

# Services to industry

## Review outcomes

- The following changes were made to the assessment.
  - The indicator of industry size in the business regulation assessment will change from total factor income to state industry output from the ABS to reduce the sensitivity of the assessment to changes in commodity prices. The indicator will be updated annually using the chain volume measure of industry value added.
  - A new, temporary component will be introduced to assess expenses associated with the COVID-19 business support national partnerships. The usual drivers in the services to industry assessment do not adequately reflect state expense needs for COVID-19 business support.
  - The business development and regulation expense weights were re-estimated using the latest data provided by the states.
- The Commission considered but did not to change the following.
  - Business counts will not be included as a driver of need for state expenses on business regulation because there are data limitations that may lead to perverse outcomes.
  - Regional costs will not be introduced as a driver of state expenses in the business development assessment given the lack of evidence to support such a change.
- As part of the Commission’s forward work program, it will work with the states and other Commonwealth agencies on the development of a net-zero transition assessment because the transition to net-zero is an emerging cost for states.

## Introduction

- 1 On 6 July 2024, the Commission published the [Draft Report](#) for the 2025 Methodology Review.
- 2 The Draft Report included a detailed analysis and response to issues raised by states and territories (states) in their [submissions](#) on the Commission’s [consultation paper](#).
- 3 State submissions on the Draft Report can be viewed [here](#).
- 4 This chapter includes:
  - an overview of the issues considered throughout the review
  - the Commission’s response and decision on each issue
  - GST impacts of method changes.

- 5 A description of the assessment method, incorporating changes made in the 2025 Review, can be found in the services to industry chapter of the *Commission's Assessment Methodology*.

## Issues considered

### Change in the measure of industry size and determining a base year for the business regulation assessments

- 6 The Commission considers industry size is the appropriate driver of states' regulation expenses. The 2020 Review method uses total factor income as the measure of industry size. However, total factor income has been sensitive to changes in commodity prices that do not affect regulatory expenses. To address this issue, the Commission proposed to change the measure of industry size to a volume-based measure of industry output.
- 7 The Commission initially considered replacing total factor income with the chain volume measure of industry value added, published annually by the ABS. This method required the Commission to determine an appropriate base time period to measure annual changes.
- 8 To avoid the issue of determining a base year, the Commission proposed to instead use the industry output measure produced by the ABS for the national and state accounts which does not require the annual rebasing of the indicator to assess changes over time.

### State views

- 9 All states supported or did not comment on the Commission's proposal to change the measure of industry size.
- 10 New South Wales reiterated its preference that the Commission use a 3-year average rather than a single year of industry output from the ABS, to measure industry size.

### Commission response

- 11 The Commission noted New South Wales' preference for a 3-year average, rather than 2021–22 as the first year. The Commission considers the New South Wales proposal would introduce unnecessary complexity into the assessment as it would diverge from ABS national and state accounts methods, which use the year-on-year annual change in industry output rather than the change from an average year.

### Commission decision

- 12 The Commission will replace total factor income as the measure of industry size with the aggregate measures of industry output, provided by the ABS. This measure does not require rebasing for each update.

- 13 The Commission will update the aggregate measures of state industry output for years after 2021–22 using the percentage change in chain volume of industry value added published annually for each state by the ABS.

## **Number of businesses as a driver of state regulation expenses**

- 14 In the 2020 Review the Commission accepted the conceptual case that the number of regulated businesses influenced the cost to states of undertaking regulatory activities. However, the business regulation assessment was simplified by removing the number of businesses as a driver of need because it was not material. In the 2025 Review, the Commission investigated reintroducing the number of registered businesses as a driver in the business regulation assessments.

### **State views**

- 15 Most states were supportive or did not comment on the reintroduction of business counts as a driver of regulation assessment expenses. This was on the basis that there are likely to be increased costs for regulating a greater number of businesses.
- 16 New South Wales and Victoria supported the inclusion of business counts as a driver of state regulatory expenses. They said the Commission should consider data sources including Australian Taxation Office, Business Longitude Analysis Data Environment data (available from the ABS) and Australian Business Register data to enable inclusion of the driver.
- 17 South Australia reiterated its support for the inclusion of business counts but noted that it was not practical on data quality grounds.

