

NSW Treasury

# 2023 Update: New Issues

NSW Treasury Response

November 2022



## Acknowledgment of Country

We acknowledge that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history.

We pay respect to Elders past and present and commit to respecting the lands we walk on, and the communities we walk with.

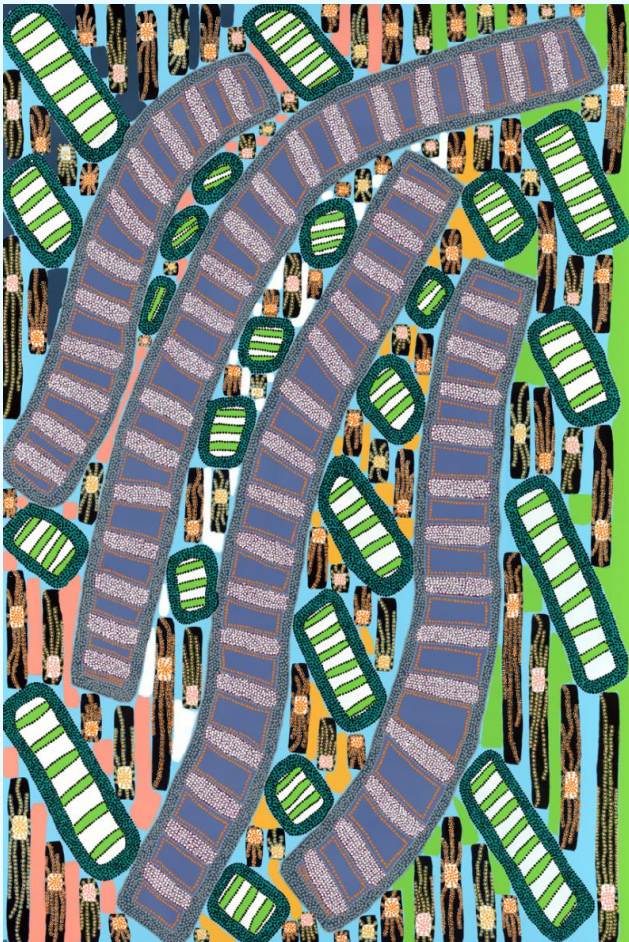
We celebrate the deep and enduring connection of Aboriginal and Torres Strait Islander peoples to Country and acknowledge their continuing custodianship of the land, seas and sky.

We acknowledge the ongoing stewardship of Aboriginal and Torres Strait Islander peoples, and the important contribution they make to our communities and economies.

We reflect on the continuing impact of government policies and practices, and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples, families and communities, towards improved economic, social and cultural outcomes.

Artwork:

*Regeneration* by Josie Rose



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# 1 Executive Summary

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## 1.1 Introduction

- NSW Treasury welcomes the opportunity to respond to the Commonwealth Grants Commission (the Commission) Discussion Paper on New Issues for the 2023 Update (2023 Update).
- NSW Treasury is broadly supportive of the Commission’s proposed approaches to managing emerging issues that could affect the GST distribution for 2023-24 but has made recommendations to ensure assessments continue to capture the underlying fiscal capacity and circumstances of states and territories (states). Key recommendations relate to the urban transport assessment and the definition of COVID-19 business supports.
- The Commission has appropriately highlighted the profound impact of the COVID-19 pandemic on the Australian economy and society. COVID-19 affected all states, but the timing and magnitude of impacts differed considerably. In 2021-22, the Delta wave had a disproportionate impact on NSW. The first locally transmitted case of Delta was confirmed on 16 June and by 25 August, NSW was reporting over 950 new cases daily.
- The proposed differential assessment of COVID-19 expenditure is appropriate and robust. The drivers of COVID-19 expenditure during the emergency response did not align with traditional cost drivers, such as population and remoteness. Factors that drove COVID-19 expenditure were levels of community transmission, access to vaccinations and ability to rely on travel restrictions to control outbreaks.
- The Commission’s position that states’ emergency responses to the pandemic largely reflected circumstances rather than state-specific policy choices is correct. This is clear in states’ approaches to providing COVID-19 business supports — states that experienced lockdowns provided more support per capita, and the timing of that support was purely dictated by infection outbreaks, in contrast to states with close to zero community transmission.
- States’ different COVID-19 experiences meant more than one national framework was developed to support the provision of COVID-19 business supports. The definition of COVID-19 business support adopted by the Commission must properly factor in all states’ experiences. To this end, the Commission’s definition should include both COVID-19 support payments declared non-assessable non-exempt income and/or those co-funded under the COVID-19 Business Support National Partnership Agreement (NPA).
- Some of the 2021 Census data will reflect the State’s experience of the Delta lockdown instead of providing a snapshot of the everyday lives of residents in NSW. In such cases, the 2021 Census is not fit-for-purpose to assess states’ expenditure needs. For example, how people commuted to work during lockdown does not reflect the ordinary use of public transport.
- The Commission has the complex challenge of ensuring assessments measure states’ current fiscal need without updated Census data that is fit-for-purpose. The proposed solution to retain 2016 Census data is a stopgap measure. This is because relying on ageing data means GST will be distributed based on increasingly outdated circumstances.
- A priority for NSW Treasury is to support the Commission develop necessary and appropriate data adjustments in time for the 2024 Update. The Commission is requested to consult with states on complex data adjustments as soon as possible.
- NSW Treasury thanks the ongoing engagement of the Commission staff throughout the 2023 Update process. The staff assistance was invaluable.

