Government of **Western Australia**
Department of **Treasury**

Submission to Commonwealth Grants Commission

2022 Update New Issues

November 2021

Submission to the Commonwealth Grants Commission, 2022 Update New Issues

Further information relating to this report may be obtained by emailing igr@treasury.wa.gov.au

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KEY POINTS

Response to COVID-19

- Differences among States in their policies and efficiencies are significant drivers of the differing impact of COVID-19.
- For the revenue assessments, we agree with the discussion paper's proposed treatment of tax waivers, rebates, tax deferrals, and JobKeeper payments.
- Due to policy influences among States and the lack of relationship between COVID-19 funding and spending and COVID-19 cases, the Commonwealth Grants Commission (CGC) should apply its existing health assessment, and assess the National Partnership on COVID-19 Response as impacting on the relativities.
- For Services to Industry, the regulation and business expense split should be recalculated, but only if the Terms of Reference allows for method changes. Any additional business development expenditure is too heavily policy influenced to be differentially assessed.
- The CGC should not remove workers paid $750 per week from the wages regression analysis as this could bias the results and complicate an already complex analysis.

New Western Australian native title agreements

- We are comfortable with the CGC's proposal to assess compensation payments for the South West Native Title Agreement and the Yamatji Nation Indigenous Land Use Agreement as they occur over time (as recorded by the Australian Bureau of Statistics), rather than as an up-front expense (as recorded by Western Australian Treasury).

Negative data-year relativities

- We agree that the CGC should lift any negative data-year relativities to zero, and share the cost of doing this among the other States on an equal per capita basis.

New accounting standards

- We support the discussion paper recommendation to adjust Australian Bureau of Statistics Government Finance Statistics data to be consistent with the new accounting standards for leases and service concession arrangements, provided the adjustments are done consistently across assessments.
- We expect that the impact of the new accounting standard for recognition of Commonwealth payments is likely to be insignificant.

Health assessment – non-admitted patient data

- We support the discussion paper recommendation to adjust the non-admitted patient activity to cover GP-type services. We accept the discussion paper's proposed method to implement that recommendation.

New Commonwealth payments

- We have issues with the treatment of several new payments by the CGC. In particular, there are inconsistencies in the treatment classification of several Regional and City Deal components.

ACT mining revenue

- The CGC should make a data adjustment to remove ACT revenues that are currently classified as mining revenues in Government Finance Statistics (as not doing so has a material cost for the Northern Territory).

Implementation of the 70% floor

- Before feeding relativities into the floor calculation, the CGC should scale them so that their population-weighted average equals one.

Errors and materiality

- The CGC should not consider materiality when making straightforward error corrections or to maintain consistency.

Introduction

This submission responds to the Commonwealth Grants Commission's (CGC's) staff discussion paper CGC 2021-01-S, which consults on new issues for the 2022 Update.

Response to COVID-19 pandemic

For the 2022 Update, we maintain our position from the 2021 Update that differences among States' policies and efficiencies in responding to COVID-19 significantly drive the varying impacts on States. Although we do not claim that all differences in the prevalence of COVID-19 are due to differences in State policies and/or efficiency, the CGC should recognise that observed spending and revenue bases are significantly affected by State policy influences.

Evidence that policies impact on COVID-19 outcomes

Studies into policy impacts

The International Monetary Fund has concluded:[1]

> *…the analysis shows that lockdowns can substantially reduce COVID-19 infections, especially if they are introduced early in a country's epidemic and are sufficiently tight. Thus, despite involving short-term economic costs, lockdowns may pave the way to a faster recovery by containing the spread of the virus and reducing the need for voluntary social distancing over time, possibly having positive overall effects on the economy.*

A study of New Zealand data also concluded:[2]

> *The timing of interventions is crucial to their success. Delaying interventions may both reduce their effectiveness and mean that they need to be maintained for a longer period.*

Commonwealth Treasury analysis on the direct economic impact of COVID-19 found:[3]

> *Applying strict localised lockdowns, for shorter durations, is more cost effective than applying more moderate lockdowns for longer periods.*

The Doherty Institute states in its report on its COVID-19 modelling:[4]

> *…until we have high vaccination coverage…any outbreaks are likely to have rapid and uncontrolled growth, with significant morbidity and mortality and requiring regular and extended lockdowns.*
>
> *The optimal strategy is likely to be to continue with the suppression approach and lock down early and hard when there is an outbreak to limit the duration and costs of lockdowns.*

What these studies have in common is that, for better health and economic outcomes, lockdowns should be quickly imposed, short and stringent.

