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Response to 2024 Update New Issues Discussion Paper

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Introduction

On 29 September 2023 the Commonwealth Grants Commission (CGC) provided Victoria with its 2024 Update New Issues Discussion Paper (the discussion paper).

Victoria notes that the issues identified in the discussion paper are in the absence of terms of reference (ToR) for the 2024 Update, expected to be issued in late 2023. Once the ToR are issued, further consultation with jurisdictions may be necessary.

Victoria appreciates the opportunity to provide input on issues raised by the CGC in the discussion paper and looks forward to continuing to engage with the CGC on these issues ahead of the release of the 2024 Update.

Summary of Victoria's views

Topic raised by CGC staff	CGC recommendation	Victoria's recommendation
Assessment of states' COVID-19 expenditures	n.a.	Note the assessment is based on the 2020 method's incorrect treatment of states' COVID-19 related expenditures for health and business support
Justice – use of 2021 Census disaggregated First Nations (FN) population Estimates	Use 2016 FN population projections instead of 2021 data because justice usage data is also from 2016 and FN growth has been partly non-demographic	Do not support. Propose using latest available data from 2021 Census
Transport – ABS 2021 Census – urban area geography data available	Update the characteristics of urban areas using: <ul style="list-style-type: none"> • 2021 Census significant urban areas definitions • 2021 Census distance to work • Updated Geoscience Australia average slope • 2016 Census passenger data 	Support using the 2021 definitions of significant urban areas to update significant urban areas characteristics Do not support distance to work from the 2021 Census Support retaining 2016 Census passenger data
Payroll tax – change in ABS Employment and Earnings, Public sector data	Discontinue the separate adjustment to remove the remuneration of ADF personnel and Australian embassy employees as it is no longer necessary.	Support
National capital – negative assessed GST needs	Do not apply a negative adjustment because the conceptual case only allows a positive adjustment.	Support
Mining revenue – a separate assessment of nickel is material	Separately assess nickel royalties.	Support

Spending on Treaty processes with traditional owners	n.a.	Victoria's spending on Treaty relating to native title and land rights is assessed along with other native title expenditure
New Commonwealth payments	Proposed treatments of new Commonwealth payments	Support

Assessment of states' COVID-19 expenditures

The CGC has not raised the treatment of states' COVID-19 related expenditures in the discussion paper. While Victoria strongly supports the CGC's past conclusions in its 2022 and 2023 update reports on this issue, it believes this issue has not been resolved. The 2024 Update will likely be the update with the most significant impacts from the COVID-19 pandemic, covering 2020-21, 2021-22 and 2022-23.

It would be valuable for the CGC to highlight again in the 2024 Update that its methods do not align with the underlying drivers of COVID-19 expenditure. This could highlight again to the Commonwealth Treasurer the CGC's position that its methods did not align with COVID-19 expenditure drivers. It would also highlight that the current methods do not allow the CGC flexibility to respond to extraordinary events between review. Victoria is pleased the Commonwealth Treasurer included an examination of the need for flexibility between reviews in the Terms of Reference for the 2025 Review.

Victoria has provided extensive evidence to support its views on the assessment of states' COVID-19 related expenditures as part of consultation on previous 2022 and 2023 update reports, and recently as part of its response to tranche one of the CGC's 2025 Methodology Review. Victoria refers the CGC to these documents for its views and evidence supporting these positions.

Victoria's position

Victoria recommends the 2024 update note the assessment is based on the 2020 method's incorrect treatment of states' COVID-19 related expenditures for health and business support.

Data issues for consideration

Justice – use of 2021 Census disaggregated First Nations population estimates

Victoria contends that using the 2021 Census based First Nations population figures would provide a better estimate of justice service usage needs than the 2016 Census based population projections.

The 2021 Census based First Nations population estimates are the best and most recently available measure of First Nations populations. Terms of reference from previous updates and methodology reviews require the CGC to use the latest available data that is fit for purpose. It is expected the terms of reference for the 2024 update will also include this direction. Using the 2016 projections instead would incorrectly estimate the number of justice service users. The 2016 population estimates are now dated given there has been substantial growth in First Nations populations since then.

Using 2016 projections of First Nations populations would also be inconsistent with the CGC's adoption of 2021 Census based estimates of overall population in the Justice assessment in the 2023 Update, as well as presumably the 2024 Update.

The CGC notes that the composition of the First Nations population in the 2021 Census is not comparable with the 2016 Census population projections because "non-demographic" growth in First

Nations populations has been higher than “demographic” growth.¹ However, the CGC has not explained why this would make combining 2021 population projections with 2016 use rates inaccurate. The methods for determining Indigenous status in the state justice data that underly the First Nations justice service use rates are unrelated to the self-identification methods of the Census.

Without further justification or evidence for why using 2021 data would be worse than 2016 data, Victoria considers that using the most up-to-date data is the preferred option.

CGC preliminary views and Victoria’s position

The Commission’s preliminary view is to apply 2016 Census based use weights to 2016 Census based population estimates for First Nations people in the 2024 Update justice assessment.

Victoria does not support the use of 2016 Census based population estimates for First Nations people. Victoria recommends applying 2016 Census based use weights to 2021 Census based population estimates.

Transport – ABS 2021 Census – urban area geography data available

2021 Census geographies

Victoria supports using the 2021 Census geographies and significant urban area (SUA) boundaries to update area populations and population weighted densities. Victoria considers this maintains consistency with the remainder of the assessments where population data have been updated for the 2021 Census following the 2023 Update.

