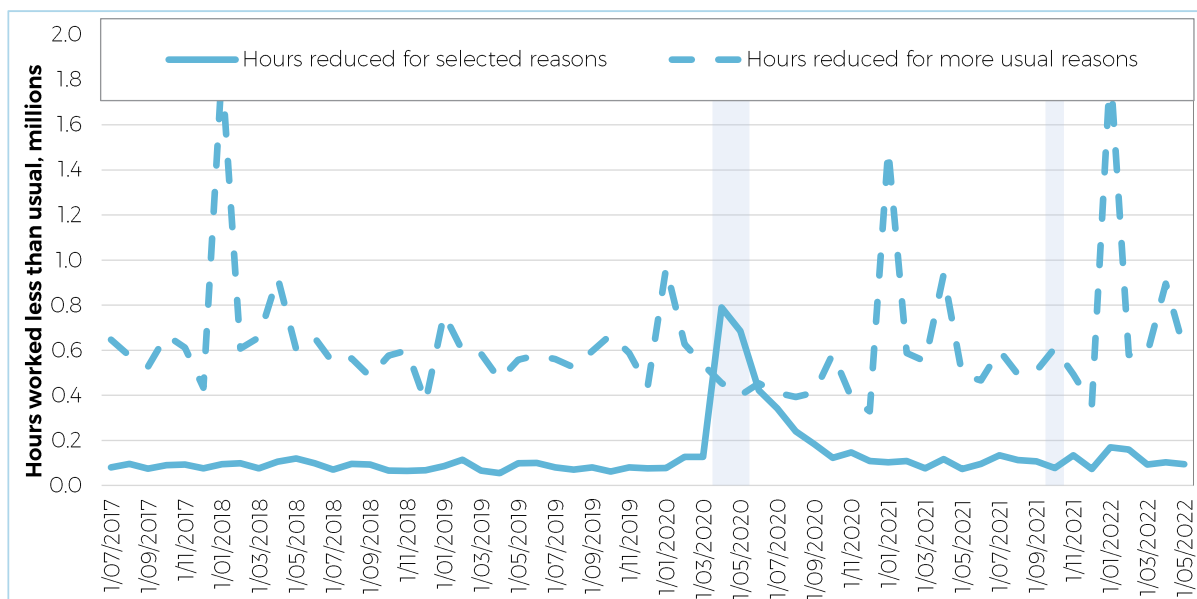
Source: Custom extract from the Longitudinal Labour Force microdata

Figure C6 Total hours worked less than usual, South Australia, monthly



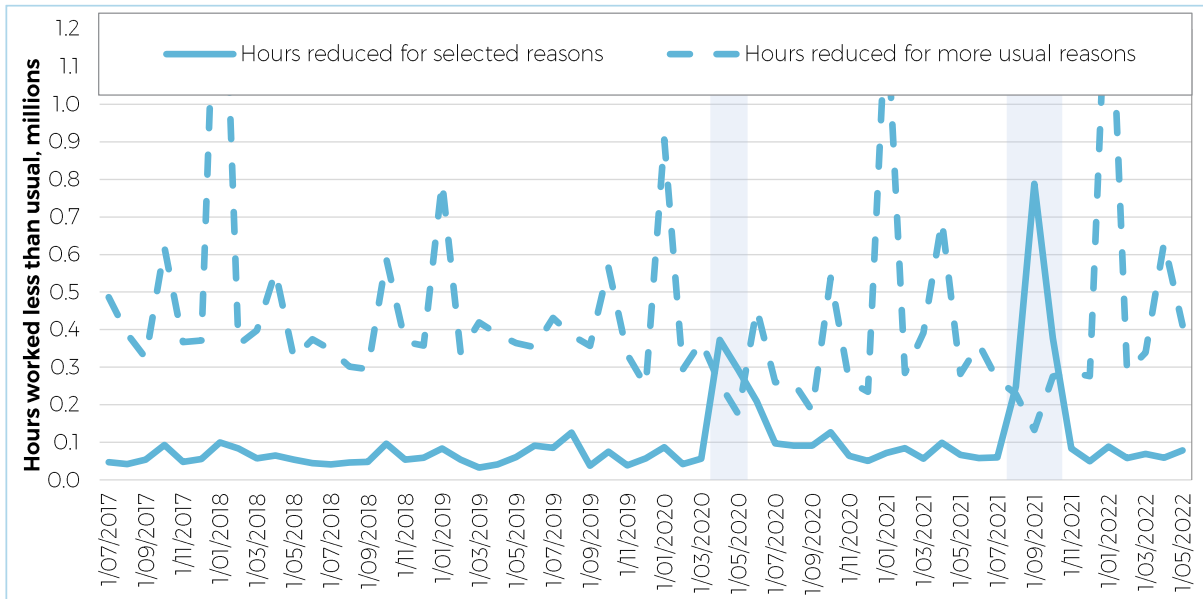
Source: Custom extract from the Longitudinal Labour Force microdata