Western Australia's beneficial policies

Western Australia's economy has managed to navigate through the COVID-19 pandemic relatively well. The economy has been supported by the adoption of stringent policy measures that have helped contain COVID-19 outbreaks, through a precautionary approach to prevent the importation of the virus from other States.

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1 International Monetary Fund (IMF). *The great lockdown: dissecting the economic effects,* October 2020, chapter 2, page 65.

2 *Binny et al*. *Early intervention is the key to success in COVID-19 control,* 2021. Abstract.

3 Commonwealth Treasury. *National Plan to Transition to Australia's National COVID-19 Response: Economic Impact Analysis*, 2021, page 11.

4 Doherty Institute. *COVID-19 modelling Key findings and implications*, 3 August 2021, page 6.

As part of its suppression strategy, the Western Australian Government prefers to impose hard border controls and quickly-imposed, short, stringent lockdowns, rather than enforcing extended business shutdowns.

Strong household and business confidence, and government support packages including construction grants, have provided much needed employment stability in key sectors. State policies have allowed Western Australia's mining and resources sector to continue operating throughout the COVID-19 pandemic amid strong commodity prices, which has been a key factor in the State's healthy economic performance.

A key policy difference for Western Australia was the imposition of regional (i.e. intrastate) 'border' controls on 31 March 2020. This was designed to 'quarantine' any outbreaks at a regional level and allow more effective testing and control. In addition, due to their vulnerability, remote Aboriginal communities were classified as a 'region' and were subject to greater travel restrictions. Western Australia's ability to contain the disease in the community to a controllable level enabled the State to ease restrictions quickly after invoking stringent lockdown measures.

In addition to effective stay-at-home directives and strict regional border controls, the State imposed hard interstate border controls from 5 April 2020, despite continued criticism from the Commonwealth and other State governments.

Further, the Western Australian Government worked very closely with the mining industry throughout the pandemic to ensure that it was effectively quarantined, but at the same time was able to have the flow of workers required to keep it operating sustainably.[5] This included designating mining as an essential industry, initially exempting mining employees travelling from other States from quarantining arrangements, and later encouraging interstate employees and their families to move to Western Australia.

Despite calls to shut down the resources sector at the height of the pandemic, this policy allowed the Western Australian mining industry to continue to operate effectively and uninterrupted throughout the crisis. A significant number of resource jobs were protected because of this decision and the State was able to provide the necessary support to the Australian economy, including through the generation of tax revenue for the Commonwealth.[6]

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5 Cholteeva, Y. *Timeline: How Australian mining reacted during Covid-19,* 1 July 2020; and Purnell, K. *WA grows share of mining jobs despite COVID*, 30 July 2020. The West Australian.

6 Government of Western Australia Media Statements. *WA resources sector's biggest year ever powering nation through COVID,* 10 October 2021.

The Western Australian Government also (to a much greater degree than other States) supported employment in the residential construction industry through the provision of a $20,000 grant to eligible buyers that enter contracts between June 2020 and December 2020 to construct new residential dwellings. These grants (the Building Bonus) were available to all persons (first home buyer, investor, owner occupier, foreigner, etc.) and no value cap was applied. The Building Bonus was in addition to the State's First Home Owner Grant (for eligible buyers) and the Commonwealth's HomeBuilder grant. These policies substantially increased the rate of development for vacant land, and supported a substantial turn-around in residential construction.

In short, Western Australia's approach to border restrictions and lockdowns (including a cautious easing of lockdown restrictions) has enabled the State to manage its few community outbreaks quickly and effectively. State assistance for the residential construction and resources sectors has supported a strong State economy and has, in turn, facilitated a return to near-normal life for Western Australians.

