



Australian Government  
Commonwealth Grants Commission

# New issues in the 2023 Update

March 2023

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## Key points

- Leading up to each update, the Commission consults with states and territories ('states') about new issues that might affect GST distribution.
- In 2022, selected 2021 Census data became available. The census was conducted during the COVID-19 pandemic, which could mean some data are not fit for purpose. This has implications for the assessment of housing and urban transport needs.
- The COVID-19 pandemic continued to impact the fiscal capacities of states during the assessment period July 2019 to June 2022. Key issues arising from the pandemic for this update included the impact of the COVID-19 pandemic on health services and business support and on the measure of private sector wage levels used to assess public sector wage costs.
- Other new issues the Commission considered in this update included the treatment of new state taxes in Victoria and the treatment of new Commonwealth payments.
- The treatment of a possible negative no worse off relativity was considered but, as this situation did not arise, a decision was not required.

## Summary of Commission decisions

### Data issues

- Use the 2021 Census-based total state and sub-state populations for the 2023 Update assessment years.
- Apply the First Nations population shares of each sociodemographic group from the 2016 Census to the 2016 Census-based state population projections.
- Use remoteness areas and socio-economic status measures from the 2016 Census.
- Use 2016 Census journey to work data without an adjustment, in the urban transport assessment.
- Use the Equivalised Total Household Income and Rent Ranges datasets from the 2021 Census in the housing assessment.
- Use Bureau of Infrastructure and Transport Research Economics data, commencing with the 2021–22 assessment year, as the new source of motor vehicle number data in the motor taxes assessment.

- Not to include Commission estimates of national weighted activity units for GP-type services in the non-admitted patient assessment.
- Use the hours individuals were paid in their most recent pay period, from the ABS' August 2021 Characteristics of Employment survey, in the regression to estimate state differences in wages for 2021-22.
- Use 2020–21 prisoner data for 2020–21 and 2021–22 in the prisons component of the justice category.

### Assessment issues

- Treat the Commonwealth payments associated with the COVID-19 National Partnerships for Health and business support as no impact.
- Assess revenues from Victoria's Zero and Low Emission Vehicle tax (distance-based charge) in the motor taxes category.
- Assess revenues from Victoria's mental health and wellbeing surcharge in the payroll tax category and not change the payroll tax assessment method.
- Assess lithium royalties as a separate component in the mining revenue category.

### Commonwealth payments

- Apply the treatment of Commonwealth Payments as listed in Table A-1.

## Background

In developing each update, the Commission identifies new issues that might affect GST distribution. For the 2023 Update, these issues fall into the following categories:

- data issues – how the latest available data, data corrections or changes to data availability are incorporated into assessments
- assessment issues – relating to how changed circumstances are incorporated into assessments
- treatment of Commonwealth payments, including new payments and major changes in payment arrangements.

Before the Commission decides how to treat new issues, it consults with states. The new issues discussion paper provided to states and state responses are available on the Commission's website ([2023 Update consultation](#)).

This paper outlines the Commission's decisions on each of the new issues raised in the discussion paper.

Attachment B outlines Commission decisions on issues that were identified after the release of the discussion paper. These include:

- data issues in the wages and justice assessments,
- the materiality of a separate assessment of lithium royalties and
- the treatment of an additional Commonwealth payment.

States were consulted separately on these issues. Due to the short timeframe for consultation, some state officials were only able to provide informal submissions. These submissions are not available on the Commission's website.

## Data issues

### 2021 Census

The Australian Bureau of Statistics' (ABS) 2021 Census was conducted on 10 August 2021. Some data from the 2021 Census became available during 2022. Other data will not be available until 2023.

The Commission's terms of reference for the 2023 Update require it 'where possible, [to] use the latest available data'. The Commission had to decide whether there were any calculations that could not be updated using the available 2021 Census data.

The 2021 Census took place 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.

The Commission needed to decide whether these disruptions would mean some 2021 Census data were not fit for purpose. Data is fit for purpose for a particular assessment if it reliably reflects the drivers of state spending for that assessment over the years of the 2023 Update. It is not fit for purpose if, instead, the data reflect a temporary disruption.

### Estimated Resident Population

#### Issue

The ABS has released 2021 Census-based Estimated Resident Population. The Commission consulted with states to determine whether there were any concerns with using the latest population estimates for the 2023 Update.

#### State views

All states supported the use of the 2021 Census-based Estimated Resident Population for the 2023 Update.

#### Commission decision

The Commission used the 2021 Census-based total state and sub-state populations for the 2023 Update assessment years.

### Updating the Estimated Resident Population of First Nations people

#### Issue

Apart from the census year, the ABS does not provide population data disaggregated by Indigenous status. As a result, for subsequent years the Commission imputes an estimate of the First Nations population. This is done by applying the First Nations share of the total population within each disaggregated population group (in the most recently available census year) to the total population within each disaggregated population group, and then adjusting this to match the ABS' estimated First Nations population projections by age and state. The resulting estimates of the number of First Nations people in each socio-demographic group are subtracted from the group's total to give the number of non-Indigenous people in the group.

The ABS has released preliminary state-level Estimated Resident Population of First Nations people from the 2021 Census. However, it will not release final data, disaggregated by geographic location and socio-economic status, until August 2023.

As such, for the 2023 Update, the Commission will have to use the First Nations population shares from the 2016 Census. To estimate the number of First Nations people in each socio-demographic group for the assessment years in the 2023 Update, the Commission proposed that it could benchmark the initial First Nations population estimates to either:

- the 2016 Census-based projections for total state First Nations Estimated Resident Population; or
- the 2021 Census-based preliminary estimate of total state First Nations Estimated Resident Population.

### **State views**

New South Wales, Queensland, Western Australia, South Australia, the ACT and the Northern Territory supported applying the First Nations population shares from the 2016 Census to the 2016 Census-based First Nations state population projections to estimate First Nations population by socio-demographic group.

These states consider that the growth in the First Nations population in excess of the ABS' projections is unlikely to have been uniform across geographic areas. They consider that, applying the 2016 shares to the 2021 Census-based estimates for state First Nations populations would result in a less accurate estimate of First Nations populations by geographic area than using the 2016 Census-based projection.

Victoria and Tasmania supported using the 2021 Census based estimates of state First Nations Estimated Resident Population to determine First Nations populations by socio-demographic group. Both states considered it important that the Commission use the most recently available data in its assessments. They consider that this is particularly important given the substantial growth in the First Nations population that has occurred since the previous census. Victoria said that it would be inconsistent for the Commission to use 2021 Census-based estimates for the total population in the socio-demographic groups but 2016 Census based estimates for the First Nations/non-Indigenous split of this population.

### **Commission decision**

For many years, the ABS' projections for growth in the First Nation population at a national level have fallen well short of the estimates provided by the subsequent census. The ABS' projections are based on expected rates of births, deaths and net overseas migration, whereas the censuses also capture the increasing propensity for people to identify as a First Nations person.

Table 1 shows the state level estimates of the First Nations population based on the 2021 Census and compares these with the projections based on the 2016 Census.

Table 1 First Nations population projections and estimates, June 2021

	2016 based projection	2021 estimate	Percent change	Share of First Nations population (%)		
				2016 based projection	2021 estimate	Change
NSW	293,000	339,546	15.9	33.2	34.5	1.4
Vic	65,406	78,698	20.3	7.4	8.0	0.6
Qld	247,025	273,224	10.6	28.0	27.8	-0.2
WA	111,665	120,037	7.5	12.6	12.2	-0.4
SA	47,022	52,083	10.8	5.3	5.3	0.0
Tas	31,237	33,894	8.5	3.5	3.4	-0.1
ACT	8,680	9,544	10.0	1.0	1.0	0.0
NT	79,766	76,736	-3.8	9.0	7.8	-1.2
Total	883,801	983,762	11.3	100.0	100.0	0.0

Source: [ABS Estimates of Aboriginal and Torres Strait Islander Australians, 2021](#).

Based on previous censuses, the largest underestimates of First Nations populations at a national level were in major cities and inner regional areas. This pattern did not hold in all states. Table 2 shows the change between the 2011 Census-based projection and the 2016 Census based-estimate, for First Nations population for December 2015.

