



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

Submission to Commonwealth Grants Commission

2023 Update: New Issues

November 2022

Submission to the Commonwealth Grants Commission, 2023 Update: New Issues
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KEY POINTS

Data issues

Census

- We support the CGC's proposal to use 2021 Census data to calculate total State and sub-state populations for the 2023 Update.
- We see no alternative to the CGC proposal to retain the 2016 Census measures of remoteness and socio-economic status for the 2023 Update.
- We do not oppose the CGC's proposed method of building in currently available Indigenous data, particularly because this is a temporary issue that will be resolved before the next Update.
- We support the CGC's view that 2021 Census data on passenger numbers is not fit for purpose as COVID-19 reduced passenger numbers in a way that did not reflect reduced service provision. Hence, we support retaining the 2016 Census data, without adjustments.
- Census data on social housing appear poor, but on balance, and pending the next method review, we support using the most up-to-date data.

New data source for number of motor vehicles

- We are comfortable with the CGC's proposed new data source (Bureau of Infrastructure and Transport Research Economics).
- We accept use of 2020-21 Australian Bureau of Statistics (ABS) data for the 2021-22 data year if the new data are not available in time for the 2023 Update.

Non-admitted patients' activity data

- We support the CGC proposal to adjust the non-admitted patient activity to cover GP-type services, as it would pick up material disabilities. We accept the discussion paper's proposed method to implement this.

Response to COVID-19

- We remain of the view that the impacts of COVID-19 have been significantly policy influenced.

Health

- Due to policy influences and the lack of clear correlation between COVID-19 cases and the distribution of Commonwealth payments under the *National Partnership on COVID-19 Response*, the associated State expenses should be assessed under the current health methods from the 2020 Review. If these expenses are assessed actual per capita, they should be discounted to reduce policy influences.
 - We agree that, if the terms of reference do not allow method changes, the 2022 Update treatment of this national partnership as no impact should be retained.

Business support

- We do not support measuring COVID-19 business support spending based on non-assessable non-exempt (NANE) programs as they are not comprehensive or consistently defined. National partnership business support data provides a better measure.
- We do not support an actual per capita assessment of State expenses as they are heavily policy influenced.
- Commonwealth business support payments to States are likewise policy influenced.
- A reduced hours measure of relative disability is highly influenced by State policy decisions, although less policy influenced than employing an actual per capita assessment.
- Based on these considerations we have proposed a hierarchy of options that we believe are available to the CGC.

New State taxes

Victoria's zero and low emissions vehicle (ZLEV) tax

- As ZLEV are a different revenue base from the Motor tax assessment, the ZLEV tax should be assessed separately. However, as long as it remains immaterial, we support the CGC's proposal to include Victoria's ZLEV revenues in the Motor tax assessment.

Victoria's mental health and wellness surcharge

- We support the CGC's proposal to include Victoria's mental health and wellness surcharge revenues in the Payroll tax assessment.

Other issues

Negative average no-worse-off relativity

- The CGC should raise any pre-reform grant-year relativity to zero, as under the pre-reform arrangements it could not have recommended a negative relativity.

Commonwealth payments

- We accept the proposed treatment of the majority of Commonwealth payments, but have queries on specific payments:
 - We would like to understand why *Australian Fire Danger Rating System* (proposed as 'impact') is treated differently to its previous pilot program (treated as 'no impact').
 - The difference in treatment between *Social Impact Investments – Vulnerable Priority* and *Perth City Deal – Homelessness Projects* is unclear given that they address similar issues.
 - We believe the *Perth Cultural Centre Rejuvenation* has been misclassified as a cultural centre development, when it is for the development of a public precinct, which is a local government responsibility (and hence should be 'no impact').

Introduction

This submission responds to the Commonwealth Grants Commission's (CGC's) October 2022 discussion paper titled *2023 Update: New Issues*.

Data issues

Census

Populations

For the 2023 Update, higher level population data from the 2021 Census will be available, but the full detail used by the CGC will not.

The CGC proposes using 2021 Census data to calculate total State and sub-state populations. We support this as it is the latest data available.

The CGC proposes retaining the 2016 Census measures of remoteness and socio-economic status as these will not be updated in time to take account of 2021 Census data. We see no alternative to this.