Figure C7 Total hours worked less than usual, Tasmania, monthly



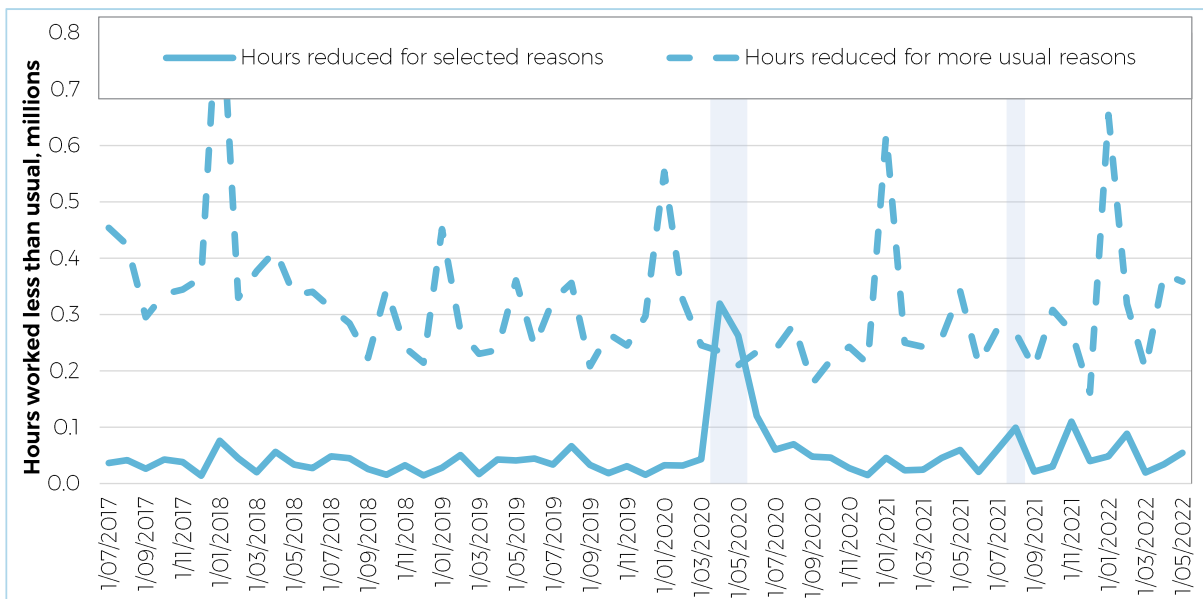
Source: Custom extract from the Longitudinal Labour Force microdata