Table 2 Difference in First Nations population 2011 Census based projection and 2016 Census estimates, December 2015 (%)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Major cities	15.4	7.2	9.7	0.5	1.9	0.0	6.4	0.0	9.6
Inner regional	20.5	10.8	16.2	1.0	32.3	7.0	-77.7	0.0	16.4
Outer regional	8.9	1.2	-5.1	2.4	-0.8	3.0	0.0	9.2	1.4
Remote	15.2	-53.5	-6.2	-15.9	0.8	2.1	0.0	8.2	-2.2
Very remote	-29.3	0.0	-6.8	21.3	-13.7	23.7	0.0	-6.6	-1.9

Source: Commission calculation using population from 2017 and 2019 updates.

The distribution of GST revenue is influenced more by shares of First Nations people in each socio-demographic group at the state level than it is by the total number of First Nations people in each state.

The Commission considered that for GST distribution purposes, a more reliable estimate of First Nations people in each socio-demographic group will be produced by applying the First Nations population shares from the 2016 Census to the 2016 Census-based projections. Using the 2021 Census-based estimates would be appropriate if the growth in the First Nations population in excess of the ABS' projections was expected to be reasonably uniform across geographic regions in each state. However, based on previous censuses, this is unlikely to be the case.

This approach will be needed only for the 2023 Update. Estimated Resident Population of First Nations people from the 2021 Census disaggregated by geographic location and socio-economic status will be released in August 2023 and will be used for the 2024 Update.

## Measures of socio-economic status

### Issue

The remoteness areas and socio-economic status measures<sup>1</sup> used in assessments will not be updated in time by the ABS, the Centre for Aboriginal Economic Policy Research and the Commission to take account of data from the 2021 Census. For the 2023 Update, the Commission therefore proposes to retain the remoteness areas and socio-economic status measures from the 2016 Census.

### State views

Victoria and South Australia did not comment on this issue. All other states agreed with the proposal.

### Commission decision

The Commission used the remoteness areas and socio-economic status measures from the 2016 Census in the 2023 Update.

## Urban transport

### Issue

The Commission's urban transport assessment uses census journey to work data as a proxy for the level of service provision. In the 2020 Review, the Commission decided that this assessment would be updated to reflect 2021 Census data.

Urban transport usage was affected by COVID-19 lockdowns on the day of the 2021 Census. In the new issues discussion paper, the Commission said it may not be appropriate to adopt the 2021 Census journey to work data for passenger numbers in the urban transport assessment. This was primarily informed by the Commission's analysis of urban transport use patterns derived from smart ticketing data collected from selected jurisdictions.<sup>2</sup> These data indicated that on Census Day 2021, patronage was on average 42% lower than in August 2019. The analysis also showed that this reduction was not consistent across all states.

Based on this analysis, the Commission's view was that journey to work data are unlikely to accurately reflect the level of service provision provided by states on that day.

The Commission sought views from states on whether the Commission should continue to use 2016 Census journey to work data if the 2021 Census data are not fit for purpose. It also sought state views on whether an adjustment should be made to 2016 Census data to account for expansions and additions to urban transport networks.

### State views

*Are 2021 Census data fit for purpose?*

While the Northern Territory supported the use of unadjusted 2021 Census journey to work data in the assessment, most other states did not.

The Northern Territory considered that the 2021 Census journey to work data better reflect current trends in transport use than the 2016 Census data and should be used in the 2023 Update assessment of urban transport needs. It considered analysis based on ticketing data was policy influenced and in the absence of sufficient evidence that

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<sup>1</sup> Socio-Economic Indexes for Areas (SEIFA), Indigenous Relative Socio-Economic Outcomes index (IRSEO), and Non-Indigenous Socio-Economic Index for Areas (NISEIFA).

<sup>2</sup> This analysis considered patronage data from the following selected jurisdictions: Sydney, Melbourne, South-East Queensland, Perth, Adelaide and Canberra.

2021 Census are not fit for purpose, adjustments to census data constitute a method change and are beyond the scope of update terms of reference.

Most states considered that on the day of the 2021 Census, commuter behaviour was influenced by working from home arrangements and COVID-19 lockdowns. Therefore, data from the 2021 Census do not provide a fit-for-purpose representation of level of service provision on the day of the census or for any period after.

New South Wales provided evidence to suggest the 2021 Census data reflect a temporary shock due to COVID-19 lockdowns. It noted that after the lockdown ended on 11 October 2021, average weekday trips increased by 64% in the first week and continued to increase on average by 20% to 25% a week for the remainder of October.

Victoria and the ACT noted that their service levels were maintained throughout the COVID-19 pandemic to enable social distancing and other COVID-19 safe travel conditions. Victoria provided evidence that indicated the provision of train, tram and bus services throughout 2020 and 2021 were at levels consistent with previous years.

Queensland did not consider 2016 or 2021 Census data entirely fit for purpose. Its preference was for an adjustment to be made to either 2016 or 2021 Census data based on public transport patronage data. However, it did not support adjustments to individual states. It said that those adjustments would add complexity to the assessment and are unlikely to be material. Queensland said that if an adjustment is not possible, it supported the use of 2021 Census data because it is more recent, and these data more closely reflect post COVID-19 work arrangements and urban transport use patterns.

#### *2016 Census data*

States had mixed views on the use of 2016 Census data and whether an adjustment was needed to account for expansions and additions to urban transport networks.

New South Wales, Victoria, Western Australia and Tasmania supported the continued use of 2016 Census data with no adjustment in the 2023 Update. New South Wales and Tasmania supported further consultation on a possible adjustment to 2016 Census data to better reflect current circumstances in future updates. Victoria did not consider any adjustment would be material and Western Australia argued that developing a nationally consistent adjustment would be difficult.

If 2016 Census data are retained, South Australia supported applying a discount to the assessment or decreasing the weighting for urban centre characteristics. South Australia said that the COVID-19 experience had resulted in a long-term change in working arrangements and attendance at educational institutions. It said this has reduced demand for public transport services and will ultimately lead to changes in service provision levels. It said this was supported by evidence of reduced central business district occupancy levels for major cities<sup>3</sup> and reduced Adelaide Metro patronage levels<sup>4</sup> compared with pre-COVID-19 levels. These changes are not reflected in the relationship represented by the 2016 Census data. South Australia did not support the adjustments for new modes of transport on the basis that no reliable data are available to do so.

The ACT supported the continued use of 2016 Census data, with an adjustment to account for the introduction of new transportation modes during the intercensal period. It said that the introduction of light rail in 2019 has significantly affected of public transport usage in Canberra and this is not captured in the 2016 data.

The ACT said that while patronage levels declined substantially in Canberra due to COVID-19 lockdowns, spending on public transport services continued to increase over that period. This was largely driven by the introduction of light rail services from

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<sup>3</sup> Since COVID-19, CBD office occupancy has returned to 70% to 80% of pre COVID levels in Adelaide, Brisbane and Perth, 50% in Sydney and 40% in Melbourne.

<sup>4</sup> Since COVID-19 Adelaide Metro average monthly patronage levels decreased by about a 1/3 and has remained low.



April 2019, new bus networks and additional weekend services. Costs associated with COVID-19 including increasing communication, signage and cleaning costs also contributed to increased spending. The ACT said that the Commission should ensure that these expenses are captured in the GFS data used in the assessment.

The Northern Territory considered that any adjustment to 2016 Census data would introduce a bias towards past trends and be less reflective of real needs.

### Commission decision

In the 2021 Census data, use of urban transport as a share of all stated commutes is lower in every major city compared with 2016 Census data, see Table 3 Table 3. This reduction was most significant in Sydney (-11.3%), Melbourne (-6.6%) and to a lesser extent Brisbane (-3.9%). The Commission considers that, particularly for these states, there is a strong COVID-19-related distortion present in the 2021 Census patronage data.<sup>5</sup> This was supported by the evidence provided by New South Wales, Victoria, and the ACT.

Table 3 Urban transport use as a share of population (a), 2016 and 2021 Census

	Sydney	Melbourne	Brisbane	Perth	Adelaide	Hobart	Canberra	Darwin	All SUAs
	%	%	%	%	%	%	%	%	%
2016 Census	14.1	9.3	7.1	6.1	4.9	3.0	4.3	5.3	7.3
2021 Census	2.8	2.7	3.2	4.3	3.2	2.9	3.3	1.7	2.5
<b>Percentage point change</b>	<b>-11.3</b>	<b>-6.6</b>	<b>-3.9</b>	<b>-1.8</b>	<b>-1.7</b>	<b>-0.1</b>	<b>-1.0</b>	<b>-3.6</b>	<b>-4.9</b>

(a) In the urban transport assessment, census data represent how much each jurisdiction's population uses a particular mode of urban transport. To calculate these percentages, the numerator is persons who used public transport on the day and the denominator is all persons.