The Secretary of the Federal Treasury, Dr Steven Kennedy, said at Senate Hearings:[7]

> *For example, Western Australia, I think, deemed mining an essential service in the sense in which they were imposing their restrictions. These were important, carefully calibrated decisions. Mining represents 10 per cent of gross value added of the Australian economy and three per cent of employment. As long as the health risks are well managed in what's a reasonably low employment environment that's a very important economic flow.*

In addition, the Reserve Bank of Australia Deputy Governor, Guy Debelle, singled out Western Australia's economic performance and its contribution to national growth.[8]

As Western Australia's resources sector continued to support the national economy during 2021, the Federal Finance Minister, Simon Birmingham, ascribed the State's strong performance to current border closures the State has adopted since early last year, saying the nation's economy is 'better off' with Western Australia's hard border.[9]

Despite its proximity to the eastern States that have experienced runaway COVID-19 case numbers, Queensland has remained relatively COVID-19 free, while employing similar policies to Western Australia. Like Western Australia, Queensland has adopted hard border restrictions and quickly implemented short, stringent lockdowns.

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7 Senate Select Committee on COVID-19. *Australian Government's response to the COVID-19 pandemic*, 28 April 2020. Parlinfo.aph.gov.au.

8 Ison, S. *WA leads Australia's COVID-19 economic recovery, says Reserve Bank of Australia Deputy Governor Guy Debelle*, 22 September 2020. The West Australian.

9 Scarr, L. *Finance Minister Simon Birmingham says nation's economy 'better off' with WA's hard border*, 7 October 2021. The West Australian.

A Queensland media release (quoting Premier, Anastasia Palaszczuk) stated on 31 July 2021 that:[10]

> *The Premier said strong measures announced today go further than previous lockdowns because the Delta strain is more dangerous.*
>
> *"We've seen the evidence, both in Queensland and interstate," the Premier said.*
>
> *"We must go hard and go fast."*

This involved Queensland imposing a hard, fast lockdown in South East Queensland after seven cases over two days.

On 8 January 2021, Queensland locked down the greater Brisbane area after just one case (as was the situation in Western Australia on two occasions[11]).

Tasmania has taken a similar approach with, for example, a three-day lockdown for southern Tasmania from 15 October 2021 after a number of close contacts to a single COVID-19 case had been identified.[12]

Like Western Australia and Queensland, Tasmania has also had limited COVID-19 cases, despite its proximity to New South Wales and Victoria.

By contrast, after Victoria's second outbreak in June 2020, it deployed incremental lockdowns based on postcodes, and only later deployed State-wide lockdowns with additional restrictions (radius restrictions, dining closures, mask wearing, and a curfew). Consequently, Victoria's lockdown continued until August 2020, and required drawn-out subsequent restrictions to curb runaway case numbers.

During its recent outbreak, New South Wales likewise 'enforced' an incremental lockdown program, with successive increases from a few LGAs to 12, over two months. There were lighter restrictions on Greater Sydney, allowing non-essential retail to continue and restaurants allowed to remain open. In a further contrast to Western Australia's approach, the first instance of an active community COVID-19 case in New South Wales in this outbreak was recorded on 16 June 2021, but mask wearing outdoors was not mandated until 23 August 2021.

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[10] Queensland Government Media Statements. *Hard, Fast Lockdown to Stop Virus Spread*, 31 July 2021.

[11] Western Australia imposed a five-day lockdown on 31 January 2021 when a hotel security guard was confirmed positive, and a three-day lockdown on 23 April 2021 after a quarantined traveller infected a close contact in Perth before returning to Melbourne, and was subsequently confirmed positive (both lockdowns were called the same day as the case was confirmed positive).

[12] Tasmanian Government Media Statements. *Three-day lockdown for southern Tasmania*, 15 October 2021.