In relation to Indigenous population characteristics, the two options provided by the CGC are to utilise the 2016 Census proportions and apply them to:

- 2016 Census-based ERP Indigenous projections (this is the CGC's proposed method); or
- 2021 Census-based preliminary estimates for Indigenous population proportion.

We have a preference towards the use of the most up-to-date available data, as specified in the terms of reference, in most circumstances.

However, we acknowledge that applying the disaggregated population characteristics based on the 2016 Census to 2021 Census data would lead to some degree of misclassification, as there is an implicit assumption that these population characteristics are uniform between the two Censuses.

Overall, we do not oppose the CGC's proposed method, particularly because this is a temporary issue that will be resolved before the next Update. We would appreciate any commentary from the CGC on the impact of this decision on each State.

Urban transport passenger numbers

The 2020 Review methods used passenger numbers as a measure of urban transport service levels. These data would normally be updated using the 2021 Census data. However, the 2021 Census data were affected by COVID-19 lockdowns.

We agree with the discussion paper proposal that these data should not be considered fit for purpose, as the reduced passenger numbers did not reflect reduced service provision, and hence the 2016 Census data should be retained.

We also agree with the view in the discussion paper that the CGC should not adjust the 2016 Census data for recent developments in urban transport provision, as it would not be material. Similarly, we agree to not account for increased service levels as it would be too difficult to produce nationally consistent adjustments.

Housing income and rent

For the 2023 Update, the CGC proposes to update the Housing assessment income and rent variables from the 2021 Census if the CGC considers them sufficiently reliable. If considered not reliable, the CGC will engage States on alternative options.

The Census data does not inspire us with confidence.

The discussion paper only considers the COVID-19 impact on income and rental data, but the reliability of household numbers, social and not social, is also a concern.

- Dwellings enumeration varies markedly by State between the 2016 Census and the 2021 Census. The social and not social household numbers for some socio-demographic cohorts (i.e., remoteness/socio-economic status/Indigeneity groups) increase by more than 200%, while others decrease by up to 80%, with many in excess of 50% in either direction.

On a national level, the data show stronger growth between the Censuses in less remote regions (with remote and very remote regions declining), which possibly reflects urbanisation and population growth. They also show a reduction in social housing across all regions, which mirrors a reported decline in social housing across States.

- However, the data also show a shift in social and not social housing from Indigenous to non-Indigenous households, which is surprising considering Indigenous people must be living somewhere, and it is contrary to the increase in the population identifying as Indigenous.
- Also, there is a shift from low-income households to high-income households, which may reflect households crossing the CGC's \$650 per week threshold. This threshold may need revision.

An option would be to retain the 2016 Census data, but they appear to have similar issues when compared to the 2011 Census. We suggested in the 2020 Review that the CGC blend the Census data with Australian Institute of Health and Welfare data. We consider this would make the data more reliable, but it is not clear whether that constitutes a method change. Similarly, any alternative option would also likely represent a method change.

On balance, with the absence of an alternative option, and because the terms of reference requires the most up-to-date data, we consider the CGC should update for 2021 Census. However, these issues strengthen our desire for an overhaul of the Housing assessment in the 2025 Review.

New data source for number of motor vehicles

We agree with the discussion paper's proposal to use Bureau of Infrastructure and Transport Research Economics data as the new data source for the number of motor vehicles, from 2021-22.

If it is not available in time, we accept the 2020-21 ABS numbers being used for the 2021-22 data year for the 2023 Update.

Non-admitted patients' activity data

The CGC's non-admitted patient health assessment currently does not take into account the cost of GP-type services to non-admitted patients. The discussion paper proposes including imputed national weighted activity unit data for GP-type services in the non-admitted patient assessment.

The States provide these services 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. 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).

Hence, we support the discussion paper proposal. The proposed method and choice of price weights appears appropriate, and gives a material impact. Variations on the method would probably give results not materially different from the proposed method.

Response to COVID-19

For the 2023 Update, we maintain our position from the previous two updates that differences among States' policies and efficiencies in responding to COVID-19 significantly drove 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.

