



# **COMMONWEALTH GRANTS COMMISSION 2023 UPDATE OF GST REVENUE SHARING RELATIVITIES**

## ***NEW ISSUES PAPER***

**ACT Government submission**

ACT GOVERNMENT SUBMISSION

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## INTRODUCTION

The Commonwealth Grants Commission (CGC) has released Staff Discussion Paper, Discussion Paper, 2023 Update: New Issues to the states and territories for comment.

The ACT welcomes the opportunity to comment on the issues and recommendations outlined in the paper. These issues and recommendations have been prepared in the absence of the Terms of Reference (ToR) for the 2023 Update.

Overall, the ACT supports most CGC staff recommendations for the 2023 Update.

The ACT notes the possibility that Western Australia (WA) may be subject to a negative three-year average GST relativity. Although this possibility had hitherto been considered unlikely, it is important that a solution to this possible outcome that does not disadvantage other states and territories is agreed. This is particularly necessary considering the relativity floor that WA has enjoyed during a period of strong commodity prices, to the benefit of WA's budget position. The ACT acknowledges that there is no legal framework for the appropriation of state or territory own-source revenue for the purposes of achieving horizontal fiscal equalisation and agrees that this is appropriate. Equally, the ACT considers that states and territories should not be expected to bear the costs of uplifting WA's full equalisation relativity to zero through reduced payments from the No Worse Off Guarantee (NWOOG). The ACT therefore proposes a long-term approach for the CGC's consideration.

The ACT's comments on each issue and recommendation are provided below.

## ISSUES FOR THE 2023 UPDATE

### DATA ISSUES

#### 2021 CENSUS

The 2021 Census was conducted on the 10 August 2021. As of 11 November, the Australian Bureau of Statistics (ABS) has partly released the results of 2021 Census of Population and Housing, including the rebased Estimated Resident Population (ERP). ERP data have been adjusted for over and under-counts using a post enumeration survey. This allows the CGC to consider the latest population data for the total state and sub-state populations for the 2023 Update.

An important exception to this is the 2021 Census-based sub-state ERP for Aboriginal and Torres Strait Islander and non-Indigenous Australians. This data will be released by the ABS in August 2023. In addition, some of the 2021 Census data is yet to be released and will not be in time to be incorporated in the 2023 Update assessments. This includes the ABS Remoteness Areas and the socio-economic status measures of *Socio-Economic Indexes for Areas (SEIFA)*, *Indigenous Relative Socio-Economic Outcomes index (IRSEO)*, and *Non-Indigenous Socio-Economic Index for Areas (NISEIFA)*.

COVID-19 conditions have also affected the suitability of some available 2021 Census data sets for the 2023 Update. Urban transport usage was affected by the COVID-19 lockdowns on the day of the 2021 Census, including in the ACT. Similarly, two census variables, namely Equivalised Total Household Income (weekly) and Rent Ranges (weekly), used to estimate per household costs and revenue in the housing assessment may be distorted by the COVID-19 lockdowns, and subsequent assistance some individuals and households received

and the influence this may have had on household incomes/rents that may have otherwise been reported.

### Commonwealth Grants Commission Staff Position

For the 2023 Update, CGC staff will use the latest rebased ERP data by state from the ABS to calculate the total state and sub-state populations.

Due to unavailability of data in time for the update, CGC staff will continue to use the 2016 Census-based Aboriginal and Torres Strait Islander shares of the total population for the 2023 Update. The CGC noted that applying the 2016 Census Indigenous population shares in each state age-remoteness-socioeconomic status group to the 2021 Census would lead to uniform growth across the socio-demographic groups within each state.

CGC staff will also continue to use the Remoteness Areas and the socio-economic status measures from the 2016 Census due to unavailability of data in time for this update.

For the urban transport assessment, CGC staff sought views from states and territories to retain the 2016 Census data for passenger numbers by mode in the urban transport assessment with no adjustment to account for changes in the level of service provision or the addition of new modes of transport if 2021 Census data for passenger numbers is not fit for purpose. The CGC's initial analysis based on ticketing data provided by some states, shows a significant divergence of use patterns between jurisdictions on the 2021 Census Day compared with the 2016 Census Day.

CGC staff will integrate the 2021 Census data on income and rent in the Housing assessment for the 2023 Update if they consider the data to be reliable. CGC staff preliminary assessment provided after the release of the New Issues paper indicates the trends remaining consistent with that reflected in the 2011 Census and 2016 Census, and that there is no indication of distortions to the income and rent data from the 2021 Census.