### **Commission response**

- 18 The Commission accepts the conceptual case that the cost of regulating many small businesses is higher than regulating fewer large businesses. The Commission proposed using ABS data on the number of businesses by industry classification by state. ABS data are based on Australian Taxation Office and Australian Business Register data. However, there are data limitations and challenges with implementing the driver:
- National companies, such as retailers, have one Australian Business Number (ABN), linked to a head office in a capital city even though they may have regulated business across states. Alternative data sources suggested by New South Wales and Victoria, including the Business Longitudinal Analysis Data Environment (BLADE), do not overcome the multi-location business limitations because they are based on the same data sources used by the ABS.
  - To implement business counts in the assessment, the Commission must determine the share of state regulatory spending which is influenced by the number of businesses or industry output. The Commission can either use judgement or ask states to disentangle regulatory expenses driven by industry output or the number of businesses.

- 19 Given these limitations, the Commission concluded that implementing the driver could lead to perverse outcomes that outweigh the benefits of including it.

### **Commission decision**

- 20 The Commission will not include business counts as a driver of need when assessing business regulation expenses because of the limitations of the ABS business count data.

### **Net-Zero transition**

- 21 The Commission identified net-zero transition expenses as an emerging cost for states. The Commission sought state views on the potential for developing an assessment of net-zero transition expenses. The Commission consulted with states on the following issues:
- the identification of state expenses on the transition
  - potential policy neutral drivers of state expenses
  - state expectations of future expenses as the transition progresses.

### **State views**

- 22 All states except South Australia said they could identify most of their specific net-zero transition expenses. South Australia noted that it is reviewing its current net-zero activities, which will enable it to identify expenses in the future. Some states also indicated that it would be useful if the Commission provided a consistent definition of net-zero expenses to help them in identifying relevant expenses.
- 23 All states considered it a challenge to identify policy neutral drivers of state net-zero expenses citing a complicated mix of structural factors and state policy choices (both historical and current).
- 24 Some states suggested that any drivers of state expenses on the net-zero transition must also consider the potential for cost sharing between industry and governments.
- 25 All states except Tasmania expected there to be increases in state expenses on the net-zero transition, which would warrant a separate assessment if possible. Tasmania said that it is unclear whether expenses will be material, and notes that any assessment should not disadvantage states that have already invested heavily in the transition.

### **Commission response**

- 26 The Commission acknowledges the challenges in reliably identifying net-zero transition expenses and identifying policy neutral drivers of expenses. The Commission agrees with states that further work beyond the 2025 Review is required to explore whether a net-zero transition assessment is possible.

## Commission decision

- 27 The Commission will work with the states to explore whether a reliable net-zero transition assessment can be developed. The Commission's proposal is outlined in the forward work program chapter of *Review Outcomes*.

## COVID-19 business support expenses

- 28 The Commission considered the treatment of COVID-19 business support in the 2021, 2022, 2023 and 2024 updates. It said the methodology used in these updates did not capture the drivers of COVID-19 state expenses, which differed from the usual drivers of business development expenses. In the 2023 Update, the Commission noted that it considered state responses to the COVID-19 pandemic were largely driven by circumstances outside of state control rather than policy choices. However, the terms of reference for these updates did not provide the Commission with the flexibility to change the assessment method in response to state COVID-19 expenses. The 2025 Review provided the opportunity to change assessment methods. As a result, the Commission proposed an actual per capita treatment of COVID-19 business support expenses, instead of an equal per capita treatment.
- 29 The Commission also proposed to define relevant state expenses as expenses covered by the 8 COVID-19 business support national partnership agreements which were co-funded with the Commonwealth.<sup>1</sup>

## State views

- 30 New South Wales and Victoria supported the Commission's proposal to assess state COVID-19 business support expenses under the national partnerships actual per capita. They said an equal per capita treatment was not appropriate because state expenses were driven by state circumstances.
- 31 New South Wales asked for a retrospective adjustment to compensate it for the treatment of COVID-19 business support expenses in the 2022, 2023 and 2024 updates.
- 32 Some states disagreed with the proposed actual per capita treatment of national partnership agreement COVID-19 expenses. They said that an actual per capita assessment of COVID-19 expenses was not appropriate because state expenses were policy influenced.
- 33 Queensland said that there were differences between state health, quarantine and lockdown policies as well as differences in the scope and extent of business support payments made under the 8 Commonwealth-state national partnership agreements.

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<sup>1</sup> The 8 agreements are available on the federal financial relations [website](#). The 8 agreements are Business support payment (JobSaver) – New South Wales; Business support payments – Victoria; Business support payments – Queensland; Business support payments – Western Australia; Business support payments – South Australia; Business support payments – Tasmania; Business support payments – Australian Capital Territory and Business support payments – Northern Territory.

It said that an equal per capita assessment is appropriate because of the lack of differential drivers of state needs.