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## 1.2 Overview

- The submission sets out the views of NSW Treasury and comprises of three sections:
  - Part one: Executive Summary and Overview
  - Part two: NSW Treasury Positions and Recommendations
  - Part three: Issues and Responses.
- In line with the Commission’s guidance, this submission is targeted to address specific issues raised in the New Issues Paper. NSW Treasury reserves an ongoing right to raise additional issues, new arguments or new data as the 2023 Update progresses.
- Further information and questions regarding any aspect of this submission may be directed to Ms Andrée Wheeler, Director, Federal Financial Relations, NSW Treasury at [ffr@treasury.nsw.gov.au](mailto:ffr@treasury.nsw.gov.au)

## 2 NSW Treasury Positions and Recommendations

The table below summarises NSW positions on recommendations in the new issues paper.

Issue	Summary of NSW position
<b>2021 Census and data issues</b>	
Estimated resident population	<p><u>Support preliminary proposal</u></p> <p>Use the 2021 Census based Estimated Resident Population data by state to calculate the total state and sub-state populations for the 2023 Update.</p> <p>Retain the 2016 Census-based projections of total Aboriginal and Torres Strait Islander estimated resident population by state for the 2023 Update.</p>
Urban Transport	<p><u>Support preliminary proposal with amendments</u></p> <p>Retain the 2016 Census data for passenger numbers by mode in the urban transport assessment for the 2023 Update.</p> <p>Develop an adjustment to account for changes in the level of service provision and the addition of new transport modes in the 2024 Update and make retrospective adjustments.</p>
Housing	<p><u>Support preliminary proposal</u></p> <p>Integrate the 2021 Census data on income and rent into the housing assessment.</p> <p>Consult with the ABS on the extent the responses to the 2021 Census factor in temporary increases in government allowances.</p>
New data source for the number of motor vehicles	<p><u>Support preliminary proposal</u></p> <p>Use Bureau of Infrastructure and Transport Research Economics (BITRE) to replace the ceased Motor Vehicle Census. Investigate material data variances to ensure the BITRE data is robust.</p> <p>Retain the 2020-21 Motor Vehicle Census for 2021-22 if BITRE data is not available to be included in the 2023 Update.</p>
Imputed national weighted activity unit data for GP-type services in the non-admitted patient assessment	<p><u>Support preliminary proposal with 50 per cent discount</u></p> <p>Include imputed national weighted activity unit data for GP-type services in the non-admitted patient category and apply a discount of 50 per cent in the short term to manage risk until the reliability of the proxy is demonstrated.</p>