Source: Commission analysis of 2016 Census and 2021 Census method of travel to work data, TableBuilder.

Table 4 Table 4 presents the change in GST distribution of updating the census data in the urban transport assessment. The change is not material for any state.

When 2021 Census data are used in the model, GST is distributed from Victoria to the other states. This is largely explained by changes to the relative weights of the model's explanatory variables. The relative weight of population density increased and the relative weight of passenger numbers decreased.

Table 4 Illustrative change in distribution of adopting 2021 Census passenger numbers

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
Change (\$m)	7	-24	3	7	3	1	4	0	24
Change (\$pc)	1	-4	1	3	2	2	8	1	1

Source: Commission calculation in 2022 Update.

Keeping all other variables constant,<sup>6</sup> the reduction in passenger numbers across all states reduces the relative significance of passenger numbers as a driver of urban transport needs. For example, in the current model based on 2016 Census data, population density drives 66% of Sydney's per capita expense needs while it only drives 58% of expenses in Melbourne. Comparatively, passenger numbers drive 26% of Sydney's per capita expense needs while in Melbourne it explains 33%.

A second reason for the change in the pattern of GST distribution is the relative reduction in the passenger use rates in the largest cities in the 2021 Census data compared to the 2016 Census date.

<sup>5</sup> On Census Day 2021, Sydney was nearly 50 days into its second lockdown, Melbourne was 5 days into its sixth lockdown and Brisbane was 2 days out of a 40-day lockdown

<sup>6</sup> The variables captured in the model are, population density, passenger numbers by mode (heavy rail and bus/light rail), presence/absence of ferry service, topography and distance to work.

The terms of reference require the Commission to use the most up to date data in its assessments, consistent with the quality and fitness for purpose of the available data. The Commission considers that there is sufficient evidence to suggest that 2021 Census data are distorted by the COVID-19 lockdowns, do not represent the level of service being provided at that time, and therefore are not fit for purpose.

The Commission recognises that retaining the 2016 Census data will not capture expansions to urban transport service levels or reflect the impact on passenger numbers of changes in working and studying from home behaviours that have occurred between censuses. In theory, an adjustment could be applied to the 2016 Census data to reflect these changes. However, the Commission is unable to identify reliable, nationally consistent data to inform an adjustment for all states.

The Commission considered an adjustment to recognise light rail in Canberra and Newcastle, modes that didn't exist in 2016. However, this captured only a proportion of service expansions that have occurred since 2016 and was not material.

South Australia proposed decreasing the influence of the urban centre characteristics to recognise the changes that have occurred since the 2016 Census.

In the 2020 Review, the Commission decided to use a blended approach to assess urban transport needs, which recognised:

- the proportion of state populations living in an urban centre, with a weight of 25%
- the effect of urban centre characteristics on the cost of providing urban transport, with a weight of 75%.

The decision to use a blended approach was based on concerns about the reliability of data used to inform the model that measures urban centre characteristics. This included data reliability issues associated with the use of proxy variables to capture supply and demand, including the use of census data.

Table 5 shows that reducing the impact of urban centre characteristics on the assessment from 75% to 50% would distribute \$409 million from New South Wales.

Table 5 Illustrative change in distribution of reducing the impact of urban centre characteristics from 75% to 50%

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
Change (\$m)	-409	30	153	109	49	34	18	16	409
Change (\$pc)	-50	5	29	41	28	62	42	64	16

Note: Combined impact of recurrent and investment urban transport assessments  
Source: Commission calculation in 2022 Update.

The Commission does not believe a \$409 million change in distribution is commensurate with the problem it is trying to solve. There was an overall 4.9 percentage point reduction in passenger use across all major cities (see Table 3) distributes \$24 million. This indicates that any change in service levels resulting from shifts in demand would not likely result in a distribution close to \$409 million, the GST distribution from reducing urban centre characteristics on the assessments from 75% to 50%. Therefore, the Commission considers that the 2020 Review blending ratio adequately addresses issues of data reliability in the assessment and a change to the blending ratio is not warranted.

On balance, the Commission considered the 2016 Census journey to work data are the best available data and that they should be retained, without an adjustment, in the urban transport assessment for the 2023 Update. The Commission will consider this issue further as part of the 2025 Methodology Review process.

## Housing

### Issue

Census data are used in the housing assessment to inform the Commission's assessment of both state expenses incurred in the provision of social housing services, as well as the revenue states collect from rent.

There was potential for the data to be distorted by COVID-19 related circumstances. If there were a COVID-19 related distortion to the household income of social housing tenants this would be evident in significant changes in the proportion of dwellings that are classified by the Commission as either low or high income. Changes in social housing rents should reflect changes in the income of households in social housing, as social housing rent is a proportion of household income.

The Commission sought views from states on whether the 2021 Census data was sufficiently reliable.

### State views

All states supported the use of the 2021 Census data in the housing assessment for the 2023 Update.

New South Wales noted that 2021 Census data on income could include COVID-19 support payments, therefore distorting social housing income data. New South Wales said that rents paid data should not be dramatically affected by COVID-19 lockdowns.

Queensland noted that using the latest census would support the Commission's principle of contemporaneity. Queensland considers that the census provides the only available dataset that could be used for this assessment and its continued use would be consistent with previous updates.

Western Australia said it is concerned with the reliability of the census data, separate to any possible distortions due to COVID-19. It said changes in the number of First Nations and non-Indigenous households appears to be inconsistent with the population data from the 2021 Census showing significant growth in the First Nations population.

Western Australia suggested, for future updates, the Commission blend the census data with Australian Institute of Health and Welfare data to improve reliability.

### Commission decision

Based on the 2021 Census data, the proportion of dwellings that would be characterised by the Commission as high income increased. However, this is likely due to nominal wages and income support payments of social housing tenants increasing (against an unchanged low-high income threshold used by the Commission), rather than any COVID-19 related distortion to household income.

Social housing rents for all socio-demographic groups increased, consistent with rising incomes, and the general pattern of rents paid by sociodemographic groups remained constant.

The Commission considered the Equivalised Total Household Income and Rent Ranges datasets from the 2021 Census to be reliable and used it for the 2023 Update.

## New data source for the number of motor vehicles

### Issue

The ABS ceased its Motor Vehicle Census publication in June 2021. The Bureau of Infrastructure and Transport Research Economics established a new motor vehicle collection based on data from the National Exchange of Vehicle and Driver Information System. It released its motor vehicle publication on 31 October 2022.

## State views

New South Wales, Victoria, Queensland, Western Australia, South Australia, Tasmania, and ACT support using Bureau of Infrastructure and Transport Research Economics data as the Commission's new source of motor vehicle data.

The Northern Territory expressed concerns about the comparability of the Bureau of Infrastructure and Transport Research Economics data and data previously published in the ABS' Motor Vehicle Census, particularly for heavy vehicles. It suggested adjusting Bureau of Infrastructure and Transport Research Economics heavy vehicle data for both South Australia and the Northern Territory for the 2023 Update pending further analysis of the comparability of the data with the ABS data.

## Commission decision

The Commission has used the Bureau of Infrastructure and Transport Research Economics data, commencing with the 2021–22 assessment year, as it is a nationally available dataset on vehicle numbers.

In response to the concerns raised by the Northern Territory, the Commission tested the materiality of replacing ABS data with Bureau of Transport and Research Economics data for the 2020–21 assessment year. Using the \$10 per capita data materiality threshold, replacing the data was not material. Consequently, the Commission decided to use the Bureau of Transport and Research Economics data without an adjustment as they are sufficiently comparable to the ABS' Motor Vehicle Census data.

## Health assessment – non-admitted patient data

### Issue

The activity and expense data for non-admitted patient services do not fully align. The expense data used in the assessment, which are based on the ABS' 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 Health and Aged Care Pricing Authority, exclude these services.

The Commission sought views from the states on whether to include Commission estimates of national weighted activity units for GP-type services in the non-admitted patient assessment. If so, the Commission sought views on whether the proposed method was appropriate and data are of sufficient quality.

### State views

Most states raised concerns with the quality of the data which the Commission proposed to use to estimate national weighted activity unit data for GP-type services.

While New South Wales, Western Australia, South Australia and the ACT had concerns with data quality they indicated support for the proposal.