Public commentary on variations in outcomes from State policies

The benefits of sharp, stringent lockdowns (such as used by Western Australia) are evident from comments from the Prime Minister:[13]

> *…it showed that if you don't do those short, sharp lockdowns in this phase with the Delta variant, it ends up costing you even worse.*

This was further supported from comments from Dr Omar Khorshid (Australian Medical Association President) that the Delta outbreak was probably the biggest threat to Australia since the pandemic started and New South Wales would have been in a better position if the lockdown had begun sooner. He said tighter restrictions might be needed so that the New South Wales lockdown does not have to drag on too much longer.[14]

And Martin Foley, the Victorian Health Minister, said Victoria had learned the hard way that the best way to tackle an outbreak was to go hard and go early.[15]

Although we imply no judgment on Victoria's situation, that State drew sharp rebuke from the Federal Treasurer for failing to uphold quarantining standards and contact tracing protocols.[16] His statements imply that Victoria had operated below national average efficiency.

The CGC suggests that differences in State approaches do not inherently imply different State policies, just the implementation responses to differing circumstances. However, we argue that different policies and efficiencies are large drivers of those different circumstances, based on the evidence above.

Revenue assessments

Waivers, rebates, deferrals and JobKeeper

We agree with the discussion paper's proposed treatment of tax waivers, rebates, tax deferrals, and JobKeeper payments. However, if deferrals are to be assessed in the year in which the liability occurs, the CGC should clarify the treatment of deferred tax payments that do not eventuate because the taxpayer becomes insolvent.

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13 *Interview with Leon Byner, 5AA*, Transcript, 2 August 2021.

14 Angie Raphael. *Medical expert says tougher measures needed or Australia will face 'disaster' if NSW does not eliminate Delta strain*, 8 July 2021. www.news.com.au

15 Nicholas McElroy and Simon Smale. *Locking down hard and early is the way to go, Victorian Health Minister says*, 9 July 2021. ABC news.

16 Coorey, P. *PM ramps up pressure on reopening of borders,* 31 August 2020. Australian Financial Review.

Revenue bases

As discussed above, we believe there are considerable differences among the States' policies and efficiencies in responding to COVID-19. We expect those differences will significantly influence State tax bases, including making Western Australia's (and possibly some other States') revenue bases higher than they would have been had they adopted the COVID-19 policies and efficiencies of some other States.

Ideally, the CGC should reduce relevant States' revenue bases by some percentage to account for these policy differences (equivalently, it could increase the remaining States' revenue bases by that percentage). However, we recognise the difficulty in determining an appropriate adjustment. Hence, we can accept the CGC making no adjustment to revenue bases.

Health assessment

As discussed above, we believe that COVID-19 health expenses are too influenced by differences in States' policies and efficiency to be assessed actual per capita or by some measure of COVID-19 case numbers. Hence, they should be assessed as part of the existing health assessments.

We acknowledge that the health of populations in some States is more affected than in others, and more affected States have larger and more densely populated metropolitan areas.

However, evidence gathered by the OECD (2020) shows that this relationship between density and COVID-19 cases can be distorted by other confounding factors such as "a lack of appropriate measures such as contact tracing, poor housing conditions, and limited access to health care", while the presence of vulnerable and disadvantaged populations may further alter this relationship.[17]

Indigenous populations are also particularly vulnerable to the spread of COVID-19 infections because of their poor health status.[18] This is particularly the case for remote indigenous communities. Limited access to health services would exacerbate these vulnerabilities.[19]

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[17] In fact, "some very densely populated Asian cities, such as Hong Kong (7.5 million), and Seoul (9.8 million) Singapore (5.6 million) and Tokyo (9.3 million) saw limited diffusion of COVID-19 thanks to early and very proactive measures, mask wearing and extensive testing". *The territorial impact of COVID-19: Managing the crisis across levels of government,* November 2020, page 7. Organisation for Economic Co-operation and Development (OECD).

[18] Aryati Yasadhana, Nellie Polard-Wharton, Anthony B.Zwi and Brett Biles. *Indigenous Australians at increased risk of COVID-19 due to existing health and socioeconomic inequities*, 24 July 2020. The Lancet Regional Health, Western Pacific.

[19] Fitts et al. *Remote health service vulnerabilities and responses to the COVID-19 pandemic*, 20 November 2020. Australian Journal of Rural Health, Wiley Online Library.