- 34 Western Australia said that state policy differences contributed to most of the differences in state business support spending. It said that the Commission had said it could not identify any drivers of COVID-19 state expenses in the 2023 Update. Western Australia also supported an equal per capita treatment because of a lack of identifiable drivers.
- 35 Western Australia also said the Commission’s proposal is contrary to the findings of international and national studies. It said comments from the then Prime Minister, other prominent political leaders, and the Secretary of the Federal Treasury supported the position that there were significant policy differences between states that led to different outcomes.
- 36 South Australia disagreed with the view that responses to COVID-19 were driven by state circumstances alone. It said both state circumstances and policy choices drove COVID-19 impacts. South Australia said that if a separate assessment of COVID-19 was adopted, the maximum discount must be applied to reflect policy neutrality and data quality concerns.
- 37 Although it was supportive of the Commission’s proposal, Victoria said that any assessment of COVID-19 expenses should also include state COVID-19 expenses that are not covered by the National partnership agreements.
- 38 Queensland and South Australia also said that because the assessment approach will not have an impact until 2025–26, it is not contemporaneous and should not be assessed.
- 39 All states either supported or did not comment on the Commission’s proposal to not retrospectively adjust the 2022, 2023 and 2024 updates with the proposed COVID-19 method. Although New South Wales supported an adjustment, it noted that the Commission is unable to retrospectively adjust past updates.

## Commission response

- 40 The Commission considers the drivers of state COVID-19 business support expenses differed from the usual drivers of business development expenses. As such, there is a case for a different assessment method.
- 41 There are diverse views among the states as to whether state expenses on COVID-19 related business support largely reflected state policy or state circumstances. The Commission continues to hold the view that state responses to COVID-19 largely reflected specific state circumstances arising from the pandemic, rather than state policy choices.<sup>2</sup>

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<sup>2</sup> Commonwealth Grants Commission (CGC) [Report on GST Revenue Sharing Relativities 2021 Update](#), CGC, 2023, accessed 4 September 2024; Commonwealth Grants Commission (CGC) [New Issues in the 2022 Update](#), Commonwealth Grants Commission, 2023, accessed 4 September 2024; Commonwealth Grants Commission (CGC) [New Issues in the 2023 Update](#), Commonwealth Grants Commission, 2023, accessed 4 September 2024.

- 42 Although there were differences in the Commonwealth-state COVID-19 National partnership agreements, the Commission does not view the differences as significantly affecting state expense decisions. The agreements were all struck with a common policy objective, specifically to support businesses through local or statewide lockdowns in response to the pandemic.
- 43 While accepting that states had COVID-related business support expenses outside the national partnership agreements, the Commission considers it is impractical to include these expenses in the assessment. Spending outside of the agreements is not expected to be consistently characterised in ABS Government Finance Statistics.
- 44 The proposed assessment is contemporaneous in that all relevant expenses will be included in the 3 assessment years applicable for the GST distribution for 2025–26.
- 45 The Commission does not view a discount as appropriate in the COVID-19 assessment. The Commission typically discounts assessments in response to method and data uncertainty but does not discount for policy neutrality. The Commission does not consider there to be method or data uncertainty in the proposed COVID-19 business support assessment.

### **Commission decision**

- 46 The Commission will assess state expenses covered by the COVID-19 business support national partnership agreements using an actual per capita treatment from 2021–22.
- 47 The Commission will not retrospectively adjust the GST distribution for the 2022, 2023 and 2024 updates.

### **Regional costs in business development**

- 48 In Western Australia's submission to the welfare consultation paper, it said that the Commission should reconsider the conceptual case for regional costs as a driver of state expenses in the business development assessment.

### **State views**

- 49 Western Australia said that the Commission should include the additional costs from remoteness when assessing state expenses on business development. It said that although many grant processes and tenders are administered from a centralised location (usually a capital city), the level of funding for projects in regional and remote locations is greater than in a capital city. Western Australia also said that when applying for business development grants, the applicant includes the additional costs of provision in remote areas in their cost estimates.

### **Commission response**

- 50 While there may be additional costs associated with business development activities in regional and remote areas, the Commission is not aware of consistent data or

other evidence to support the inclusion of regional costs in the business development assessment.

### Commission decision

51 The Commission will not include regional costs in the assessment of business development expenses.

### Regional costs discount

52 Queensland questioned whether the 25% discount on the general regional cost gradient in the 2020 Review methods remained appropriate for the business regulation assessments. Discounting of the general regional cost gradient is discussed in the geography chapter of *Review Outcomes*.

### Update to business regulation and development weights

53 The Commission requested updated business development expense data from states to update the business regulation and business development weights. All states provided data to the Commission on their expenses. Table 1 shows the updated weights for all states and the national average. These weights will be held constant until the next review.