We justified this both on the basis of various academic papers that observed the impact of government policies internationally, and by looking at the variation in policy approaches taken by the States across Australia.

We found our evidence to be compelling, and hence found the CGC's decision surprising. The CGC described their decision as "on balance", but did not elaborate on this. We encourage the Commission to look again at this issue and we are happy to discuss any matters where the Commission requires clarification.

Health

The discussion paper proposes the following.

- If the terms of reference allows method changes, the CGC would treat Commonwealth payments under the *National Partnership on COVID-19 Response* as impacting on the relativities, and assess the State spending under that national partnership under the actual per capita method (differences in State spending would be reflected as differences in GST grants).
- If the terms of reference does not allow method changes, the CGC would continue to treat Commonwealth payments under the *National Partnership on COVID-19 Response* as not impacting on the relativities, with the State spending assessed under the 2020 Review Health methods.

In the previous two updates, we argued against both of these positions, on the basis that:

- as discussed above, the impacts of COVID-19 have been significantly policy influenced; and
- the payments under the *National Partnership on COVID-19 Response* have shown no relationship to numbers of COVID-19 cases.

We remain of that view. Hence, we support the costs of COVID-19 being assessed under the current Health methods used in the 2020 Review and Commonwealth payments under the national partnership impacting on the relativities.

If the CGC adopts an actual per capita assessment, we would support discounting to reduce the impact of policy influences on the assessment.

However, we accept that, if the terms of reference does not allow method changes, then it would be appropriate to retain the no-impact treatment of Commonwealth payments used in the 2022 Update.

Business support

The discussion paper introduces three issues related to the treatment of COVID-19 business support spending:

- how to define such spending;
- identification of appropriate spending drivers; and
- how to treat the Commonwealth payments under the COVID-19 business support national partnerships.

The first two issues are only relevant if the terms of reference allow for method changes.

Potential definitions of COVID-19 business support spending

There are two options for defining COVID-19 business support spending featured in the discussion paper:

- spending on programs covered by the COVID-19 business support national partnerships; and
- non-assessable non-exempt (NANE) business support payments.

None of Western Australia's COVID-19 related business support payments were made NANE by the Commonwealth, so utilising this method would not require additional data from Western Australia.

However, we believe that the manner in which programs were assigned NANE status by the Commonwealth was not consistent across the States, with certain programs that would appear to fit the criteria not being granted NANE status.¹

Further, given Western Australia was provided funding for COVID-19 business support, which in a sense 'legitimises' our spending by the Commonwealth, but none were made NANE, shows that defining spending by NANE would not be comprehensive or appropriate.

- As such, spending under NANE programs does not appropriately reflect State spending on COVID-19 business support.

Using national partnership payments to define national spending would be more appropriate.

Potential drivers of need

The discussion paper proposes assessing NANE expenses according to States' relative reduction in hours worked, based on the *Longitudinal Labour Force Survey*. If NANE expenses cannot be obtained, State spending associated with the national partnerships is proposed to be treated on an actual per capita basis.

As noted above, we do not support a method based on NANE data, as they are not comprehensive or consistently defined.

Reduced hours is not a policy neutral measure of need, as it is affected by the effectiveness of States' COVID containment policies. As described at length in our submission to the 2022 Update, 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.

¹ The NANE eligibility criteria only recognised State programs that were responding to a 'significant disruption'. This arbitrary threshold prevented many grant programs from being eligible that otherwise satisfied all other criteria. For example, Western Australia's *Small Business Hardship Grants* was deemed ineligible for NANE status, while South Australia's *COVID-19 Business Hardship Grant* and Victoria's *Business Cost Assistance Program* were given NANE status.

For the same reasons, as well as the variety of schemes used by States, we also do not support an actual per capita assessment of State expenses.

In summary, we seek the following:

- Regardless of whether the terms of reference accommodates method changes, make no change to current methods and apply impact for Commonwealth business support payments – this appears to us to be the most policy neutral approach; or
- As a compromise, make no changes to current methods and apply no impact for Commonwealth business support payments; or
- If the CGC desires to make a new assessment (should the terms of reference allow), apply the reduced hours measure (this being a less inaccurate driver of business support expenses) to national expenses on business support national partnerships (which provide the more tolerable expense data). Commonwealth business support payments would be assessed as impact, and the entire assessment significantly discounted for policy differences across States.