Issue	Summary of NSW position
	Investigate the robustness of the data. States' shares of national GP-type separations indicate inconsistent reporting and could mean similar expenditure is treated differently under the health assessment.
<b>Response to COVID-19</b>	
Health	<p><u>Support preliminary proposal and factor in cross-border services</u></p> <p>Assess National Partnership on COVID-19 response expenditure on an actual per capita basis and make retrospective adjustments. Apply no discount.</p> <p>Apply cross-border arrangements for the provision of quarantine services to states that have declined to participate in cost-recovery.</p> <p>Assess costs of quarantining overseas repatriations net revenue on an actual per capita basis.</p>
Business support	<p><u>Support preliminary proposal with amendments</u></p> <p>Treat both COVID-19 grants made non-assessable non-exempt (NANE) and COVID-19 business support NPA expenditure on an actual per capita basis. There is limited need to collect data on NANE grants from all states.</p> <p>Alternatively, treat COVID-19 business support NPA expenditure and COVID-19 grants provided during the transition from JobKeeper to the COVID-19 business support NPA on an actual per capita basis.</p>
<b>New state taxes commencing in 2021-22</b>	
Victoria's Zero Low Emission Vehicle (ZLEV) tax	<p><u>Support preliminary proposal</u></p> <p>Include ZLEV revenues in the motor taxes category. Consider the treatment of ZLEV tax in the next review.</p>
Victoria's mental health and wellbeing surcharge	<p><u>Support preliminary proposal</u></p> <p>Include Victoria's mental health and wellbeing surcharge in the payroll tax assessment.</p>
<b>Other issues</b>	
Negative average no worse off relativity	An assessed relativity of zero is appropriate. A negative assessed relativity implies that a state needs to contribute to the GST pool.
New Commonwealth payments	<u>Support proposed treatment of Commonwealth payments</u>

# 3 Issues and responses

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## 3.1 Estimated resident population

### Use of 2021 Census based estimated resident population by state

- The ABS has rebased population estimates to the 2021 Census of Population. The Commission should use the new estimated resident population by state to calculate the total state and sub-state populations (state-age-remoteness-socioeconomic status).

### Imputing Aboriginal and Torres Strait Islander population share of each sub-state population

- Final estimates of resident Aboriginal and Torres Strait Islander and non-Indigenous Australians with further disaggregation (including sub-state estimates) will be released in August 2023.
- In the absence of new data, the Commission will continue to impute Aboriginal and Torres Strait Islander sub-state shares using 2016 Census data. The Commission can apply these shares to:
  - 2021 Census based preliminary estimated resident population for Aboriginal and Torres Strait Islander peoples by state; or
  - 2016 Census based projected estimated resident population for Aboriginal and Torres Strait Islander peoples for 2021-22.
- 2021 Census based preliminary estimated resident population of Aboriginal and Torres Strait Islander peoples is 984,000. The projected estimated resident population for 2021-22 based on 2016 Census was approximately 880,000 people.
- The higher than projected estimated resident population for 2021-22 is partially driven by increases in people identifying as having Aboriginal and/or Torres Strait Islander ancestry between censuses – 741,307 people (2.9 per cent) in 2021, up from 144,173 (0.6 per cent) in 2016. This increase is likely to be concentrated in urban areas, in line with the increasing trend of Aboriginal and Torres Strait Islander peoples living in urban areas reported in past censuses.
- Applying 2016 Census sub-population shares to the 2021 Census preliminary estimated resident population implies that the population growth was the same across sub-state populations – this is inconsistent with broader trends outlined above and could overstate Aboriginal and Torres Strait Islander people living in remote areas.
- Applying 2016 Census based sub-state population shares to the projected estimated resident population for 2021-22 based on 2016 Census avoids this bias. This is because projections only factor in population growth due to fertility, mortality and migration.

### **NSW position**

- Use the 2021 Census based estimated resident population by state to calculate the total state and sub-state populations.
- Retain the 2016 Census-based projections of total Aboriginal and Torres Strait Islander estimated resident population by state for the 2023 Update.