Figure C8 Total hours worked less than usual, ACT, monthly



Source: Custom extract from the Longitudinal Labour Force microdata

Figure C9 Total hours worked less than usual, Northern Territory, monthly



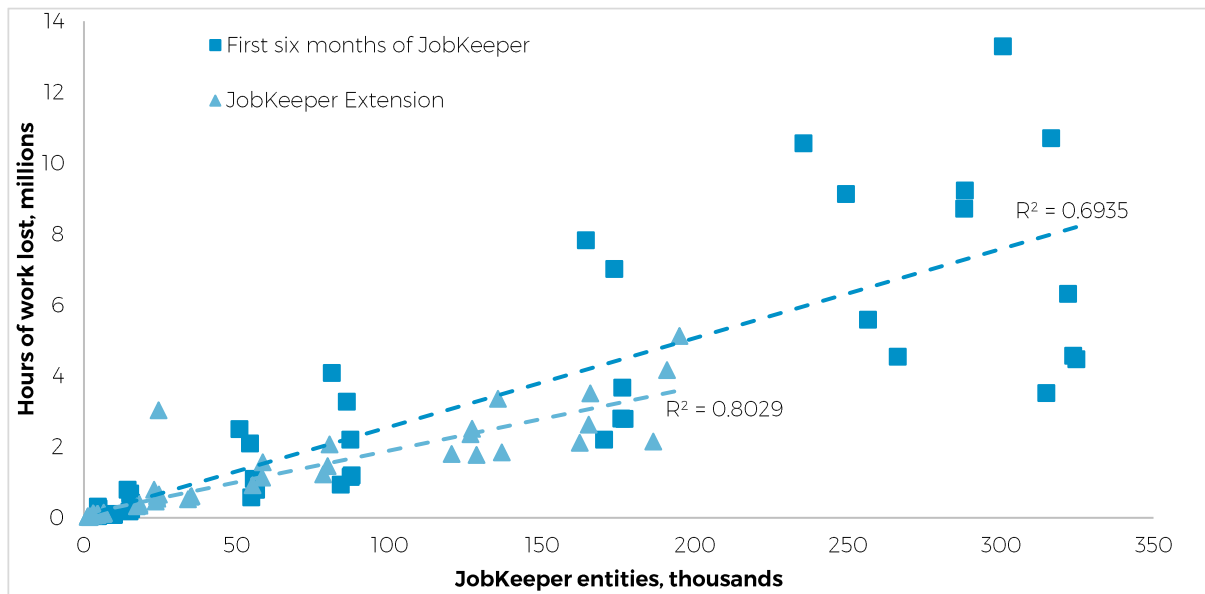
Source: Custom extract from the Longitudinal Labour Force microdata

Comparison to JobKeeper payments

127. The validity of the approach was tested by comparing the correlation between this measure and Commonwealth spending on JobKeeper.
128. The pattern of JobKeeper payments that supported businesses through COVID-19 lockdowns up until the end of March 2021 was compared to total hours of work lost for the specific reasons listed above is a reasonable measure of need for business support.

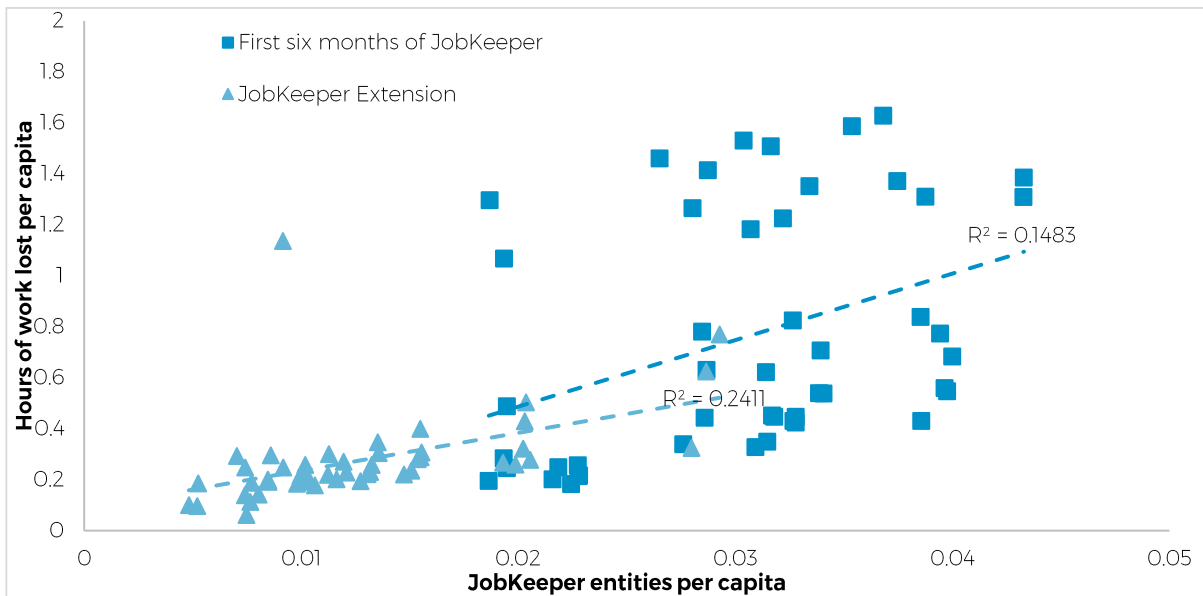
129. The published report on JobKeeper payments includes entity counts by state, but not total payments by state for the JobKeeper extension period, so entity count is used here as a proxy for spending.
130. The relationship between our theoretical measure of need and the JobKeeper payments is shown in Figure B10 to Figure B13. The relationship is stronger for the JobKeeper extension period than it is for the initial period, as one would expect with the program being more tightly controlled and targeted in the extension period.
131. Removing the highly influential outlier (February 2021, Western Australia), in which there was a marked reduction in hours worked due to a snap lockdown but no corresponding jump in JobKeeper entity counts, increased the amount of variation explained from 24% to 66%.
132. There is a clear relationship between JobKeeper entity counts and our estimate of hours of work lost due to lockdowns, especially in the extension period.