Cost per COVID-19 case

Table 1 demonstrates that funding under the National Partnership on COVID-19 Response (NPCR) varies substantially across States and does not appear to be in any way linked to the number of cases in each State or population of each State, for both 2019-20 and 2020-21. Hence, the funding cannot reflect an implied cost per case; rather it implies large policy or efficiency differences between States. For example, for 2020-21, funding was $0.05 million per case in Victoria up to $5.43 million per case in Tasmania.

Table 1

COVID-19 Funding

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2019-20									
COVID-19 cases	3,378	2,159	1,067	611	443	228	108	29	8,023
National Partnership on COVID-19 Response funding ($m)	1,074	1,097	345	188	115	75	42	18	2,955
Commonwealth funding per COVID-19 case ($m/case)	0.32	0.51	0.32	0.31	0.26	0.33	0.39	0.60	0.37
Commonwealth funding per capita ($/person)	132	165	67	71	66	140	97	72	116
2020-21									
COVID-19 cases	2,448	18,553	629	416	364	6	16	155	22,587
National Partnership on COVID-19 Response funding ($m)	1,194	986	267	176	67	33	29	60	2,811
Commonwealth funding per COVID-19 case ($m/case)	0.49	0.05	0.42	0.42	0.18	5.43	1.80	0.39	0.12
Commonwealth funding per capita ($/person)	146	148	51	66	38	60	67	245	109

Source: 2019-20 Commonwealth Payments and 2020-21 Commonwealth Payments, GovTEAMS report. COVID Live: www.covidlive.com.au

For both 2019-20 and 2020-21, the large variance between the number of cases and funding for COVID-19 reflects that the majority of COVID-19 health expenses are not directly related to cases, but rather include non-clinical costs such as cleaning of hospitals and schools, additional costs for public health communications, and investment in stocks of PPE. Given there is no clear driver of these costs, these expenses appear to be too influenced by policy for the proposed actual per capita assessment of COVID-19 related expenses to be appropriate.

We still believe the existing health assessment is appropriate to assess COVID-19 related health expenses, and that the NPCR should be assessed as impacting on the relativities. Any resultant changes to the average socio-demographic profile of hospital users will be captured by the current assessment. In particular, the use rate of hospital services by the elderly will be increased. The differential incidence in the number of COVID-19 cases across States results at least partly from policy differences, as discussed above, which help form the standard of ‘what States do’ in the existing health assessment.

Intertemporal issues

As mentioned in our 2021 Update new issues submission, at the 29 July 2020 multilateral meeting between CGC staff and State Treasuries on COVID-19, one State indicated that it had built up a large inventory of PPE and its intention was to maintain high stock levels. This illustrates that States' spending is policy influenced, and not necessarily purely associated with COVID-19.

Services to Industry

We support the discussion paper proposal to change the split between regulation and business development expenses to better reflect the reality of spending levels. However, we agree this would constitute a method change, which would not be possible unless allowed by 2022 Update Terms of Reference.

This additional business development expenditure should be assessed equal per capita, in line with existing assessment methods.

As discussed above, the impact of COVID-19 has been heavily policy influenced. States like Western Australia have taken pro-active steps to limit COVID--19, which has reduced the need for reactive expenses such as a business support.

While we acknowledge the additional costs of COVID-19 for New South Wales and Victoria, we firmly believe these costs are a result of the policy decisions made by these State Governments. Furthermore, even if there were no policy impacts, it would be inappropriate for the CGC to single out COVID-19 as a driver of business development expenses, when it has not been able to determine other drivers of business development expenses.

Wage costs

At this stage, the impact on the wage costs assessment from removing an employee earning $750 per week from the regression model data is unclear. We believe the impact could be biased towards States that received a higher proportion of JobKeeper payments.

Our main concern is where those workers would otherwise have shown up in the data, in the absence of JobKeeper. That is, what would have been the ordinary earnings of the workers before they were paid the JobKeeper allowance of $750 per week?