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## 3.2 Urban Transport

- The Census Journey to Work data is used to measure service demand in urban areas. The 2021 Census was conducted when parts of the State were in lockdown.
- It would not be appropriate to update the urban transport assessment with 2021 Journey to Work data. The 2021 data reflects the temporary shock of the Delta lockdowns, not general trends in patronage of urban transport system services.
- The temporary nature of the shock is evident by the high rates of recovery in patronage across all public transport modes in Greater Sydney once Delta lockdowns ended on 11 October 2021. After lockdown ended, public transport trips on an average weekday increased by 64 per cent in the first seven days. This accelerated recovery continued throughout October 2021, with each week increasing on average 20 to 25 per cent for public transport on the previous week.
- NSW Treasury supports the Commission’s preliminary proposal to retain 2016 Census passenger numbers. It is a practical solution that can be implemented in time for the 2023 Update.
- A key limitation of this approach is the possibility of understating demand for public transport services in NSW. Retaining 2016 Census data with no adjustment implies that major urban transport projects that came online between 2016 and 2021 had no impact on commuter rates.
- Between 2016 and 2021, two of the seven largest projects completed in the past two decades came online.<sup>1</sup> Both these projects were from NSW. They were:
  - NSW Metro North West Line that opened 26 May 2019. Trips per month on the Metro North West Line were around 2 million before the pandemic, and 1.5 million in September 2022.
  - NSW L2 Randwick Line and L3 Kingsford Line that opened 14 December 2019 and 3 April 2020 respectively with continued growth since opening and throughout the pandemic. From August 2016 to September 2022, trips per month for light rail increased from approximately 850,000 to almost 2.5 million.
- Major increases in passenger numbers for urban transport at the national level are likely to be from NSW. This rapid growth in patronage is less of a consideration for other states because their major projects are scheduled to come online after 2021, including Victoria’s Regional Rail Link and Metro Tunnel Project and Queensland’s Brisbane Metro Services and Cross River Rail.
- Ignoring the impact of these major transport projects completed since 2016 means the urban transport assessment would no longer reflect states’ circumstances. The Commission should develop and consult on potential data adjustments to be applied retrospectively.
- Given the complexity of developing an adjustment, consultation on potential options and analysis should occur outside the compressed consultation process of the New Issues Paper.

### NSW position

- Retain the 2016 Census data for passenger numbers by mode in the urban transport assessment for the 2023 Update.
- Develop an adjustment to account for changes in the level of service provision and the addition of new transport modes in the 2024 Update and make retrospective adjustments.

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<sup>1</sup> Terrill, M., Emslie, O., and Moran, G. (2020). The rise of megaprojects: counting the costs. Grattan Institute

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## 3.3 Housing

- The Commission has asked states whether it is appropriate to update the housing assessment with the 2021 Census data.
- The Commission's measure for social housing use is based on the number of households in social housing by income, Aboriginal and Torres Strait Islander status and remoteness reported in the Census. The Commission annually updates its measure by adjusting Census data for each sub-group in line with state population growth. The Commission also assesses states' capacity to raise revenue from social housing rents based on a proportion of household income reported in the Census.
- For the Census data to be broadly fit-for-purpose, Delta lockdowns would have limited impact on the number of households in social housing and the nominal income of low-income households.
- In NSW, the number of households in social housing was largely unaffected by Delta lockdown.
- The lower occupied social dwellings in NSW in 2021 (relative to 2016) was largely driven by the Community Plus program, a significant new social housing redevelopment program which commenced in 2017. Under Community Plus, existing dwellings (in 2016) are being demolished (and therefore vacated) for redevelopment. At 30 June 2021 the Land and Housing Corporation had 3,321 dwellings committed but not yet completed as at 30 June 2021.
- Revenue from social housing rents during and outside of lockdowns should have remained at broadly similar levels. Changes in social housing rents revenue (since 2016) should reflect any changes in the income of households in social housing, as social housing rent is a proportion of household income.
- 2021 Census data on income could include COVID-19 support payments and therefore overstate the income of people in social housing outside of lockdowns. The COVID-19 Disaster Payment was a recurring payment for approved recipients in a Commonwealth declared hotspot subject to lockdowns and the Pandemic Leave Disaster Payment was lump sum for people who could not work because they had to self-isolate, quarantine or care for a person with COVID-19.
- The Census questions focus on the total income a person usually receives and therefore should not include the receipt of temporary COVID-19 support payments. The Commission should consult with the ABS on the extent the responses to the Census factor in temporary increases in government allowances.

### NSW position

- Integrate the 2021 Census data on income and rent in the housing assessment for the 2023 Update.
- Consult with the ABS on the extent the responses to the 2021 Census factor in temporary increases in government allowances.

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## 3.4 New data source for number of motor vehicles

- The Commission uses the number of registered vehicles reported in the ABS Motor Vehicle Census to assess states' capacity to raise motor tax revenue. This publication has ceased.
- NSW supports the use of Bureau of Infrastructure and Transport Research Economics (BITRE) data based on the National Exchange of Vehicle Driver Information as a new source of data. The Commission should check the robustness of the data by investigating any material variances.