Figure C10 JobKeeper entity counts vs reduction in hours worked for selected reasons, by state by month



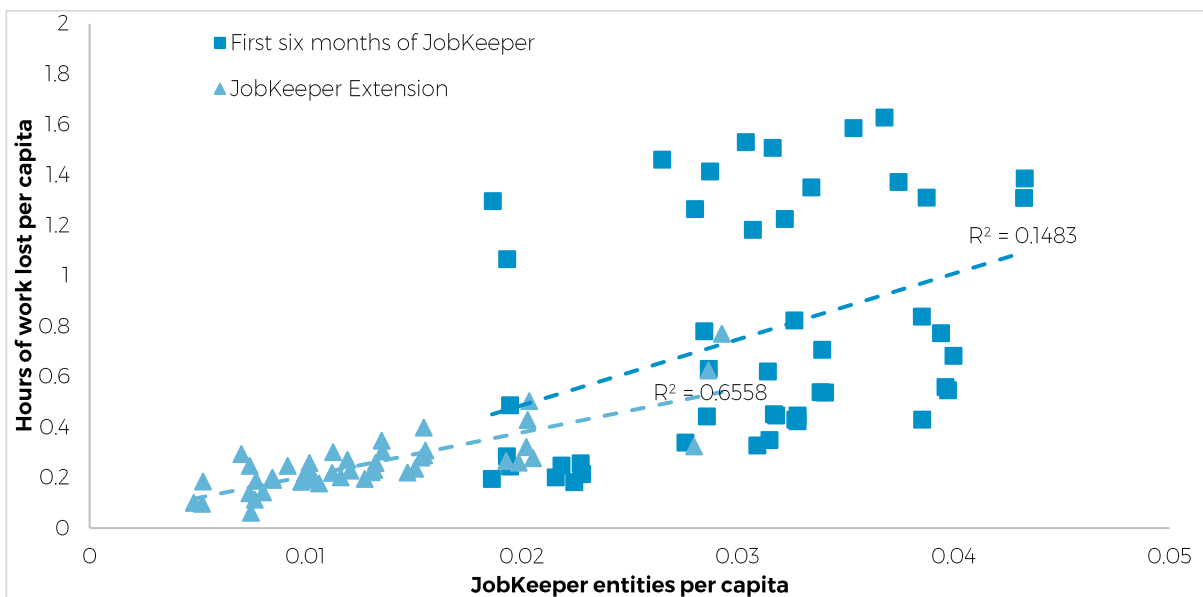
Sources: Custom extract from the Longitudinal Labour Force microdata, JobKeeper postcode data

Figure C11 JobKeeper entity counts vs reduction in hours worked for selected reasons, per capita, by state by month



Sources: Custom extract from the Longitudinal Labour Force microdata, JobKeeper postcode data

Figure C12 JobKeeper entity counts vs reduction in hours worked for selected reasons, per capita, by state by month, outlier removed



Sources: Custom extract from the Longitudinal Labour Force microdata, JobKeeper postcode data

Data limitations

133. Data from the LLFS are limited. The surveys only cover the first two weeks of each month. This means that effects of brief lockdowns with short-lived impacts will be missed if they occurred late in the month or overestimated if they occurred early in the month.
134. The survey data are also sample based, and the sample sizes are not sufficient to give accurate and comprehensive results for the smaller states, in particular the ACT and the Northern Territory.

Attachment D – Preliminary views on the treatment of Commonwealth Payments that commenced in 2021-22

Table D1 Proposed treatment of Commonwealth payments commenced in 2021-22, *Final Budget Outcome, 2021-2022*