A worker who had ordinarily earned less than $750 per week would report as earning $750 per week at the time of the survey. Therefore, the number of workers at that worker's ordinary wage would reduce, and the number of workers reported as earning $750 per week would increase. However, a worker earning more than $750 per week may have their wages topped up by their employer to match their ordinary wage. Some proportion of workers ordinarily earning above $750 per week would experience this, but no workers ordinarily earning below $750 per week would receive less than $750 per week.

Hence, the dataset would skew towards higher wages.

Wages would grow relatively more in States that took a greater advantage of JobKeeper payments. The latest Characteristics of Employment Survey (COES) data (August 2020) shows that Victoria received 19% above its per capita share of JobKeeper payments in August 2020, and New South Wales received 6% above its per capita share. All other States received below their per capita share, with the Northern Territory receiving just over half its per capita share.

Given the uncertainty around whether the data adjustments would remove all the JobKeeper payments (hence skewing the result) and whether this 'error' would have a material impact on the assessment, Western Australia does not support removing employees earning $750 per week from the data used in the wage costs regression model. We believe this data adjustment would further overcomplicate the already problematic regression analysis results (we have provided our concerns on this model over the years, including its use of over 700 variables). We expect that the proposed adjustment would only exacerbate the skew that it would be intended to correct.

We look forward to seeing the CGC's findings and the final regression results as soon as the CGC obtains access to the detailed data.

Other expenses materially affected by COVID-19

As noted in our 2021 Update new issues submission, the impacts from the COVID-19 pandemic have further supported Western Australia's view that the CGC's underlying method assumptions in the transport assessment are incorrect and need to be examined further in the next method review.

Our concern is that the number of passengers using public transport is not an appropriate proxy for supply of public transport (as shown by passenger numbers during lockdowns declining by far more than the supply of public transport).

At this stage, other than the assessments for revenue bases (if possible), wages (if practical) and transport, we believe the existing expense assessments are appropriate to assess the current and emerging impacts of COVID-19 in their present form.

New Western Australian native title agreements

In 2020-21, Western Australia commenced compensation under two major native title settlements: the South West Native Title Agreement (compensation to be paid over 12 years) and the Yamatji Nation Indigenous Land Use Agreement (compensation to be paid over 15 years).

In the Western Australian 2020-21 *Annual Report on State Finances*, in line with relevant accounting standards, most of the agreed compensation streams are accrued as liabilities and up-front expenses. The Australian Bureau of Statistics (ABS) will record these payments in Government Finance Statistics (GFS) as expenses when they occur (i.e. on an emerging cost basis).

The discussion paper proposes that the CGC assess these compensation payments in the years that they are paid (based on ABS records).

We are comfortable with the CGC's position that assessing these compensation payments over time in the years that they are paid is appropriate in the context of horizontal fiscal equalisation.

Negative data-year relativities

The discussion paper raises the question of what the CGC should do if it calculates a negative data-year (i.e. assessment-year) relativity.

It is possible that the unprecedentedly high iron ore prices in 2020-21 will result in a negative pre-reform relativity for Western Australia in that data year. Our current projections estimate that relativity to be in the vicinity of zero.

This would not affect Western Australia's GST grants, due to the floors under the GST distribution reforms. However, it would affect States' pre-reform relativities, and hence their payments under the no-worse-off guarantee (NWOG) payments.

The data-year relativities are averaged to give a grant-year (i.e. application-year) relativity. The CGC recommends grant-year relativities to the Federal Treasurer, who must then determine relativities for the payment of GST grants under the *Federal Financial Relations Act 2009*. A payment cannot be negative, so it would be entirely inappropriate for the CGC to recommend a negative grant-year relativity.

When calculating data-year relativities, the CGC assesses a GST requirement that would be paid in that year, if it had had actual data for that year at the time. Hence, as for the grant-year relativity, a negative data-year relativity would not make sense because it would imply those GST requirements to be negative.

It is also the case that, if negative data-year relativities are adjusted up to zero, then the three-year average grant-year relativities would automatically be non-negative.

Hence, we support the discussion paper proposal to lift any negative data-year relativity to zero.