**Table 1 Revised business regulation and development weights**

	2025 Review								2025 Review Ave	2020 Review Ave
	NSW	Vic	Qld	WA	SA	Tas	ACT	NT		
	%	%	%	%	%	%	%	%	%	%
<b>Agriculture</b>										
Regulation	15	73	49	97	58	27	na	6	44	50
Business development	85	27	51	3	42	73	na	94	56	50
<b>Mining</b>										
Regulation	81	97	96	94	90	79	na	81	91	80
Business development	19	3	4	6	10	21	na	19	9	20
<b>Other industries</b>										
Regulation	53	38	66	68	25	28	80	48	51	53
Business development	47	62	34	32	75	72	20	52	49	47

Note: na- not available.

Source: Commission calculation using state and ABS Government Finance Statistics data.



## GST impacts of method changes

54 The impact on the GST distribution from the method changes is shown in Table 2.

**Table 2 Impact on GST distribution of method changes, services to industry, 2024–25 to 2025–26**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
COVID-19	456	577	-478	-330	-176	-38	17	-28	1,050
Changed component weights	-130	-107	21	251	-27	-12	-5	8	280
Change in measure of industry size	-30	1	46	-15	-6	-5	-3	13	59
<b>Total</b>	<b>296</b>	<b>471</b>	<b>-411</b>	<b>-94</b>	<b>-209</b>	<b>-55</b>	<b>9</b>	<b>-7</b>	<b>776</b>
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
COVID-19	53	80	-83	-108	-93	-66	36	-108	38
Changed component weights	-15	-15	4	82	-14	-21	-9	31	10
Change in measure of industry size	-4	0	8	-5	-3	-8	-7	50	2
<b>Total</b>	<b>34</b>	<b>66</b>	<b>-72</b>	<b>-31</b>	<b>-110</b>	<b>-95</b>	<b>19</b>	<b>-27</b>	<b>28</b>

Note: Changes to the wage costs assessment are not included. They are shown in the wage costs chapter of *Review Outcome*. COVID-19 effects are net of the changes in the treatment of Commonwealth COVID-19 business support payments.

## COVID-19 assessment

55 The largest driver of the change in assessed GST needs is the temporary actual per capita assessment of state expenses on COVID-19 business support as show in Table 3. This increased the GST distributed to New South Wales, Victoria and the ACT.

**Table 3 Impact of the COVID-19 business support component on GST distribution, 2024–25 to 2025–26**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Commonwealth payment for COVID-19	-501	-580	509	322	195	47	-18	26	1,099
State spending of Commonwealth payment	501	580	-509	-322	-195	-47	18	-26	1,099
State own source COVID-19 spending	501	580	-509	-322	-195	-47	18	-26	1,099
Moving expenses to the COVID-19 component	-45	-3	31	-8	19	9	-1	-1	59
<b>Net effect of treatment of COVID-19</b>	<b>456</b>	<b>577</b>	<b>-478</b>	<b>-330</b>	<b>-176</b>	<b>-38</b>	<b>17</b>	<b>-28</b>	<b>1,050</b>
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Commonwealth payment for COVID-19	-58	-81	89	105	102	82	-38	102	39
State spending of Commonwealth payment	58	81	-89	-105	-102	-82	38	-102	39
State own source COVID-19 spending	58	81	-89	-105	-102	-82	38	-102	39
Moving expenses to the COVID-19 component	-5	0	5	-3	10	16	-2	-6	2
<b>Net effect of treatment of COVID-19</b>	<b>53</b>	<b>80</b>	<b>-83</b>	<b>-108</b>	<b>-93</b>	<b>-66</b>	<b>36</b>	<b>-108</b>	<b>38</b>

- 56 The impact of this method change will be largely limited to the 2025–26 GST distribution because COVID-19 business support expenses decline significantly after 2021–22. However, residual state expenses and reimbursement payments to states from the Commonwealth may be recorded in future years because of delays in state final reimbursement claims.
- 57 Table 3 shows the offsetting revenue and expense effects of the Commonwealth payments as well as the impact of assessing the matching state expenses actual per capita. The net impact of the COVID-19 business support assessment also includes the effect of moving expenses from the business development component to the COVID-19 business support component.

### **Other method changes**

- 58 Increasing the mining regulation component expense weight increased the assessed expense needs of states with relatively large mining sectors including Queensland, Western Australia and the Northern Territory.
- 59 Changing the industry size indicator for assessing agriculture and mining regulation expenses also increased the assessed GST needs of Queensland and the Northern Territory due to an increase in its share of national agricultural and mining production.