Commonwealth payment	Description	2021-22 \$m	Proposed treatment	Reason for treatment
Health				
Japanese encephalitis virus mosquito surveillance and control	Funding to support mosquito surveillance and control activities to manage the spread of the Japanese encephalitis virus.	17.5	Impact	Community health is a state service for which needs are assessed.
Mosquito control in Tennant Creek	Funding to support the surveillance, control and, where possible, elimination of mosquitos known for transmitting dengue in Tennant Creek and the wider Barkly.	0.8	Impact	Community health is a state service for which needs are assessed.
NSW Mental Health Support	Funding towards Sonder Australia Pty Ltd who provide online wellbeing support to those in mandatory isolation in New South Wales. Sonder will provide anyone subject to a mandatory 14-day isolation order with free, 24-hour health and wellbeing support.	1.5	Impact	Community health is a state service for which needs are assessed.
National Mental Health and Suicide Prevention Agreement – bilateral schedules	Funding to help improve mental health and suicide prevention support and services. The specific Commonwealth and State objectives, and individualised outcomes, outputs and funding for each state are detailed in the individual state bilateral agreements.	8.2	Impact	Mental health support is a state service for which needs are assessed.
Home for the Matildas	Funding towards the construction of a purpose-built State Football Centre at La Trobe University.	7.5	Impact	Recreational infrastructure is a state service and needs are assessed.
Western Australia Children's Hospice	Funding towards the construction of a dedicated respite and hospice care facility for children with life-limiting conditions.	7.5	Impact	Infrastructure for health services infrastructure is a state function and needs are assessed.
Contribution to ACT Asbestos Scheme	Funding for the delivery of the ACT Asbestos Disease Support Scheme which supports people who have contracted an asbestos related disease after living in a property containing loose fill asbestos insulation in the ACT. The payment is designed to cover out of pocket medical expenses and loss of earning capacity.	8.0	No impact	Welfare services are a state function. However, the Commission has been unable to determine a driver of state expense needs for services such as this, which are classified in the Commission's 'other welfare' component.

Commonwealth payment	Description	2021-22 \$m	Proposed treatment	Reason for treatment
Increasing specialist services for children with harmful sexual behaviours in the NT	\$4.7 million to increase specialist therapeutic services for children and young people with harmful sexual behaviours in the Northern Territory.	0.7	Impact	Child protection services are a state function and needs are assessed.
SA Home Quarantine Application	Financial assistance to South Australia to develop the South Australian Home Quarantine Application for COVID-19 home quarantine trials.	12.2	No impact	Quarantine services are not considered a usual state function.
Education				
Preschool reform agreement	Funding to the states for preschools under the Preschool Reform Agreement. This gives universal access to at least 15 hours of preschool each week for children in the year prior to starting school. Funding to 2025-26 totals \$1,869 million.	160.6	Impact	Preschools form part of state-funded government schools. Government schools are a state function and needs are assessed.
Affordable Housing				
Social impact Investments – Vulnerable priority	Funding to state governments to trial social impact investments which aim to assist vulnerable priority groups.	0.7	No impact	Welfare services are a state function. However, the Commission has been unable to determine a driver of state expense needs for services such as this, which are classified in the Commission's 'other welfare' component.
Infrastructure				
National water grid fund	Investment of \$6.9 billion over 12 years in nationally significant water infrastructure projects that support primary industries and assist the development regional economies.	51.7	Impact	Business development is a state service for which needs are assessed.
Environment				
Australian fire danger rating system	Funding to support the implementation of the Australian Fire Danger Rating System. This will improve public safety and reduce the impacts of bushfires by improving decision making enabled by more accurate scientific information. Nationally consistent fire danger rating information will be available to the public, reducing confusion about how to react to a warning.	18.2	Impact	General public services including public safety is a state responsibility and needs are assessed.
Ehrlichia canis pilot program	Funding to support Western Australia and the Northern Territory in their management of the notifiable disease <i>ehrlichia canis</i> .	0.2	Impact	Biosecurity forms part of agriculture regulation. This is a state function and needs are assessed.