New South Wales said that the proposed price weight is about 10% higher than the price weight allocated to clinics performing these services in the state. New South Wales suggested a discount of 50% could be applied to state expenses on GP-type services until the reliability of the proxy is demonstrated.

Western Australia said that the use of GP-type services is higher for First Nations people and is heavily influenced by remoteness, so these drivers will be underestimated if activity data for GP-type services are not included.

The ACT said that the proposed approach aligns with the Commission's existing approach on the use of national weighted activity unit data in the non-admitted patient assessment.

South Australia said the Commission should undertake further consultations with the Australian Institute of Health and Welfare and the Independent Health and Aged Care Pricing Authority on the data and proposed assessment approach.

Tasmania supported the Commission's proposed approach in principle, but it did not support the proposed data source as it currently does not capture comprehensive data for all states.

Victoria, Queensland and the Northern Territory did not support the proposal.

Victoria is concerned with both the quality of the data and assumptions used in the calculation. Victoria said the proposal requires significant consultation with its health department, which was not possible in the time given by the Commission to provide a response. Victoria suggested that an interim solution to the data mismatch is to discount the whole non-admitted patient assessment.

Queensland considered the proposed change to be a methodology change rather than a data problem. It supported consideration of the issue in the next methodology review.

The Northern Territory commented on the unusual distribution of GP-type services seen in the Australian Institute of Health and Welfare data, with high numbers in some states, and low or no shares in other states. It said that since the services are not in-scope for National Health Reform Agreement funding, the level of validation may vary between states compared with the more consistent validation of in-scope services. As such, the data on GP-type services may not be comparable.

### **Commission decision**

The concerns raised by states about the reliability of the data are significant. The Commission approached the Australian Institute of Health and Welfare which advised that, while the scope of the data is clearly defined, differences in the way states organise their services affect the data supplied. For example, the services could be provided through community health programs rather than through the hospital system, or they might provide GP-type services as a secondary part of other clinic types.

Given these concerns, the Commission has not adopted the proposal.

GP-type services comprise a small proportion of non-admitted patient services and expenses. Continuing to exclude these services from the driver of need will likely disadvantage states with higher proportions of people (particularly First Nations people) living in remote areas. However, this impact is likely to be small.

If the reporting of GP-type services improves, the Commission will investigate this issue again.

## **Assessment issues**

### **Response to COVID-19**

For the 2021 and 2022 Updates, the Commission concluded, on balance, 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.

The impact of COVID-19, and states' responses, have evolved since early 2020. The Commission again consulted with states on these issues as part of the 2023 Update.

## **Treatment of Commonwealth payments under the National Partnership on COVID-19 Response**

### **Issue**

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 differed from the usual drivers of state health spending needs and as such this spending was not specifically assessed.

The issue for the Commission was whether to continue to treat the Commonwealth payments under the National Partnership on COVID-19 Response as no impact.<sup>7</sup>

### **State views**

Victoria, Western Australia, and Tasmania supported a no impact treatment of the Commonwealth payment. New South Wales, Queensland, South Australia, the ACT and Northern Territory did not comment.

New South Wales said that COVID-19 risk and incidence were 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.

Victoria said that the Commission's current methods for assessing the need for state health expenditure do not capture the drivers of COVID-19 responses. Victoria pointed to World Health Organisation findings that COVID-19 has been shown to have a greater impact with high proximity and population density due to aerosol transmission. Victoria also referred to Australian Institute of Health and Welfare data on COVID-19 mortality, which shows a higher incidence per capita in major cities than regional or remote areas to April 2022. It said that the data show that First Nations residents of major cities were more likely to have a confirmed case of COVID-19 than those in regional or remote areas.

Queensland said it strongly disagreed with the Commission's view that 'state responses to the COVID-19 pandemic largely reflected circumstances rather than state specific policy choices.' While Queensland accepted that jurisdictions incurred varying expenses, and that this, in part, reflected varying levels of need, these circumstances were significantly contributed to by matters within the policy control of each jurisdiction. Differences in policy decisions relevant to the incidence and response to COVID-19 were large contributors to how significantly each jurisdiction was affected, and the level of expenditure and support provided as part of individual states' COVID-19 response. It said to ignore this would clearly violate the Commission's supporting principle of policy neutrality.

Western Australia said it maintains its position from the previous 2 updates that differences among states' policies and efficiencies in responding to COVID-19 significantly

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<sup>7</sup> The Commission also sought states' views on alternative assessment methods for spending associated with the National Partnership on COVID-19 response, should the Australian government provide the Commission with terms of reference for the 2023 Update that allowed for a change in methods. The terms of reference do not allow for a change in methods and so the options for an alternative assessment, and states' specific views on these options, have not been included in this paper.

drove the varying impacts on states. Western Australia said it did not claim that all differences in the prevalence of COVID-19 are due to differences in state policies and/or efficiency. However, it said the Commission should recognise that observed spending and revenue bases are significantly affected by state policy influences.

South Australia said it continued to support the view that the policy decisions made by states had a significant impact on COVID-19 case numbers and associated expenditure. South Australia pointed to statements by ratings agencies Standard and Poors, and Moody's that supported this conclusion. South Australia also referred to the findings of a privately funded independent review into COVID-19 responses, led by Western Sydney University Chancellor Peter Shergold, which found:

*'Too many of Australia's lockdowns and border closures were the result of policy failures in quarantine, contact tracing, testing, disease surveillance and communicating effectively the need for preventive measures like mask wearing and social distancing'.*

Tasmania said it considered that state responses to COVID-19 reflect a combination of the circumstances of a given state and the policy choices of its government. It said there are complex interdependencies between these 2 drivers of spending. Tasmania also noted that data capture processes for COVID-19 costs continue to evolve. It said there remains concern regarding data completeness and accuracy, given the previously limited reliability of expenditure data classification.

The ACT said that the National Partnership on COVID-19 provides a unified framework applying to all jurisdictions. As such, these expenses are based on an equal policy across jurisdictions.

The Northern Territory said that state spending associated with the National Partnership on COVID-19 has not been policy neutral and that the existing health methods provide the most appropriate assessment of state spending needs. The Northern Territory said that all states implemented significant COVID-19 preventative measures, but that there were material differences in state policies that were not attributable to differences in state circumstances.

### **Commission decision**

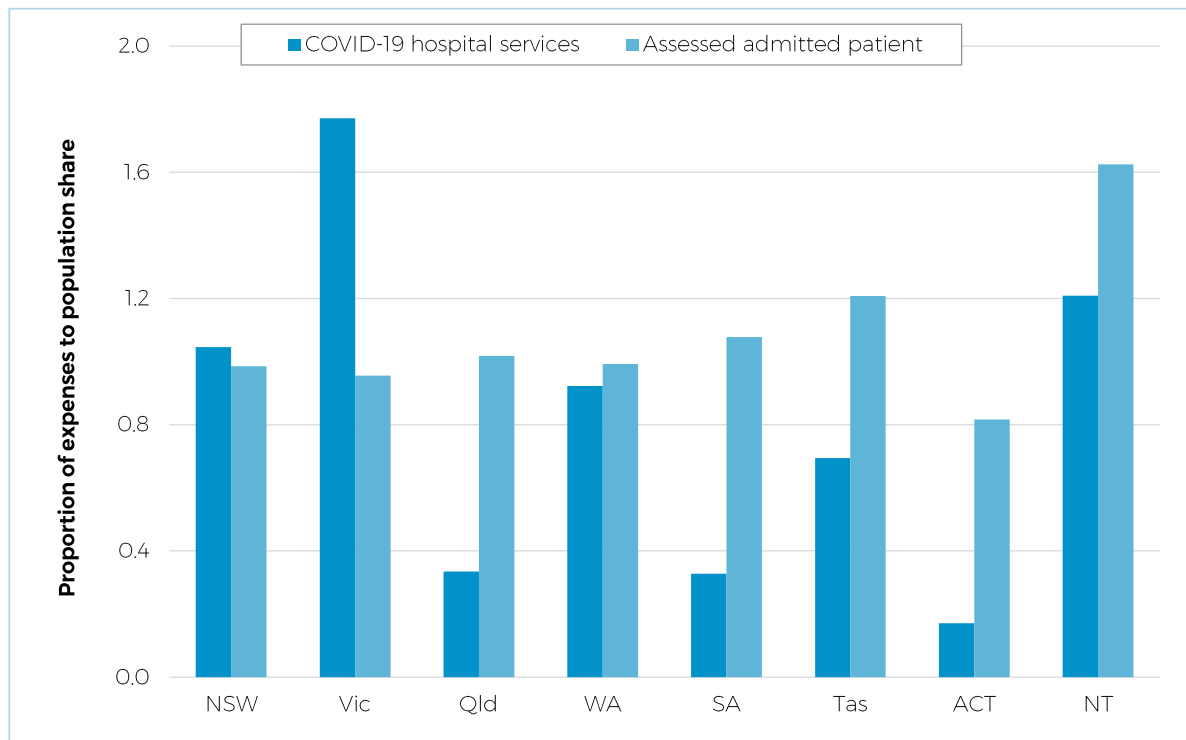
The pattern of state spending on COVID-19 public hospital and public health services under the National Partnership (50% of which was funded by the Commonwealth) differed from the Commission's assessment of state health spending needs (see Figure 1 and Figure 2). As such, the drivers of state spending (and Commonwealth payments) on COVID-19 health services differs from the drivers of state health spending that are the basis of the Commission's decisions.