### NSW position

- Use BITRE data as the new source of data for the number of registered vehicles in each state. Investigate material data variances to ensure the BITRE data is robust.
- Use the 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.

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## 3.5 Non-admitted patient service expenses and activity data analysis

- The Commission uses national weight average unit (NWAU) data from the Independent Pricing Hospital Authority (IPHA) and expense data from the Government Finance Statistics (GFS) to assess states' average spending requirements for non-admitted patient (NAP) services.
- Activity data and expense data for NAP services do not fully align. The Commission has identified that NWAUs do not exist for the provision of specific GP-type tier 2 services (GP-type services)<sup>2</sup> but are included in GFS expense data. These GP-type services were 4.9 per cent of total NAP separations in 2019-20.
- The Commission has proposed to estimate NWAUs for GP-type services. Estimated NWAUs would be based on total number of separations for GP-type services reported by IPHA. In the absence of IPHA price weights for these GP-type services, the Commission would estimate a price weight. The estimate would be the average price weight for all medical consultations and allied health services assigned an NWAU by IPHA.

### Reliability of data and appropriateness of the proxy

- States' shares of national GP-type separations indicate inconsistent reporting and could mean similar expenditure is treated differently under the assessment. In 2019-20, NSW reported over 80 per cent of national GP-type separations, while Victoria, Western Australia (WA), South Australia (SA) and Tasmania collectively reported around 12 per cent.
- The proposed price weight is approximately 10 per cent higher than the NSW price weight allocated to these clinics. The method used to impute NWAUs for GP-type services is very likely to have overestimated price weights by including adjustments (such as remoteness and Indigeneity).

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<sup>2</sup>GP-type services are Primary health care (40.08), General counselling (40.33), Primary health care (40.08) and GP and primary care (20.06).

- The Commission should include imputed NWAUs for GP-type services in the NAP assessment and apply a discount of 50 per cent in the short term to manage risk until the reliability of the proxy is demonstrated.

### NSW position

- Include imputed NWAUs for GP-type services in the NAP assessment and apply a discount of 50 per cent in the short term to manage risk until the reliability of the proxy is demonstrated.
- Investigate the robustness of the data. States' shares of national GP-type separations indicate inconsistent reporting and could mean similar expenditure is treated differently under the health assessment.

## 3.6 COVID-19 Health

- COVID-19 risk and incidence are the primary drivers of COVID-19 health expenditure. States' health response to COVID-19 were broadly consistent and proportionate to the risk of community transmission, number of active cases and vaccination coverage as outlined in the National Plan to transition Australia's National COVID-19 Response.
- Before high vaccination coverage, NSW was subject to higher risk of community infection because it processed higher volumes of international arrivals. Relative to other states, NSW was less able to rely on interstate border closures to control infection risk and had to maintain surge capacity to manage COVID-19 outbreaks.
- In 2021-22, NSW managed rapidly growing levels of COVID-19 infections at a time of low vaccination rates and accessibility. In the period of 1 July 2021 to 25 August 2021, new cases reported daily grew from 30 per day to over 950 per day with the majority in metropolitan areas.

### Definition and treatment of COVID-19 health expenditure

- Commonwealth and the majority of state funding was provided under the National Partnership on COVID-19 response (COVID-19 Health NPA). The COVID-19 NPA was the common policy framework for identifying COVID-related health expenses agreed by National Cabinet.
- COVID-19 Health NPA expenditure should be assessed on an actual per capita basis. This approach would recognise that COVID-19 health expenses during the emergency response were driven by factors outside the existing health assessment. For example, the incidence and risk of exposure to overseas cases correlated poorly with traditional cost drivers such as remoteness. An actual per capita basis would acknowledge that states with less exposure to COVID-19 still incurred expenses, albeit to a lesser extent. An actual per capita treatment would also be a practical approach to assessing COVID-19 NPA expenditure on rapid antigen tests for schools.
- No discount should apply to COVID-19 Health NPA expenditure. The National Health Funding Body (NHFB) required states to provide substantial evidence that expenses are eligible for funding under the COVID-19 Health NPA in accordance with guidelines. All data must be accompanied by a statement of assurance from the state's senior official.