Commonwealth payment	Description	2021-22 \$m	Proposed treatment	Reason for treatment
Emergency Response Fund - flood recovery and resilience package	The Australian Government will provide \$150 million from the Emergency Response Fund in each of 2021-22 and 2022-23 to support recovery activities in communities affected by the severe flooding disaster events in Queensland and New South Wales in February and March 2022.	75.0	No impact	This payment is outside the Disaster Recovery Funding Arrangements. The Commission's assessment method for natural disasters only covers expenses that fall within the scope of these arrangements. As such, the Commission considers that needs are not assessed for the state spending funded by this Commonwealth payment.
Emergency response fund - national flood mitigation infrastructure program	Funding to help Australian communities better prepare for extreme weather events and flooding. Funding will be drawn from the Emergency Response Fund, which can be used to reduce the risk of future natural disasters, as well as funding emergency response and recovery following natural disasters.	50.0	No impact	The funding is for flood mitigation which is a state responsibility. Expenses on flood mitigation in urban areas are classified in the environmental protection component. The Commission has been unable to determine a driver of state expense needs for environmental protection.
Feasibility study into Curtis Island LNG Electrification	Funding to support a feasibility study into the electrification of liquefied natural gas facilities at Curtis Island, Queensland. This supports the Government's aim of unlocking more gas supplies for the domestic market.	1.5	Impact	Business development is a state function, and needs are assessed.
Hydrogen ready gas generation	The Australian Government will provide \$5m to the NSW Government to support the new Tallawarra power plant to be hydrogen ready.	5.0	Impact	This payment is a subsidy for the generation of electricity. The Commission assesses these expenses in the 'other electricity subsidies' component in the services to communities category.
Hydro Tasmania's Tarraleah Hydro Power Station Redevelopment	Funding supports upgrade works for Tarraleah and is a project under the Battery of the Nation initiative.	9.8	Impact	This payment is a subsidy for the generation of electricity. The Commission assesses these expenses in the 'other electricity subsidies' component in the services to community category.
National forestry industry plan	Funding to support the states in offering advice on the establishment of new farm forestry assets, private native forestry and Indigenous forestry areas' suitability for sustainable harvesting of forest products.	3.5	Impact	Business development is a state function and needs are assessed.
National Plant Health Surveillance Program	Funding to support Australia's plant biosecurity system through the National Plant Health Surveillance Program. The program is implemented in collaboration with all Australian jurisdictions and aims to minimise the impact of pest incursions on agricultural industries, environmental assets and communities.	1.0	Impact	Biosecurity forms part of agriculture regulation. It is a state function and needs are assessed.
Reducing regulatory burden and streamlining audit arrangements in the dairy sector	\$14.8m investment as part of the deregulation agenda to help the dairy industry by raising export awareness, reducing red tape and streamlining audit arrangements.	0.2	Impact	Agriculture regulation is a state function and needs are assessed.

Other purposes

Commonwealth payment	Description	2021-22 \$m	Proposed treatment	Reason for treatment
Gas well trials	Competitive grants to support gas field trials in the North Bowen and Galilee basins, in partnership with industry, experts from the University of Queensland and the Queensland State Government.	1.3	Impact	Business development is a state function and needs are assessed.
National Legal Assistance Partnership - Supporting increased child sexual abuse prosecutions	The National Legal Assistance Partnership 2020-25 provides funding to all states for legal assistance services delivered by legal aid commissions, community legal centres and Aboriginal and Torres Strait Islander Legal Services. These payments are predominately related to legal aid services for criminal matters.	1.6	Impact	Legal services for criminal court matters are a state function and needs are assessed.
National Legal Assistance Partnership - Supporting people with mental health conditions access the justice system - Frontline support to address workplace sexual harassment - Coronial inquiries and expensive and complex cases	The National Legal Assistance Partnership 2020-25 provides funding to all states for legal assistance services delivered by legal aid commissions, community legal centres and Aboriginal and Torres Strait Islander Legal Services. These payments are predominately related to legal aid services for civil court matters or the coronial court.	14.0 10.8 1.3	No impact	Legal services for civil and coronial court matters are a state function but needs are not assessed.
National Legal Assistance - Partnership - Legal assistance family law pilot program - Increased legal assistance funding for vulnerable women	Funding to support a pilot in South Australia to increase the capacity of the legal assistance sector to provide services in family law matters. Funding is for legal aid commissions, community legal centres and Aboriginal and Torres Strait Islander Legal Services, to assist predominately for family court matters.	3.6 31.6	No impact	Family court services is a Commonwealth function and not a state service.
National Legal Assistance Partnership - Justice policy partnership	Funding to support Justice policy development.	0.7	No impact	The development of Justice policy is a state function, but needs are not assessed.