### ACT Position

The ACT is broadly supportive of the CGC staff proposals in relation to the use of 2021 Census data. The ACT's positions on each of the proposals are elaborated upon below. More broadly, the ACT suggests that the CGC also consult with the ABS on issues relating to the timing of 2021 Census data releases and seek the views of the ABS on approaches to deal with data that would otherwise be used in the CGC's assessments not being available in time for the 2023 Update.

### **ERP**

The ACT supports the CGC staff proposal to use the 2021 Census based ERP data by state to calculate the total state and sub-state populations.

The ACT notes that ERP data by state has been adjusted by the ABS for over and undercounts of population using a post enumeration survey. This adjustment has corrected the significant underestimation of the ACT's population by the Australian Bureau of Statistics which had a negative impact on the ACT's GST share in the 2022 Update, and prior Updates in which the ABS' Estimated Resident Population data did not accurately represent the ACT's population levels.

### **Aboriginal and Torres Strait Islander ERP**

The ACT supports the CGC staff proposal to retain the 2016 Census-based projections of total Aboriginal and Torres Strait Islander ERP by state for the 2023 Update.

The ACT shares the CGC's staff view that applying the share of Indigenous population for each state age-remoteness-socioeconomic status group from the 2016 Census to the total indigenous population from 2021 Census results would lead to uniform growth across the socio-demographic groups within each state. The ACT notes though, that given the 2021 Census showed a stronger increase in the indigenous population in 2021 than the current projection, this approach may also lead to significant variance in comparison to future Updates using the actual data.

### ***Measures of Socio-economic Status***

Noting data availability issues, the ACT supports the CGC staff proposal to continue using the ABS Remoteness Areas and the socio-economic status measures from the 2016 Census. The ACT notes that the ABS will release this data as part of the third census data release scheduled from early to mid-2023.

### ***Urban Transport***

The ACT notes that the 2021 Census data for public transport usage was affected by COVID-19, and considers the data unfit for the urban transport assessment. On this basis, the ACT supports CGC staff proposal to retain the 2016 Census data for passenger numbers by mode in the urban transport assessment.

It is important to note that while public transport patronage declined because of COVID-19 lockdowns, associated expenses continued to increase. Partly, the maintenance of public transportation routes was an important part of COVID-19 exposure mitigation, enabling fewer patrons to travel safely at a time when essential work to support the pandemic response was still being undertaken. Equally, affected states and territories had contractual obligations to providers and employees regardless of pandemic status. A failure to recognise the extraordinary nature of the pandemic in this regard would overlook states' and territories' roles and obligations.

ACT ticketing data show that the number of journeys using public transport over the period 2019-20 to 2021-22 declined substantially due to the COVID-19 lockdowns. However, the ACT Government spending on public transport services continued to increase over that period, largely driven by the addition of light rail services from April 2019, new bus network and additional weekend bus services. Further, there has been additional and necessary costs associated with COVID-19 such as for communications including signage at bus stops and interchanges as well as additional cleaning undertaken due to the pandemic.

The ACT understands that these additional costs should be captured through the Government Finance Statistics (GFS) data used by the CGC to determine total actual expenditures by states and territories on urban transport. If they are not however, the CGC should consider an adjustment to account for the increased provision of urban transport services per passenger during the pandemic.

As well as the above issue, the ACT notes that since the 2016 Census, the ACT has commenced a significant upgrading of its urban transport infrastructure, most notably the construction of a light rail system, with the first stage of the light rail network completed in 2019. The completion of the first stage of the light rail project has significantly affected the public transportation usage of residents of the northern areas of Canberra. Consequently, the ACT has concerns that continuing to use 2016 Census data may underestimate the ACT's assessed urban transport expenditure needs. The ACT therefore considers that while the

CGC should retain its use of 2016 Census passenger data, it should adjust the data to account for the introduction of new transportation modes during the intercensal period.

### **Housing**

The ACT supports the CGC staff proposal to integrate the 2021 Census data on income and rent in the Housing assessment for the 2023 Update given CGC staff preliminary analysis indicating that there are no distortions in the data.

The ACT suggests the CGC undertake further analysis once all relevant data has been made available and share this analysis with the states and territories for consideration.

### **NEW DATA SOURCE FOR NUMBER OF MOTOR VEHICLES**

The ABS has ceased the Motor Vehicle Census, with the final release reflecting data for 2020-21. Following the cessation, the Bureau of Infrastructure and Transport Research Economics (BITRE) have been working with Austroads to establish a replacement product using data from the National Exchange of Vehicle and Driver Information System. Release of this new data by BITRE has been deferred from the initially planned October 2022 to enable additional data validation, jeopardising its availability in time for the 2023 Update.