### Retrospective adjustments

- The Commission estimated the GST impacts of treating COVID-19 NPA expenditure on an actual per capita basis for 2023-24 assessed relativities. To develop this estimate, the Commission amended the annual relativity assessments for 2019-20, 2020-21 and 2021-22.
- The amended annual relativities should be retrospectively factored into the 2021-22 and 2022-23 assessed relativities. A retrospective adjustment would bring GST relativities closer to a

robust horizontal fiscal equalisation (HFE) outcome and support a consistent assessment of the pandemic's impact on states' fiscal needs. The proposed adjustment is similar to the large data revision in the natural disaster assessment made in the 2021 Update.

#### Treatment of cross-border quarantine expenditure

- Consistent with the agreement made at the Board of Treasurers meeting in April 2020, NSW has invoiced other states for the substantial costs incurred of quarantining international arrivals that did not reside in NSW (47.5 per cent of all arrivals quarantined in NSW). To date, three out of seven states have advised that it will not reimburse NSW for cross-border services related to hotel quarantine program – this equates to approximately \$150 million.
- The Commission should factor in cross-border provision of the hotel quarantine program. Costs associated with quarantining overseas repatriations net revenue should be assessed on an actual per capita basis.

#### **NSW position**

- Assess COVID-19 Health NPA expenditure on an actual per capita basis. No discount should apply, and any differential assessment should be applied retrospectively.
- Apply cross-border arrangements for the provision of quarantine services to states that have declined to participate in cost-recovery.
- Assess costs associated with quarantining overseas repatriations net revenue on an actual per capita basis.

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## 3.7 COVID-19 Business support

- During 2021-22, the national framework for providing broad-based support to business adversely affected by the pandemic changed. Prior to March 2021, the Commonwealth provided broad-based business support through JobKeeper and states provided more targeted support. At the end of JobKeeper, the Commonwealth required that states co-fund broad-based business support under the COVID-19 Business Support NPA.

#### Definition of COVID-19 business support

- States provided grants to support businesses that were adversely affected by public health orders. This included grants to support businesses that were directly affected by public health orders because they had to comply with restrictions that applied in their area of operation, and also businesses indirectly affected.
- The Commission should define COVID-19 business support expenditure as:
  - COVID-19 grants made non-assessable non-exempt income (NANE grants); and/or
  - COVID-19 Business Support NPA expenditure.
- Together, NANE grants and COVID-19 business support NPA expenditure broadly cover the circumstances where states provided support to businesses in response to COVID-19.
- Most NANE grants supported businesses directly affected by stringent public health orders, and included grants provided during the transition from JobKeeper to the COVID-19 business NPA arrangements (28 March 2021 to 18 July 2021).
- NSW delivered \$2.3 billion in COVID-19 Business Grants to over 188,000 business impacted by the first three weeks of the Delta lockdown (26 June 2021 to 13 July 2021). The NSW Government

was required to fully cover the gap in business supports left by the end of JobKeeper while the new JobSaver scheme was negotiated with the Commonwealth.

- The Commonwealth did not co-fund NSW COVID-19 Business Grants, even though JobSaver, which was modelled on COVID-19 Business Grants and responded to the same outbreak, was supported under the COVID-19 Business Support NPA. Instead, the Commonwealth acknowledged the criticality of NSW COVID-19 Business Grants by declaring them NANE. The Commonwealth took a similar approach with some of Victoria's COVID-19 grants.
- There is limited need to collect data on NANE grants from all states. Queensland, SA and the Australian Capital Territory (ACT) NANE grants were also co-funded under the COVID-19 Business NPA – with the exception of one grant from SA and an ACT arts grant. Only NSW and Victoria had a high number of NANE grants that were not co-funded by the Commonwealth. NSW has audited data for all NANE grants.
- COVID-19 Business NPA expenditure includes payments that supported business that could operate freely but were adversely affected by travel restrictions. These payments were generally not made NANE. However, it appears one state negotiated an increase in COVID-19 Business NPA support in lieu of some its grants not being declared NANE.