Commonwealth payment	Description	2021-22 \$m	Proposed treatment	Reason for treatment
Commonwealth high risk terrorist offender regime	\$21.8 million to assist states in protecting the Australian community from the threat posed by convicted high risk terrorist offenders. This includes support with detention and supervision orders and assisting in the assessment of ongoing risks.	5.6	No Impact	The payment is related to the provision of Continuing Detention Orders and Extended Supervision Orders as determined by the Commonwealth. This represents a Commonwealth function and not a state service.
Legal assistance for floods in Qld and NSW	\$5.4 million over two years for additional legal assistance services to support relief and recovery for individuals, small businesses, and primary producers following the February and March 2022 floods in New South Wales and Queensland.	1.4	No impact	Payment is for state function however, needs (flood impacts) are not assessed.
Preventing harm in Australian prisons and other places of detention (OPCAT)	Funding to support the implementation of the Optional Protocol to the Convention against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment (OPCAT) in each jurisdiction.	0.1	Impact	Preparation of legislation and standards relating to public safety (including prisons) is a normal state function and expenses are captured in our assessments.
Support for businesses impacted by COVID-19	\$7.1 billion for COVID-19 Business Support Payments to assist businesses. Business Support Payments have been administered by all state and territory governments with the Australian Government generally contributing 50 per cent of the costs.	6,729.4	No impact	Business development is a state function. However, the current methods for assessing business development expenditure do not assess needs arising from COVID-19. If terms of reference allowed the Commission to introduce a new assessment method for COVID-19 business support, this payment would receive an impact treatment.
Victorian Energy Compare IT infrastructure build for consumer data right	Funding to support the development and build of new IT infrastructure to make Victorian energy reference data available to consumers through the Consumer Data Right.	1.0	Impact	Consumer protection forms part of industry regulation. Industry regulation is a state function and needs are assessed.

Table D2 Proposed treatment of City and Regional Deals projects commenced in 2021-22

Commonwealth payment	Description	2021-22 \$m	Proposed treatment	Reason for treatment
Geelong		12.4		
Revitalising Central Geelong - Arts & Culture Precinct	Improvements to the Arts and Cultural Precinct Realm under the Plan are expected to deliver new streetscapes including shared zones, trees, furniture, artworks, a redesigned garden, and the redevelopment of the street lanes into pedestrian focused spaces.		No Impact	Payments are for local government/ community infrastructure in Geelong. Needs are not assessed for these types of services.
Revitalising Central Geelong - Laneways Project	Development of the Laneways Project between Little Malop Street and Malop Street (the Laneways Project).		No impact	Payments are for local government/ community infrastructure in Geelong. Needs are not assessed for these types of services.
Feasibility study Skenes Creek to CCT	Construction of a coastal trail for pedestrians and cyclists between Apollo Bay and Skenes Creek incorporating path improvements, signage, bridges and cantilevered walkways.		Impact	Payments are related to improving tourism. This a normal state function and needs are assessed.
Improvements to Tourism Infrastructure - Kennett River	Construction of a new public toilet facility, wastewater treatment facility, and development of new parking and traffic management infrastructure, including new signage, pedestrian paths, and road widening.		Impact	Payments are related to improving tourism. This a normal state function and needs are assessed.
Perth		68.9		
Perth Cultural Centre Rejuvenation	Development of a master plan for the precinct including ambient lighting, improved security, signage, landscaping, and upgraded entrances. Longer term initiatives could include landscaping, cultural and arts centre, undergrounding of electrical services, and lighting and CCTV to improve safety and security.		Impact	Payments are for the development of a cultural centre. This is normal state service and needs are assessed.
Perth Concert Hall Redevelopment	Redevelopment of the Concert Hall to provide a home for the WA Symphony Orchestra (WASO) including an education music centre and retail and hospitality venues.		Impact	Payments are for the development of a cultural centre. This is normal state service and needs are assessed.
Homelessness projects	Housing and support services to vulnerable people in need who are experiencing homelessness and rough sleeping in Perth.		Impact	Payments are to develop social housing. This is a normal state government function and needs are assessed.
Perth Aboriginal Cultural Centre Pre-feasibility Study	Delivery of an Aboriginal Culture Centre that will focus on First Nations heritage, cultural practices and tourism.		Impact	Payments are for the development of a cultural centre. This is normal state service and needs are assessed.

Commonwealth payment	Description	2021-22 \$m	Proposed treatment	Reason for treatment
Hinkler		3.0		
Multi use conveyor – Port of Bundaberg	The Common User Infrastructure Project will enable the Port to appeal to a wider range of vessels, with improved loading and unloading times compared to current facilities.		No impact	The payment supports business development of a port. While ports are a normal state government service, the Commission does not assess expenditure needs related to ports in its non-urban transport assessment.
Albury-Wodonga		0.6		
Cultural Tracks & Trails Project	Funding towards practical completion of Murray River Experience – Yindyamarra sculpture walk and Gateway Island – river walk and cultural trail.		Impact	Payments are related to improving tourism. This a normal state function and needs are assessed.