Given that the spending has not been specifically assessed, the Commission decided to continue to treat the Commonwealth payments associated with the National Partnership on COVID-19 Response as no impact as state spending needs are not accurately assessed by the existing health assessment method.

In keeping with the terms of reference for the 2023 Update to use the assessment methods from the 2022 Update, the Commission has applied the 2020 Review health assessment approach to state funded spending under the National Partnership on COVID-19 Response.

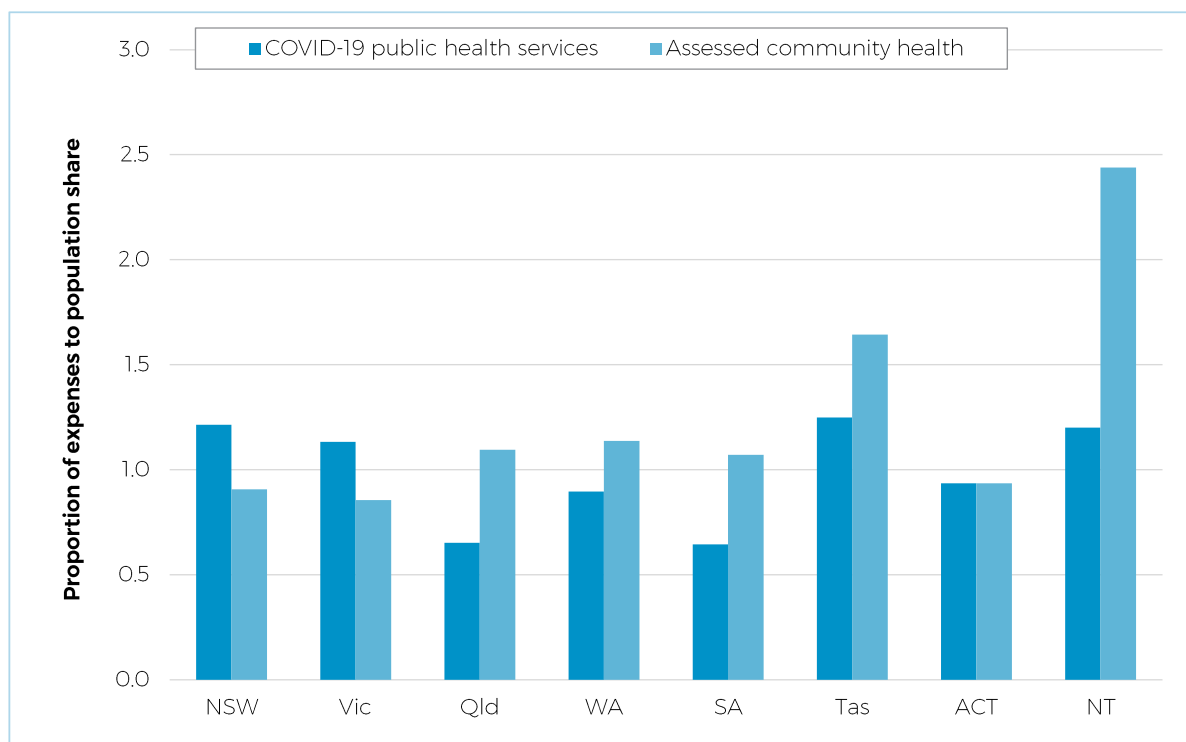
The Commission will further consider its treatment of COVID-19 health spending in the 2025 Review.

Figure 1 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.

Figure 2 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.



## Treatment of Commonwealth payments for COVID-19 business support

### Issue

In 2021-22 the Commonwealth entered into bilateral agreements with each state to jointly fund support payments for businesses impacted by COVID-19. For the 2023 Update, the Commission needed to decide on the treatment of the Commonwealth payments associated with these agreements.<sup>8</sup>

### State views

New South Wales, Victoria, and the ACT supported a no impact treatment of the Commonwealth payments. Western Australia supported an impact treatment. Queensland, South Australia, Tasmania, and the Northern Territory did not provide a response.

New South Wales said that during 2021-22, the national framework for providing broad-based COVID-19 related support to businesses changed. Prior to March 2021, the Commonwealth provided broad-based business support through JobKeeper and states provided more targeted support. After JobKeeper ended on 28 March 2021, the Commonwealth required states to co-fund broad-based business support programs.

New South Wales said that when the Delta outbreak occurred (June 2021) the underlying driver of COVID-business support expenditure was the severity of public health orders needed to control infections in the community. New South Wales argued that states which experienced higher levels of infection implemented lockdowns. New South Wales claimed that lockdowns curtailed the ability to trade, such that some businesses lost the bulk of their revenue, which necessitated higher levels of support from government.

Victoria said that COVID-19 business support expenditure differed in nature to the expenditure assessed under the Commission's existing methods. Victoria said that the Commission's existing methods would assess state spending needs for COVID-19 business support in proportion to population, whereas the impacts of COVID-19 and the resulting business support payments were clearly not distributed in this way. It said the drivers of spending for COVID-19 business support do not align with the current services to industry assessment.

Queensland considered the spending associated with the COVID-19 business support agreements to be policy influenced. There were substantial differences in the type, level and duration of business support provided across jurisdictions, with some states (in particular New South Wales and Victoria) providing far more generous support and for much longer duration. Queensland said that there is no clear evidence that these significant variations were based on robust assessment of the businesses' financial needs, varying impacts of the lockdowns on business activity, or individual businesses' capacity to withstand the financial impacts of the lockdowns in any given period.

Western Australia said the spending associated with the COVID-19 business support agreements were policy influenced. Some states imposed short, sharp lockdowns in response to single-digit cases. Others deployed incremental lockdowns based on postcodes or local government areas. On occasions, these later required state-wide lockdowns with additional restrictions (radius restrictions, dining closures, and curfews) that meant their lockdowns were more drawn-out (to curb runaway case numbers) than would otherwise have been necessary.

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<sup>8</sup> The Commission also sought states' views on alternative assessment methods for spending associated with the bilateral agreements on COVID-19 business support, should the Australian Government provide the Commission with terms of reference for the 2023 Update that allowed for a change in methods. The terms of reference do not allow for a change in methods and so the options for an alternative assessment, and states' specific views on these options, have not been including in this paper.

South Australia said that the level and type of business supports required at a jurisdictional level were impacted by the suppression and other policies introduced to respond and control the spread of COVID-19. Even ignoring this issue, there has been no policy consistency between states for COVID-19 business support payments. In particular, there were differences in eligibility criteria, the monetary value, and the duration of business support payments.

Tasmania said that the drivers of business support varied between states and there is no suitable policy neutral measure to capture this.

The ACT said that the COVID-19 business support agreements provide a policy framework for expenditure on COVID-19 business support that is sufficiently comparable across jurisdictions. The ACT considers that state spending measures taken in response to COVID-19 were undertaken on an as-needed basis by all jurisdictions.

The Northern Territory said that business support spending is inherently subject to policy decisions to an even greater extent than health assessments. This is because states had direct policy control over lockdown duration and severity and restrictions on public gatherings, and because business support payments reflected state fiscal capacities and Commonwealth policies rather than state need.

### **Commission decision**

State spending to support businesses during the COVID-19 pandemic differed distinctly from states' usual business development programs. Whereas usual state programs tend to have a long-term focus on growing industries and employment, the measures deployed during the pandemic were short-term in nature and aimed at keeping businesses alive until trading conditions returned to normal. The drivers of spending for COVID-19 business support did not align with the Commission's existing assessment methods.