### **Commonwealth Grants Commission Staff Position**

CGC staff propose to use BITRE data as the new source of data for the number of registered vehicles in each state if it is available in time. Alternatively, CGC staff propose to use the number of vehicles in 2020-21 from the ABS Motor Vehicle Census for 2021-22 data if BITRE data are not published in time for the 2023 Update. The CGC initial assessment for this alternative proposal is not material with overall GST effect of \$0.3 per capita, well below the data adjustment threshold of \$10 per capita.

### **ACT Position**

The ACT supports the CGC staff proposal to use BITRE data as the new source of data for the number of registered vehicles in each and territory. The ACT notes that on 31 October 2022, BITRE made this data available through the Motor Vehicles, Australia, January 2022 Report.

### **NON-ADMITTED PATIENTS' ACTIVITY DATA**

Following concerns from Tasmania raised during the 2021 Update, the CGC has developed an option to calculate national weighted activity units (NWAU) for GP-type services using separation and price weight data in 2019-20 for medical consultations and allied health services from the Independent Hospital Pricing Authority. These would be added to the NWAUs for the non-admitted patient services that are already included in the Commission's assessment.

After including GP-type services, the CGC found that relative per capita spending on non-admitted patient services is higher in remote and very remote areas. It is also higher for Aboriginal and Torres Strait Islander people. This has a material effect on the GST distribution for the Northern Territory.

### **Commonwealth Grants Commission Staff Position**

CGC staff proposes to include imputed NWAU data for GP-type services in the non-admitted patient assessment. The CGC also sought views from states and territories on the quality and comprehensiveness of the data proposed to be used in the calculation, along with the outcome presented in the paper.



### ACT Position

The ACT supports the CGC staff proposal to include imputed NWAU data for GP-type services in the non-admitted patient component of the health assessment. The ACT considers that the approach proposed by the CGC aligns with the CGC's existing approach to the use of NWAU data in the non-admitted patient component and addresses the inconsistency between usage and expenditure data.

## RESPONSE TO COVID-19

The CGC notes that the impact of COVID-19, and states' responses, have evolved since early 2020, and that the CGC is reviewing the approach for the assessments applied during the 2021 and 2022 Updates and their applicability for the 2023 Update. The ACT notes that the CGC's freedom to update its approach for assessments for the 2023 Update will be determined by the forthcoming ToR.

### HEALTH

The CGC treated Commonwealth payments under the National Partnership on COVID-19 Response (NPCR) in the 2021 and 2022 Updates as no impact on the basis that the drivers of state spending (and in turn Commonwealth payments) on COVID-19 health services were different from the usual drivers of state health spending needs. Hence, this spending was not specifically assessed.

The CGC now considers COVID-19 to be widespread and endemic, influencing states' and territories' spending needs on health.

### Commonwealth Grants Commission Staff Position

If the 2023 ToR allow, CGC staff intends to treat the Commonwealth payments under the NPCR as impact and the related state and territory expenditures under the agreement on an Actual Per Capita (APC) basis.

### ACT Position

The ACT supports in-principle the CGC staff proposal to assess revenue and expenditure under the NPCR as APC, noting that whether the proposal can be implemented will be dependent on the ToR for the 2023 Update.

The NPCR provides a unified framework applying to all jurisdictions on expenditures and revenues payable in relation to COVID-19. As such, these expenses are based on an equal policy across jurisdictions. Thus, the ACT considers that an APC assessment is appropriate.

### BUSINESS SUPPORT

States and territories provided significant financial support to businesses during the COVID-19 pandemic. These supports varied between jurisdiction in terms of their scope and magnitude. Following the end of the Commonwealth's JobKeeper payments in March 2021, states and territories significantly increased their level of direct support. From 2021-22, this included expenditures under a series of bilateral agreements with the Commonwealth to jointly fund support payments impacted by lockdowns and other public health orders – the National Partnerships on COVID-19 Business Support Payments (NP-CBSP).

Total state spending covered by the NP-CBSPs in 2021-22 is expected to be \$14.4 billion, more than double the \$6 billion spent on the entire services to industry category in 2018–19, before COVID-19.

Under existing assessment methods, these business support expenditures would be considered under the Other Industries Regulation and Business Development components of the Services to Industry assessment. Business Development is assessed equal per capita, while Other Industry Regulation is assessed based on other industry factor income (75%) and population (25%).

The distribution of Commonwealth payments under the NP-CBSPs differs significantly from the Commission's assessment of needs under the current assessment methods.