Source: Department of Infrastructure

Commonwealth payments commencing in 2022-23

Table D3 Commonwealth payments commencing in 2022-23, *Federal Financial Relations, Budget Paper No. 3, 2022-23*

Commonwealth payment	Description	New in 2022-23 \$m
Multidisciplinary outreach care	Funding to trial models of multidisciplinary outreach care for residents of aged care facilities.	10.3
Surge capacity for BreastScreen Australia	Funding as a one-off boost to increase capacity for the BreastScreen Australia program.	2.0
Western Australia comprehensive cancer centre	\$375 million to support the establishment of a Western Australian comprehensive cancer centre in Perth.	58.3
Electronic monitoring of family, domestic and sexual violence offenders	Funding for electronic monitoring projects targeting family, domestic, and sexual violence offenders.	1.0
Remote Community Store Licensing Scheme	\$7.5 million over the next two years to transition the remote community store licensing scheme currently delivered by the Australian Government to the Northern Territory Government. This payment was expected in 2021-22 but does not appear in FBO 2020-21.	1.0
Southeast Queensland City Deal	\$680 million over 11 years to support development in south-east Queensland.	44.8
CarbonNet	Up to \$20 million to support CarbonNet – a commercial carbon capture and storage network in Victoria's Gippsland Basin.	10.0
Building resilience to manage fruit fly	Investment of \$30 million to build the resilience of Australia's fruit fly management system. This payment was expected in 2021-22 but does not appear in FBO 2020-21.	1.0
Emergency Response Fund - Coastal estuaries risk mitigation program	Investment fund intended to maximise the Commonwealth's capacity to support state and territory responses to major natural disasters into the future.	50.0
Horse traceability	Funding to support the increase of horse traceability, targeting the spread of infectious diseases that have potentially significant market access and/or human health impacts. This payment was expected in 2021-22 but does not appear in FBO 2020-21.	0.1
North Queensland strata title resilience pilot program	Provides bodies corporate in North Queensland with information about the existing resilience of their properties and strategies to improve that resilience if needed.	28
Raine Island Recovery Project	Funding to re-establish and maintain Raine Island as a viable ecosystem through collaboration with Wuthathi and Meriam Nation Traditional Owners.	0.7
Recycling modernisation fund - plastics technology stream	Funding towards advanced recycling technologies with the aim to build Australia's recycling capability.	5.8
Support plantation establishment	Provision of matching grants to businesses wishing to establish new commercial plantations.	10.0

Commonwealth payment	Description	New in 2022-23 \$m
Supporting farmers to maximise farm gate output through traceability and on-farm biosecurity	Grants administered and co-funded by states and territories to support activities that improve on-ground biosecurity and/or enhance pest and disease traceability within Australia.	6.0
Transforming digital environmental assessments	Funding of a new National Biodiversity Data Repository which will support states to share environmental assessment processes and co-design environment assessment portals.	4.0
Additional funding for Legal Aid Commissions to support court reform	Assistance to legal aid commissions for the transition to a new case management approach in the Federal Circuit and Family Court of Australia. This payment was expected in 2021-22 but does not appear in FBO 2020-21.	8.3
Countering violent extremism initiatives/High risk extremist de-radicalisation program	Funding of \$11.5 million over four years to support states to de-radicalise high risk violent extremists in their custody. This payment was expected in 2021-22 but does not appear in FBO 2020-21.	1.6
Countering violent extremism initiatives/Living safe together intervention program	Additional funding of \$19.6 million over four years to assist states in reducing the risk of young Australians becoming radicalised. This payment was expected in 2021-22 but does not appear in FBO 2020-21.	2.8
Indigenous tourism fund	Funding to co-invest with states on strategic projects that increase the supply of Indigenous tourism experiences and/or create supply chain opportunities for Indigenous tourism businesses. This payment was expected in 2021-22 but does not appear in FBO 2020-21.	4.3
North Bowen pipeline feasibility study	\$5 million co-contribution with Queensland to explore the feasibility of a new gas pipeline to link the north Bowen Basin to the east coast gas market and other centres of gas demand. This payment was expected in 2021-22 but does not appear in FBO 2020-21.	2.5
Optimise and discover program	Grant funding to companies in Cooper and Adavale basins to support the development of oil and gas projects in the basin.	15.0