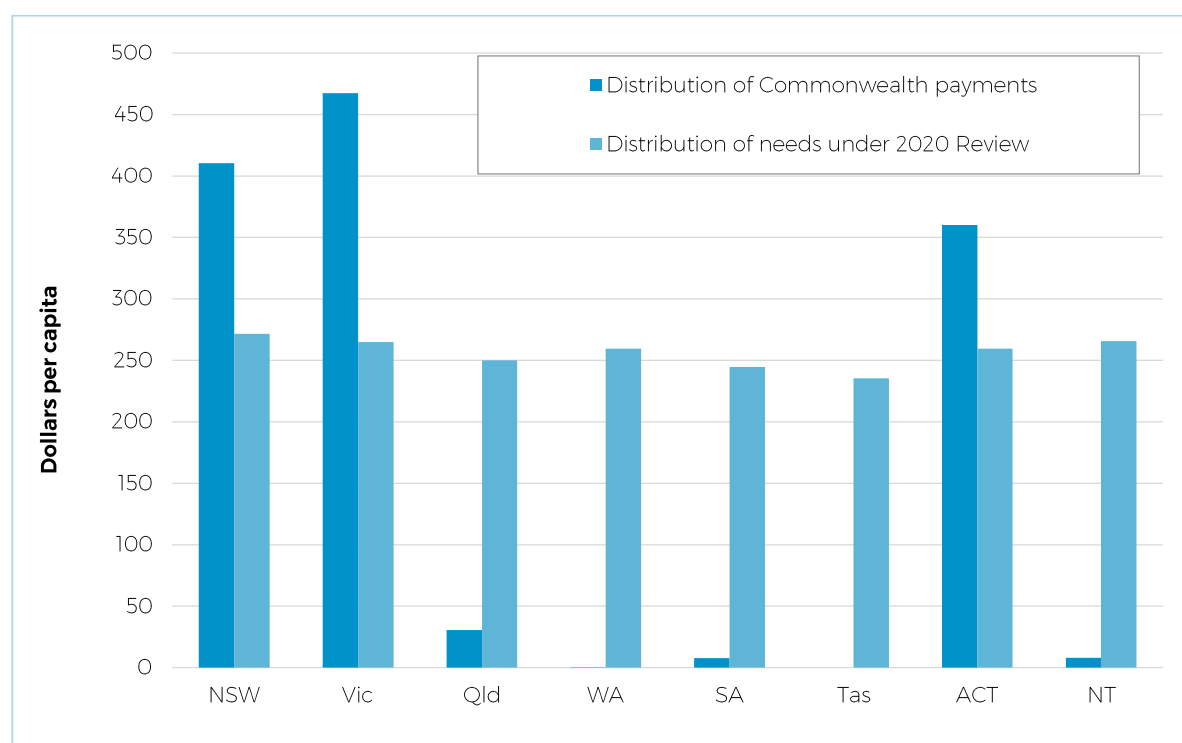
The 2020 Review method of assessing business development expenses does not reflect the needs for business support payments under the unique circumstances of the COVID-19 pandemic. The difference between the actual distribution of the payments and the 2020 Review methods is shown in Figure 3.

The Commission has decided to treat the Commonwealth payments associated with the COVID-19 business support agreements as no impact as state spending needs are not specifically assessed by the existing business development assessment method.

In keeping with the terms of reference for the 2023 Update to use the assessment methods from the 2022 Update, the Commission applied the 2020 Review services to industry assessment approach to state-funded spending under the COVID-19 business support agreements.

The Commission will further consider its treatment of COVID-19 business support spending in the 2025 Methodology Review.

Figure 3 Distribution of Commonwealth payments under the COVID-19 business support national partnership agreements compared with distribution under existing assessment methods



Source: Commission calculations and Final Budget Outcome 2021–22.

## Motor tax assessment – Victoria’s Zero and Low Emission Vehicle tax

### Issue

Victoria introduced a distance-based charge on 1 July 2021. It raised \$1.18 million from the change in 2021–22. Three states (New South Wales, Western Australia and South Australia) have announced plans to introduce a similar charge. South Australia has since repealed the legislation that would introduce the new charge.

### State views

All states supported including the revenue raised from this charge in the motor taxes assessment because a separate assessment of the revenue is not material.

Victoria noted the appropriate capacity measure for a distance-based charge would be different from the capacity measure currently used for motor taxes. It suggested a separate assessment of the charge will be required when it becomes material.

### Commission decision

Given the small amount of revenue raised, the Commission decided to assess revenue from the distance-based charge in the motor taxes category.

## Payroll tax assessment – Victoria’s mental health and wellbeing surcharge

### Issue

Victoria introduced a new mental health and wellbeing surcharge on payrolls exceeding \$10 million in January 2022. Queensland is introducing a similar surcharge from

January 2023. In 2022–23, Victoria expects to raise \$819 million and Queensland \$184 million.

### **State views**

All states supported including these revenues in the current payroll tax assessment.

New South Wales, Queensland, South Australia, and the Northern Territory viewed the surcharge as comparable to a payroll tax rate increase. Queensland said introducing a separate assessment of this revenue is a complexity that should be addressed in the next methodology review. The ACT said including the revenue in the payroll tax assessment was similar to the treatment of other surcharges, such as foreign owner surcharges on land tax.

### **Commission decision**

Given the surcharge is raised using states' payroll tax legislation, the Commission decided to include the surcharges as payroll tax revenue.

## **Negative average no worse off relativity**

### **Issue**

In the 2022 Update, the Commission decided to allow Western Australia's negative assessed relativity for the 2020–21 assessment year to remain in place, as its average assessed relativity was positive. In the lead up to the 2023 Update, it seemed plausible that Western Australia's average assessed relativity could be negative. As such, the Commission consulted states on the issue.

If a state is assessed to have a negative average no worse off relativity, the GST pool will be insufficient to give states assessed to have a positive relativity their assessed HFE outcomes. The Commission's options are to:

- bring the negative relativity up to zero, with a downward adjustment to other states' relativities based on their population shares
- allow the negative relativity to stand, with the Commonwealth financing the negative relativity through increased no worse off payments.

### **State views**

States differed in their views on which option the Commission should adopt.

Three states (New South Wales, Western Australia and the Northern Territory) said the Commission should replace the negative relativity with zero. New South Wales, and the Northern Territory said a negative relativity would not have been permissible under pre-2018 Legislated Arrangements.

Four states (Victoria, South Australia, Tasmania and the ACT) said the Commission should allow a negative relativity to stand. Victoria said replacing the negative relativity was a method change, which should not occur outside a review. Tasmania said replacing the negative with zero would not be consistent with the guarantee arrangements. The ACT said leaving the negative relativity in place would fully reflect the difference in states' fiscal capacities.

Queensland did not have any specific comments on the issue in an update context. It said it would be more appropriate to deal with it in a review.

### **Commission decision**

As no state had a negative average relativity in this update, the Commission did not need to make a decision on this issue.

## Treatment of Commonwealth payments

The 2023 Update Terms of Reference require the Commission to prepare its assessments on the basis that the Commonwealth contribution to Hydro Tasmania's Tarraleah Hydro Power Station Redevelopment does not directly influence the GST revenue sharing relativities.

For all other payments, the Commission has used the following guideline, developed in the 2020 Review, to determine the treatment of new Commonwealth payments in this update:

*'payments which support State services, and for which expenditure needs are assessed<sup>9</sup> will have an impact on State fiscal capacities'.*

The treatment of Commonwealth payments that commenced in 2021–22, as listed in the *Commonwealth of Australia's Final Budget Outcome, 2021–22* is shown in Table A-1 and Table A-2.

The Commission consulted states on the appropriate treatment of all payments. The payments where states raised issues with the proposed treatment, or made specific comments, are discussed below.

### Australian Fire Danger Rating System

#### Issue

The Commonwealth government is providing funding to all states to implement the Australian Fire Danger Rating System (AFDRS). The system provides four nationally consistent fire danger ratings (moderate, high, extreme and catastrophic), using the latest available science, data and technology to improve forecasting and communication of fire danger.<sup>10</sup>

#### State views

Western Australia questioned why the Commission should treat the payment as impact given that a payment relating to the fire danger rating system was treated as no impact in the 2019 Update. The Commission's decision in the 2019 Update was made on the basis that 'needs were not assessed for this program'.