We also support the proposal that the cost of doing this be shared among the other States on an equal-per-capita basis. We think this is the most equitable approach, and it is consistent with the CGC's proposed method to apply the 70%/75% floors and the equalisation to New South Wales/Victoria (albeit for the latter, the cost is shared by all States).

Sharing the cost of lifting a negative data-year relativity to zero should be done using the data-year populations. Otherwise, the CGC would need to scale the data-year relativities to a population-weighted average of one before making the adjustment.

New accounting standards

The discussion paper raised the issue of new accounting standards that will affect States' accrual accounting data, but which the ABS will not be incorporating into its GFS data.

Leases and service concession arrangements

The discussion paper does not make a case for whether, in the context of horizontal fiscal equalisation, the new accounting standards under AASB 16: *Leases* and AASB 1059: *Service Concession Arrangements: Grantors*, are more appropriate or not than the ABS treatment. We do not have a view on this either. However, we expect that the impact of these changes is unlikely to be material, provided a consistent accounting treatment is applied to all data for a given data year in a given annual update. This is because disabilities assessed by the CGC are broadly similar for recurrent and capital expenditures, and the CGC takes account of population growth for both non-financial assets and net financial worth (increased non-financial assets under the new accounting standards will be offset by reduced net financial worth). Problems could arise if the CGC applied different accounting treatments for different parts of its assessments for the same year.

Hence, we support the pragmatic discussion paper recommendation to adjust ABS GFS data to be consistent with the new accounting standards, provided the adjustments are done consistently across assessments.

However, there are two different treatment models of service concession arrangements that can be used in States' accounts. Under the 'financial liability' model, the service concession liability is classified as financial and therefore contributes to net debt. Under the 'grant of a right to the operator' (GORTO) model, the liability is classified as non-financial and does not contribute to borrowings and therefore does not impact net debt. Most of Western Australia's social concession arrangements are accounted for under the 'financial liability' model, while arrangements in other States may mean that accounting for such arrangements under the (non-debt) GORTO model is appropriate.

The CGC should consider whether it has to make further adjustments in order to make States' data consistent.

Recognition of revenue

As the CGC uses Commonwealth Final Budget Outcome data for the Commonwealth payments that impact on the relativities for all three data years, and assesses remaining payments equal per capita, the only way the new accounting standard AASB 15: *Revenue From Contracts with Customers* would impact on relativities is through changes to net financial worth. We expect that the impact of this would be insignificant.

Health assessment – non-admitted patient data

The States provide GP-type services to non-admitted patients and, as the discussion paper says, the use of these is heavily influenced by indigeneity and remoteness. Hence, these disabilities will be underestimated if activity data for GP-type services are not picked up by the non-admitted patient activity data. This is of particular relevance to States such as Western Australia, with relatively high numbers of Indigenous people and people in remote areas (and remote Indigenous people). The discussion paper implies that the data are relatively easy to adjust, and the proposed method sounds reasonable, so we see no reason to not make the adjustment.

Hence, we support the discussion paper recommendation that the CGC adjust the non-admitted patient activity to cover GP-type services. We accept the discussion paper's proposed method to implement that recommendation.

New Commonwealth payments

We have several concerns with the discussion paper's proposed treatment of new Commonwealth payments that commenced in 2020-21.

Proposed treatment of new payments

The discussion paper describes the ***COVID-19 World and National Heritage*** agreement as primarily for environmental protection, and consequently proposes that it have no impact on State expenses. However, many of the projects funded by this payment appear to focus on improving the experience of visitors, in the form of constructing and maintaining visitor centres, improving signage, and creating tracks and trails. We would like to understand why these projects are treated as no impact, but other payments related to improving tourist infrastructure (such as *Apollo Bay to Skenes Creek Coastal Trail*) are treated as having an impact.

The ***Regional Recovery Partnerships*** is treated as no impact because the CGC deems that payments are to support local council services. While these partnerships involve local government, many of the associated projects appear to focus on tourist infrastructure and business development. One of the projects is for an *Aquaculture and Agriculture Tech Skills Hub* in Mackay.