#### Drivers of need for COVID-19 business supports prior to high vaccination coverage rates

- When the Delta outbreak occurred, the underlying driver of COVID-business support expenditure was the severity of public health orders needed to control infections in the community. Both the number and rate of infection dictated the level and duration of restrictions — a state's response to 1,000 new cases reported daily was different to an outbreak of eight new cases per day.
- States that experienced higher levels of infection implemented lockdowns. Lockdowns curtailed the ability to trade, to the extent where some business lost the bulk of their revenue, which necessitated higher levels support from government. For example, a venue operating under a four-month lockdown needs more support to remain intact than a venue complying with a capacity limit of 250 people over the same period.

#### Limitations of using reduced hours worked as a proxy for need

- Reduction in hours worked provides some basis for determining need, however, it understates the need to provide COVID-19 supports for certain businesses including:
  - capital intensive industries or those with high fixed costs relative to labour, such as manufacturing businesses, that may have lower levels of labour compared to output and/ or revenue;
  - businesses with high levels of rent; and
  - sole traders as there may not have been a decline in hours worked for these businesses, despite experiencing a significant decline in turnover.
- The proposed proxy also ignores that business support payments boosted hours worked in certain circumstances. A key reason for NSW JobSaver was to support the continuation of the employer-employee relationship, like JobKeeper. The support payments made it viable for some businesses to continue to operate, albeit at a much lower capacity.

- The approach to measure reduced hours of work is not sufficiently robust. It would be inappropriate to use the survey data that cannot provide accurate results for the ACT—which reported more COVID-19 business support NPA expenditure than Queensland, WA and SA.

#### NSW position

- Preferred option: treat both NANE grants and COVID-19 business support NPA expenditure on an actual per capita basis. There is limited need to collect data on NANE grants from all states.
- Alternatively, treat COVID-19 business support NPA expenditure and COVID-19 grants provided during the transition from JobKeeper to the COVID-19 business support NPA on an actual per capita basis.

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### 3.8 Victoria's Zero Low Emission Vehicle tax

- Victoria introduced a distance-based road-user charge on owners of Zero Low Emission Vehicles (ZLEV) from 1 July 2021. Three other states (including NSW) have committed to implement a similar tax by 1 July 2027.
- ZLEV revenue should be included in the motor taxes assessment. ZLEV revenue is classified as a motor tax in the GFS and revenue raised in 2021-22 (\$1.2 million) is below the Commission's materiality threshold.
- The treatment of ZLEV revenue should be considered as part of the next methodology review. The capacity to raise ZLEV revenue may not be directly comparable to other motor vehicle taxes.

#### NSW position

- Include the tax as part of the motor taxes assessment on that basis that revenue raised from the new tax does not meet the Commission's materiality threshold and is classified as a motor tax in the GFS.
- Consider the treatment of the new tax as part of the next review.

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### 3.9 Victoria's mental health and wellbeing surcharge

- Victoria's mental health and wellness surcharge (the surcharge) is a tax levied on taxable wages paid by an employer and levied under states' payroll tax legislation.
- The surcharge should be included in the payroll tax assessment given the comparability of the tax bases. This approach will increase the average payroll tax rate.

#### NSW position

- Include Victoria's mental health and wellbeing surcharge in the payroll tax assessment. The surcharge is levied on a comparable tax base.

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## 3.10 Negative average no worse off relativity

- The Commission has advised that Western Australia’s assessed relativity for 2023-24 could be below zero. This would occur if the average of the annual assessed relativities for 2019-20, 2020-21 and 2021-22 was negative.
- Assessed relativities should properly reflect states’ fiscal strength over a three-year average. As such, negative annual assessed relativities should continue to flow through the calculation of assessed relativities, consistent with the 2022 Update.
- When jurisdictions agreed GST should be distributed to give effect to HFE, it was understood that some states would need to forego some proportion of their population share of the national GST pool, and that proportion would be based on an independent assessment of fiscal strength. An assessed relativity of zero is within the agreed parameters.
- A negative assessed relativity implies that a state needs to contribute to the GST pool to achieve HFE. This would be outside the scope of the compact to distribute GST receipts among states to achieve HFE.

### NSW position

- An assessed relativity of zero is appropriate. A negative assessed relativity implies that a state needs to contribute to the GST pool. This would be outside what was contemplated what jurisdictions negotiated the compact to distribute GST receipts among states to achieve HFE.

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## 3.11 New Commonwealth payments

### NSW position

- NSW supports the Commission’s proposed treatment of Commonwealth payments



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