Victoria notes changes in geographies from the 2016 to 2021 Census are not reflected in the 2020 econometric model, meaning the basis for the model is different to the characteristics of SUAs it is applied to. Victoria considers this likely does not materially impact the results as the CGC note including these areas did not have a significant impact on the robustness of its modelling.

In addition, the 2020 model already does not include data on all areas its results are applied to – the transport consultants that developed the model only used data for 70 of the total 106 SUAs. The 2020 Review report notes this was as Victoria and Queensland were unable to provide full financial data separately for all SUAs. The CGC noted its confidence at the time that these omissions did not bias the results.

2021 Census distance travelled to work

As noted in Victoria’s response to the tranche 1 consultation papers for the 2025 Review, the use of 2021 distance to work travelled data is not supported.

This is because it cannot be known whether distances travelled to work from the 2021 Census are impacted by the COVID-19 pandemic as a counterfactual is not available. Even though the data show

¹ The CGC refers to non-demographic change as growth of First Nations Australians due to altering Census coverage and changing patterns of First Nations identification, rather than growth due to due to births, deaths and migration.

distances travelled stayed at similar levels between 2016 and 2021, they may have increased or decreased in that time in the absence of a pandemic. Victoria supports retaining the 2016 Census data given this uncertainty. This would maintain consistency with other travel related data used from the 2016 Census including passenger numbers and patronage by mode.

Victoria notes the discussion paper appears to pre-empt outcomes of the 2025 Review by stating that distance to work data will be updated in the econometric model, along with other 2021 Census data. Whether this was appropriate was raised as a question for consultation in the 2025 Review paper on transport and the 2024 update should not pre-empt those decisions.

Updated Geoscience Australia topography

Victoria supports using updated slope data from Geoscience Australia to update the topography characteristic of SUAs. Victoria agrees with the CGC's position in the discussion paper that topography is unlikely to change over time or be influenced by COVID-19.

2016 Census passenger numbers

Victoria supports retaining the 2016 Census passenger numbers, as detailed in its response to the 2023 Update consultation paper, and subsequently adopted by the CGC for the 2023 Update of GST relativities.

CGC preliminary views and Victoria's positions

The Commission's preliminary view is to update the characteristics of urban areas that are applied to the regression coefficients in the urban transport assessment using:

- **2021 Census significant urban areas definitions to update urban area population and population weighted densities**
- **2021 Census distance to work data to update network complexity**

Updated topography

- **average slope data to update topography**
- **2016 Census passenger data to model passenger numbers.**

Victoria supports using the 2021 definitions of significant urban areas to update SUA characteristics, including population, population weighted density and topography. Victoria also supports retaining 2016 Census passenger data.

Victoria does not support using distance to work from the 2021 Census.

Payroll tax – change in ABS Employment and Earnings, Public sector data

CGC preliminary views and Victoria's position

The Commission's preliminary view is to discontinue the separate adjustment to remove the remuneration of Australian Defence Force personnel and Australian embassy employees from its measure of the payroll tax base from the 2022–23 assessment year, as it is no longer necessary.

Victoria supports discontinuing the separate adjustment for the remuneration of Australian Defence Force personnel and Australian embassy employees.

Other issues

National capital – negative assessed GST needs

Victoria supports the CGC's preliminary view to suspend the national capital assessment from the calculation of GST relativities for the 2024 Update if the assessed need is negative. Victoria accepts that there is no conceptual case for a negative assessment affecting the justice or other related expense categories.

The fact that the assessed need is expected to be negative calls into question the validity of the conceptual case. Victoria notes the future of the national capital assessment will be discussed as part of the 2025 Review.

CGC preliminary views and Victoria's position

The Commission's preliminary view is to suspend the national capital assessment from the calculation of GST relativities for the 2024 Update if the ACT's assessed GST needs for the national capital assessment are negative.

Victoria supports the Commissions' preliminary view to suspend the national capital assessment from the calculation of GST relativities for the 2024 Update if the assessed need is negative.

Mining revenue – a separate assessment of nickel is material

The CGC has noted that a separate assessment of nickel is material but has not shared the impact of the proposed approach with states. Victoria requests the CGC provide the impact of proposed changes to states in future. Given the historical separate evaluations of nickel by the CGC and the straightforward nature of the mining revenue assessment, Victoria does not have any concerns with the proposed assessment method.

CGC preliminary views and Victoria's position

The Commission's preliminary view is to separately assess nickel royalties in the 2024 Update.

Victoria does not currently have concerns with the proposed approach, however, would appreciate provision of modelling showing financial impacts on states in future.

Treatment of spending on Treaty processes with traditional owners

As noted in its response to the 2025 Review tranche 1 consultation papers, Victoria considers it is likely that a proportion of spending on Treaty is relevant for the CGC's data requests for spending on native title and land rights. Victoria presents the case for why Treaty spending can be considered under the CGC's assessment of native title in its response to the 2025 review.

Victoria's 2023-24 Budget included a significant investment over the budget period of \$138 million to support Treaty negotiations. This is in addition to over \$93 million allocated in Victorian budgets since 2016.

For the 2024 Update, Victoria's data return on native title and land rights separately identifies spending on Treaty it considers meets the definitions in the request from the CGC. Victoria recommends this is included in the native title assessment for the 2024 Update.

Victoria's position

Victoria recommends its spending on Treaty with traditional owners relating to native title and land rights is assessed under the native title and land rights assessment category, as detailed in its response to the relevant CGC data request.

New Commonwealth payments

CGC preliminary views and Victoria's position

The Commission's proposed treatment of new Commonwealth payments is outlined in Attachment C.

Victoria supports the proposed treatments of new Commonwealth payments in 2022-23 outlined in the discussion paper.