However, two similar agreements funded under ***City and Regional Deals***, *The Innovation Hub* and the *Barkly Business Hub*, are treated as having an impact as they are considered to be business development.

We would like to understand why an agreement with such a varied range of easily discernible projects is assessed as a whole, rather than treating each component separately, as directed in your 2020 Review guidelines.

City and Regional Deals

We are concerned about the consistency of the treatment of payments for components of the City and Regional Deals. We understand that many of the components of these deals involve co-contributions from local governments, and the projects themselves are difficult to distinguish as a State expense or a local government expense.

For example, the ***Perth City Deal*** features a *CBD Transport Plan* item, which the discussion paper proposes to have an impact. While there may be longer term expenses related to urban transport, costs for 2020-21 are directly related to the Roe Street revitalisation. The component involves pedestrianising a portion of the street and providing street furniture and landscaping.

By contrast, the *Revitalising Central Geelong - Green Spine* agreements, in the ***Geelong City Deal***, are deemed to have no impact because they are for local government expenses or community infrastructure.

Despite that these projects appear to provide similar outcomes, they are classified differently, apparently because of how the component is named.

Also under the Geelong City Deal is funding for the *Redevelopment of the Queenscliff Ferry Terminal*. The regular ferry services at Queenscliff operate between the Geelong Significant Urban Area (SUA) and Sorrento, which is in the Melbourne SUA. It is unclear why this service would not be treated similarly to rail transport from Geelong, as urban transport expenses. Therefore, it is unclear why the terminal at Queenscliff is described as a port, rather than infrastructure for the purpose of urban transport like Elizabeth Quay in Perth, or Circular Quay in Sydney.

The CGC could adopt a default position to assess City Deal components as no impact unless the payment is very clearly for a State expense (e.g. upgrading a hospital or public transport facilities). This would be in line with the 'conservatism' principle that we proposed in the 2020 Review, where the CGC tends towards no redistribution in response to uncertainty.

ACT mining revenue

We are concerned that the CGC is including mining revenues for the ACT of about $30 million each year, based on the ACT's GFS data.

We queried this following the 2020 Review, and were advised that it does not actually reflect mining royalties, but occurs due to the ABS classifying a water extraction charge as mining revenue. The CGC did not remove these ‘mining royalties’ as the impact was barely material (about $11 per capita for the Northern Territory). In that Review, there was no ACT mining revenue recorded for the most recent data year (2018-19). However, the CGC stated that it would monitor this issue in future.

However, in the 2021 Update, ACT mining revenue was recorded for each of the three data years (including 2018-19, when it had previously been recorded as zero). We estimate that this is costing the Northern Territory over $16 per capita in the 2021-22 grant year, which is clearly material (noting that we do not believe that materiality should be a consideration when addressing what is essentially an error).

Our view is that the CGC should make a data adjustment to remove this revenue from the mining revenue assessment.

Implementation of the 70% floor

In its 2021 Update calculations, the CGC implemented a floor calculation, in preparation for when it will be required in the 2022 Update. For the 2021 Update, the CGC set the floor to zero for this calculation.

The CGC fed blended relativities into this floor calculation without scaling them. Scaling the relativities is important to ensure their population-weighted average equals one. Failing to do so resulted in an impact on each State’s relativity (albeit small), despite that the floor did not apply in 2021-22. If the CGC had fed in scaled blended relativities, the floor calculation would not have altered those relativities.

We understand that the CGC staff have accepted that this is an error, and intend feeding in scaled blended relativities for the 2022 Update (and subsequent updates).

Errors and materiality

As a general comment, we have observed in recent years a tendency from the CGC to not adjust its assessments to address errors, purely based on materiality (and sometimes even when the error has a material impact). For example, in the 2020 Review Draft Report, in the Housing assessment the CGC said it would not scale the Census data with AIHW data, which is more accurate, due to a lack of materiality from the change. The ACT mining revenue, discussed above, is another example.

While the use of materiality thresholds is reasonable when deciding on the inclusion of disabilities, and in certain cases if detailed or complex adjustments would be required, we believe that materiality should not be a consideration when making straightforward error corrections (which includes issues with consistency).