New State taxes

Victoria's zero and low emissions vehicle (ZLEV) tax

We support the discussion paper's view on including Victoria's ZLEV revenues in the Motor taxes assessment until the next method review. However, if the revenue source impact becomes material for the 2024 Update, the CGC should assess it in a standalone revenue assessment, as the ZLEV revenue base is different from other motor taxes which are levied on all vehicles.

Victoria's mental health and wellness surcharge

Although this will reduce Western Australia's pre-reform relativity ongoing, we support the discussion paper's view on including Victoria's mental health and wellness surcharge revenues in the Payroll tax assessment.

Other issues

Negative average no-worse-off relativity

The discussion paper seeks the views of the Commonwealth and States on how to deal with a possible negative pre-reform relativity calculated for the no-worse-off guarantee (NWOG).

The Western Australian May 2022 Budget forecast a 0.01 pre-reform 2023 Update relativity for Western Australia. This is likely to be revised up in our forthcoming Mid-Year Review, due to new population estimates (reflecting the last Census) and revisions to other States' royalty and tax estimates. However, there remains significant uncertainty in the forecast.

In the 2022 Update, the CGC concluded that a negative data-year relativity could flow into the three-year average, provided that three-year average remained positive. The fact that the CGC had to make this proviso implies that it saw potential problems with a negative three-year average relativity.

The purpose of the CGC recommending relativities to the Federal Treasurer has always been so that the Federal Treasurer can then determine relativities for the payment of GST grants. A payment cannot be negative, so it would be inappropriate for the CGC to recommend a negative relativity. Hence, if any State's three-year average relativity is calculated to be negative, the CGC should raise it to zero.

The *Federal Financial Relations Act 2009* requires the Federal Treasurer to provide NWOOG grants to a State if its GST grants are cumulatively below what that State would have received if the GST distribution reforms had not been enacted. As argued above, in the absence of the reforms, the CGC would lift any negative grant relativity to zero, so that is the benchmark against which the NWOOG should be measured.

The cost of doing this would be shared among the other States on an equal-per-capita basis. We consider this 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, including Western Australia).

Commonwealth payments

We accept the proposed treatment of nearly all new Commonwealth payments described in Appendix D of the discussion paper. However, we would appreciate clarification on the treatment of the following.

- **Australian Fire Danger Rating System:** The proposed treatment for this payment is 'impact'. Previously, the pilot program for this system was treated as 'no impact' with the reasoning being that needs are not assessed for this program (as per the 2019 Update New Issues discussion paper). We would like to understand the reasoning for this difference in treatment when the projects appear to be the same.
- **Social Impact Investments – Vulnerable Priority:** The proposed treatment for this payment is 'no impact', as the CGC is unable to identify a driver of State expense needs for these services. We understand this to be a program focussed on mitigating homelessness in vulnerable cohorts, and believe it should be included in other welfare as a State expense.
- **Perth City Deal – Homelessness Projects:** The proposed treatment for this payment is 'impact' as it is anticipated to develop social housing. The project intends to deliver crisis accommodation to support and protect rough sleepers, and 'wraparound' services. The driver of expenses is substantially different to standard social housing activities. We also believe that this program and the *Social Impact Investments – Vulnerable Priority* program described above should be treated consistently, as they address similar issues.

- ***Perth Cultural Centre Rejuvenation:*** The proposed treatment for this payment is 'impact' as it is related to the redevelopment of a cultural centre. While this is the project title, the project actually entails the development of the precinct surrounding a cultural centre, with the development of a precinct master plan, improved signage, landscaping, and entrance statements. Future work includes creating a new boulevard, undergrounding electrical services, and installing CCTV for safety within the precinct.² This project is comprised of standard local government activities, similar to the *Revitalising Central Geelong – Arts & Culture Precinct*, which has a proposed treatment of 'no impact'. We believe this component of the Perth City Deal should be treated consistently.

² As described on page 10 of the Perth City Deal document:
<https://www.infrastructure.gov.au/sites/default/files/migrated/cities/city-deals/perth/files/perth-city-deal.pdf>