#### Commission decision

The Commission considers that the purpose of the Commonwealth payments commencing in 2021–22 differs from those that commenced in 2017–18.

The earlier payment, which was treated as no impact in the 2019 Update, relates to the pilot program for a national fire danger rating system. The focus of this program was on the development of prototype ratings and social research into the communication of fire danger information to the public. Funding was provided to New South Wales and South Australia only. As research and development activities were not considered by the Commission to be a normal state function, needs for the program were not assessed. The Commission noted that this treatment was consistent with earlier treatment of trial programs including the Mechanical Fuel Load Reduction Trials.

For the Commonwealth payment commencing 2021–22, which is assessed in the 2023 Update, the focus is on implementing the new fire danger rating system. The funding provided supports changes to fire danger ratings on websites, smartphone apps, social

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<sup>9</sup> Some expenses are assessed Equal Per Capita (EPC) because population is considered the driver, this is referred to as a deliberative EPC assessment. In these cases, the Commission considers that needs are assessed.

<sup>10</sup> Australian Institute for Disaster Resilience, 'Understanding the Australian Fire Danger Rating System Program', *National Emergency Management Agency*, 2022, <<https://www.aidr.org.au/news/understanding-the-australian-fire-danger-rating-system/>>, accessed 30 November 2022.

media and road signs.<sup>11</sup> These activities fall under public safety, which is a normal state function for which needs are assessed.

The Commission has decided to treat the Commonwealth payments for the implementation of the Australian Fire Danger Rating System as impact.

## Perth City Deal – Homelessness Projects

### Issue

Part of the Perth City Deal involves a subprogram for housing and support services to vulnerable people in need who are experiencing homelessness and rough sleeping in Perth. The Commission assesses needs for social housing but not for homelessness services.

### State views

Western Australia said that the project intends to deliver crisis accommodation to support and protect rough sleepers, and ‘wraparound’ services, and as such is more aligned with other welfare (where needs are not assessed) rather than public housing (where needs are assessed).

### Commission decision

The Homelessness Housing Projects part of the Perth City deal does include a range of services that are other welfare type services such as short-term accommodation. However, it also includes long term and permanent housing services. It is not clear how much of the funding is for long term and permanent housing, and whether this represents public housing infrastructure, or long-term hostels. On balance, the Commission accepts Western Australia’s view that the Perth City Deal – Homelessness projects is primarily for services for which needs are not assessed, and as such should not impact relativities.

## Perth City Deal – Perth Cultural Centre rejuvenation

### Issue

Part of the Perth City Deal involves a subprogram for rejuvenation of the Perth Cultural Centre precinct. The rejuvenation activities would often be undertaken by local governments but relate to the land surrounding four state government institutions. If this payment were deemed to be local government type activities, it would not impact relativities, if it were deemed to be for state government type activities it would impact relativities.

### State views

Western Australia said that the rejuvenation does not relate to the state institutions in the precinct, such as the state museum, library or art gallery. Rather it relates to an upgrade of the precinct including, typical local government activities such as improved signage, landscaping, entrance statements, creating a new boulevard, undergrounding electrical services, and installing CCTV. It said that this work is comparable to the work funded by the Revitalising Central Geelong - Arts & Culture Precinct which the Commission intends to treat as no impact.

### Commission decision

While the type of work being undertaken revitalising the Perth Cultural Centre is often undertaken by local governments, it is primarily on land managed by the WA Arts and Culture Trust, a statutory authority of the Western Australian Government. The project is

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<sup>11</sup> New South Wales Rural Fire Service, ‘New fire danger rating system to keep communities safe this bush fire season’, NSW Government, < [New fire danger rating system to keep communities safe this bush fire season - NSW Rural Fire Service](#)>, accessed 30 November 2022.

jointly funded by the Western Australian and Commonwealth governments (\$10 million each) with no contribution by the Perth City Council. While there are similarities between this and the revitalisation of the Geelong arts and culture precinct, the Geelong project does include local government investment, and the streets being upgraded remain open to traffic, and are typical local government roads rather than pedestrian only streets in a state government managed precinct. On this basis, the Commission remains of the view that the payment for the Perth Cultural Centre rejuvenation should impact GST relativities.

## Attachment A Treatment of Commonwealth payments commenced in 2020–21

Table A-1 Treatment of Commonwealth payments commenced in 2021–22, *Final Budget Outcome, 2021-22*

Commonwealth payment	Description	2021-22 \$m	Proposed treatment	Reason for treatment
<b>Health</b>				
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 and 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 and 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 and 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 and needs are assessed.
Home for the Matildas	Funding for 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 for 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	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
	ACT. The payment is designed to cover out of pocket medical expenses and loss of earning capacity.			
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.
<b>Education</b>				
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.
<b>Affordable Housing</b>				
Social impact Investments – Vulnerable priority groups	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.
<b>Infrastructure</b>				
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 and needs are assessed.
<b>Environment</b>				
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	18.2	Impact	General public services including public safety is a state responsibility and needs are assessed.

Commonwealth payment	Description	2021-22 \$m	Proposed treatment	Reason for treatment
	information will be available to the public, reducing confusion about how to react to a warning.			
Construction Softwood Transport Assistance	This program will enable the transportation of bushfire-salvaged softwood to timber mills.	0.1	No impact	This forms part of a set of programs supporting recovery from the 2019–20 Black Summer bushfires. Consistent with other related programs, it is acknowledged that while business development is a state responsibility, the Commission does not assess needs for the impacts of bushfires.
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.
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 New South Wales 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	No impact	2023 Update terms of reference requirement.

Commonwealth payment	Description	2021-22 \$m	Proposed treatment	Reason for treatment
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.
<b>Other purposes</b>				
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	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	No impact	Legal services for civil and coronial court matters are a state function but needs are not assessed.

Commonwealth payment	Description	2021-22 \$m	Proposed treatment	Reason for treatment
- Coronial inquiries and expensive and complex cases		1.3		
National Legal Assistance - Partnership			No impact	Family court services is a Commonwealth function and not a state service.
- Legal assistance family law pilot program	Funding to support a pilot in South Australia to increase the capacity of the legal assistance sector to provide services in family law matters.	3.6		
- Increased legal assistance funding for vulnerable women	Funding is for legal aid commissions, community legal centres and Aboriginal and Torres Strait islander Legal Services, to assist predominately for family court matters.	31.6		
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 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 needs are assessed.
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% 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

Commonwealth payment	Description	2021-22 \$m	Proposed treatment	Reason for treatment
				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 A-2 City and Regional Deals

Commonwealth payment	Description	2021-22 \$m	Proposed treatment	Reason for treatment
<b>Geelong</b>		<b>12.4</b>		
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.
<b>Perth</b>		<b>68.9</b>		
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 precinct for state government institutions. 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 a 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.		No Impact	Payments are primarily for homelessness services. Homelessness services are a normal state government function, but the Commission has not been able to identify a means to assess needs.

Commonwealth payment	Description	2021-22 \$m	Proposed treatment	Reason for treatment
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 a normal state service and needs are assessed.
<b>Hinkler</b>		<b>3.0</b>		
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.
<b>Albury-Wodonga</b>		<b>0.6</b>		
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.

## Attachment B – Additional New Issues

Issues presented in this attachment were identified in December 2022, after the release of the new issues discussion paper. They relate to data issues in the wages and justice assessments, the materiality of a separate assessment of lithium royalties and the treatment of an additional Commonwealth payment. States were consulted separately on these issues.

### Wage costs – Effect of COVID-19 lockdowns

#### Issue

The wages states pay their public sector employees reflect their different circumstances and their policy choices. Since 2004, the Commission has used a regression of private sector wage levels to produce a policy neutral measure of the relative public sector wage costs in each state.

The regression draws on the ABS' Characteristics of Employment survey (conducted every August). It predicts a person's most recent pay, given a range of attributes such as occupation, industry, sex, migrant status and state. The Commission uses this to measure the difference in prevailing wages for otherwise comparable employees in different states.

'Hours usually worked' is an important variable in the regression that affects a person's pay. In any given month, there are a significant number of people working fewer than their usual hours. For most workers, particularly permanent employees, this does not affect their salary, and such people are included in the model. For casual employees, while their hours worked may vary, their usual hours are generally thought to be a reasonable proxy for the hours they are paid and are included in the model on this basis.

The 2021–22 assessment year wage level is estimated from the August 2021 survey, when several states were in some form of COVID-19 related lockdown, and no Jobkeeper payments were available. This meant that many businesses reduced their employees' hours and salary. These employees faced a reduced salary, and while their actual hours worked fell, their 'usual hours' did not change. The regression model attributes the resulting apparent reduced hourly rate of pay to the states in which those people live, that is states in lockdown in August 2021. This reduction in apparent wage levels does not reflect a change in the hourly rate of pay, for either the private or public sectors.

This issue only came to light following the final release of the data by the ABS in late December 2022. The Commission identified possible adjustments that could be made to the model and to the data to correct for the identified bias due to COVID-19 lockdowns.

Commission staff consulted with state treasury officials regarding whether an adjustment was warranted and, if so, what the most appropriate approach would be. Formal submissions will be made available on the Commission's website. The options discussed were:

- to remove records of people who worked fewer than their usual hours because they were underemployed, stood down, or for other reasons. These reasons were correlated with COVID-19 related lockdowns, or
- to use an alternative, more direct, measure of hours worked in the regression model. That is, the hours that contributed to the last payslip, rather than usual hours worked.



### **Views of state treasury officials**

There were mixed views on whether an adjustment was warranted and the preferred approach. If an adjustment were to be made, most states supported limiting it to 2021–22, the year in which the data issue had been identified.

Some states suggested as an alternative that the discount factor for the assessment should be increased, at least for the 2021–22 year, to reflect a reduced confidence in the data.

States that did not support making an adjustment noted the following:

- the wages assessment has always been volatile. Significant unexplained movements in estimated relative wages in previous updates had not been corrected for in response to state concerns. They therefore felt it would be inconsistent for the Commission to make a correction in this case.
- there was insufficient time for the Commission or the states to investigate any adjustment and ensure that it was appropriate and robust.

States that supported an adjustment noted that the Commission had demonstrated that there was a data anomaly and that addressing it increased the explanatory power of the model.

### **Commission decision**

To remove the bias from the estimates of relative wage levels created by COVID-19 lockdowns coinciding with the August 2021 survey, the Commission decided to make an adjustment. Instead of using a person's usual hours, it decided to use the hours individuals were paid in their most recent pay period in the regression to estimate state differences in wages.

Figure B-4 shows the effect of the adjustment on the relative wage estimates for the year entering the assessment (2021–22). The adjusted estimates are more consistent with the estimates for earlier years.

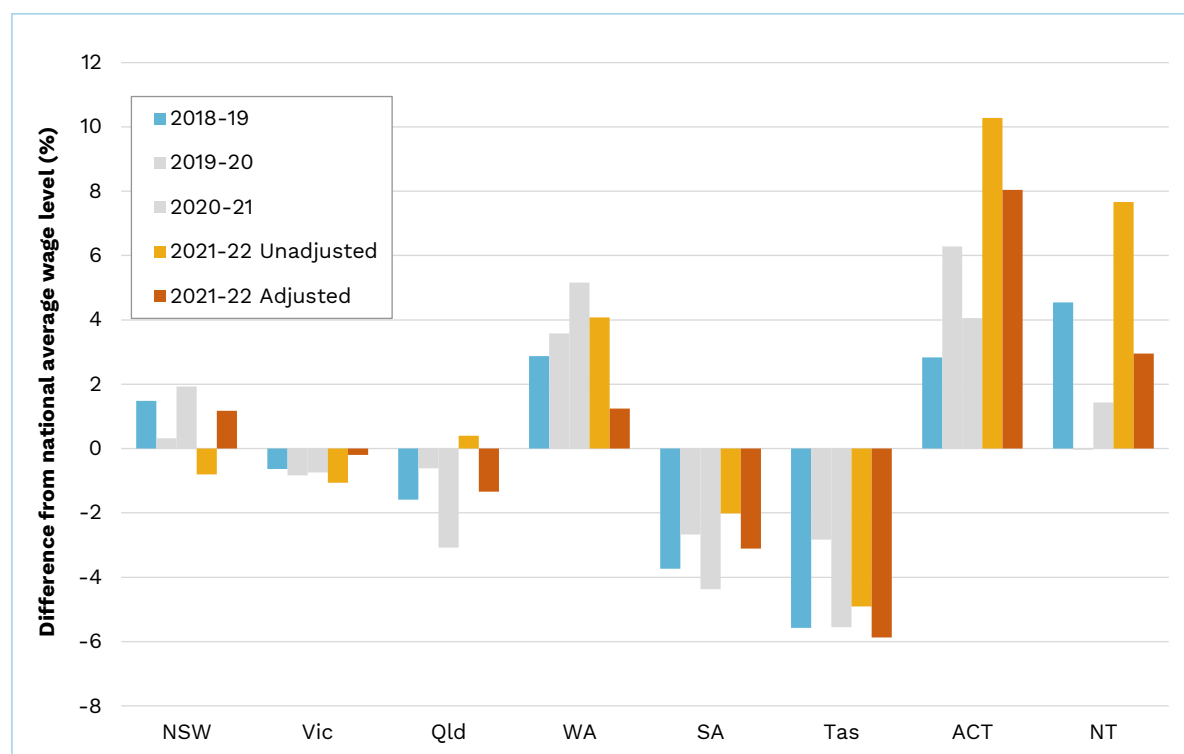
In previous cases of unusually large annual changes in estimated wage levels, no possible underlying cause of unusual estimates or appropriate treatment was identified, precluding the ability to make an informed adjustment. In this update, improved access to data has helped the source and mechanism of the bias to be understood, and so the Commission has been able to make an adjustment for 2021–22.

The Commission acknowledges the short time available for consultation on this issue, and it intends to consult states again on the wages variable in the 2024 Update. However, given the information available for the 2023 Update, the Commission's view is that using paid hours produces a better reflection of the underlying wage pressures in states in 2021–22.

Because the replacement variable measures the same concept (hours worked), the Commission does not consider there to be a problem using a different variable for just one year. The annual surveys are cross-sectional in nature and there are no data dependencies between years. Further, terms of reference permit changes to correct for data issues, such as those identified in 2021–22, but not to make changes to the assessment where data issues are not identified.

The Commission does not consider an increased discount to be appropriate. The proposed adjustment addresses the identified bias, and there is no reason to suggest any less confidence in the Commission's estimates of relative state wages than in previous years.

Figure B-4 Relative state wage level estimates over time



Source: Commission calculations

## Other issues

The Commission consulted states on 3 other issues in December 2022. All states noted the issues. Those states that commented supported the Commission’s proposals.

### Justice – ABS prisoner data

#### Issue

The ABS has delayed its release of prisoner data for 2021–22 until late January 2023. This timing is too late for the Commission to incorporate into its Justice assessment in the 2023 Update.

#### Commission decision

The Commission used 2020-21 prisoner data for 2020–21 and 2021–22 in the 2023 Update. This is consistent with the Commission’s approach to Australian Institute of Health and Welfare juvenile detention data where the latest year’s data are not available until after each update. The 2021–22 data will be updated in the 2024 Update to reflect the latest available data.

### Mining revenue – Lithium royalties

#### Issue

The Commission’s mining revenue assessment method allows the composition of the category to respond to changes in the materiality of individual mineral assessments. A separate assessment of lithium royalties is material in this update. State budget documents suggest it is likely to continue to be material in the foreseeable future.

### **Commission decision**

The Commission made a separate assessment of lithium royalties in the 2023 Update. Like onshore oil and gas and bauxite, the separate assessment will be added to the other minerals component in the Commission's published material, on confidentiality grounds.

## **Commonwealth payment – Construction Softwood Transport Assistance**

### **Issue**

The Construction Softwood Transport Assistance payment was not included in the new issues discussion paper as it was thought to be part of the Forestry Industries Bushfire Salvage Assistance payment which the Commission treated as 'no impact' in the 2022 Update. It was later determined to be a separate payment. The Construction Softwood Transport Assistance payment is a program to enable the transportation of bushfire-salvaged softwood to timber mills. \$0.1 million was paid under the program in 2021–22.

### **Commission decision**

The Commission treated this payment as 'no impact'. It forms part of a set of programs supporting recovery from Australia's 2019–20 Black Summer bushfires. This is consistent with the no impact treatment of similar payments on the grounds that, while business development is a state responsibility, the Commission does not assess needs for the impacts of bushfires. Western Australia did not comment and all other states supported this treatment.