### Commonwealth Grants Commission Staff Position

CGC staff propose to treat the Commonwealth payments under the NP-CBSPs as influencing the GST distribution, if allowed under the 2023 Update ToR.

The CGC has identified two possible methods for assessing expenditures on COVID-19 business supports:

- An APC assessment of NP-CBSP expenditures, or;
- A differential assessment of expenditure on support payments that were made non-assessable, non-exempt (NANE) by the Australian Taxation Office for income tax purposes, using a reduction in hours worked as reported in the Australian Bureau of Statistics' Longitudinal Labour Force Survey.

### ACT Position

The ACT notes that using NANE business support expenditure as the basis for a differential assessment would require separate and comparable data on NANE expenditure to be provided by states and territories. It is not clear whether such data is available. The ACT also notes ongoing concerns with the volatility of Labour Force Survey (LFS) data for the ACT and the significant impact of it currently using 2016 Census based ERP, which may make the longitudinal LFS data to be unfit for purpose for this assessment.

Due to this issue, the ACT's preferred approach would be for the expenditure under the NP-CBSPs to be treated as APC. The ACT considers that the NP-CBSPs provide a policy framework for expenditure on COVID-19 business support that is sufficiently comparable across jurisdictions to make an APC assessment suitable. Moreover, the ACT considers that state and territory health measures taken in response to COVID-19 were undertaken on an as-needed basis by all jurisdictions. In this respect, the ACT considers that an APC assessment of NP-CBSP expenditure would be analogous to the treatment of expenditure on natural disaster recovery.

The ACT also supports the treatment of Commonwealth grant revenues under the NP-CBSPs as APC, based on maintaining a consistent treatment between expenditures and revenues under the agreements, and consistency with the CGC's usual approach in the assessment of Commonwealth grants in service delivery areas that impact on the GST distribution.

## NEW STATE TAXES

### VICTORIA'S ZERO AND LOW EMISSIONS VEHICLE TAX (ZLEV)

Victoria has introduced a distance-based road-user tax on owners of zero and low emission vehicles (ZLEVs) from 1 July 2021 onwards. Three other states (New South Wales, Queensland, and Tasmania) have announced plans to introduce distance-based charges for electric vehicles from July 2027.

Victoria raised \$1.18 million in ZLEV revenues in 2021-22 and the ABS classifies these revenues as Motor Taxes in the GFS. The CGC uses the ABS GFS data for assessment of Motor Taxes.

### Commonwealth Grants Commission Staff Position

CGC staff proposes to include revenue from Victoria's ZLEV revenues in the Motor Taxes assessment for the 2023 Update. CGC staff noted that the inclusion of this revenue in the Motor Taxes assessment would not materially affect the assessment.

### ACT Position

The ACT supports the CGC staff proposal to include revenues from ZLEV in the Motor Taxes assessment, noting that these revenues are considered Motor Taxes under the GFS framework. The ACT considers the Motor Taxes assessment to be the most appropriate assessment to allocate these revenues under.

## VICTORIA'S MENTAL HEALTH AND WELLNESS SURCHARGE

Victoria's Mental Health and Wellbeing Surcharge is a payroll tax surcharge that commenced on 1 January 2022. It is levied on taxable wages paid by an employer exceeding the first annual threshold of \$10 million to provide additional funding to the Victorian Mental Health System.

Victoria's mental health and wellbeing surcharge raised \$319 million in the six months of its enactment and is expected to raise \$819 million in 2022-23.

Queensland is introducing a similar mental health and wellbeing surcharge from 1 January 2023 and expects to raise \$184 million from the surcharge in 2022-23.

### Commonwealth Grants Commission Staff Position

CGC staff proposes to include Victoria's mental health and wellbeing surcharge in the Payroll Tax assessment, as the surcharge is raised under the Victorian payroll tax legislation. The CGC notes that the inclusion of this surcharge will increase payroll tax revenue and, hence, affect the assessment's average tax rate.

### ACT Position

The ACT supports in-principle CGC staff proposal to include Victoria's Mental Health and Wellbeing Surcharge in the Payroll Tax assessment. The ACT considers that this approach would be consistent with the CGC's treatment of surcharges in other revenue assessments, such as foreign owner surcharges in the Land Tax assessment.

## OTHER ISSUES

### NEGATIVE AVERAGE NO WORSE OFF RELATIVITY

Given that Western Australia (WA) was assessed as having a negative relativity for the 2020-21 assessment year, there is a possibility of assessed WA relativity to be negative again for 2021-22 assessment year. This may cause the three-year average relativity for WA in the 2023 Update to be negative. While this does not affect the CGC calculation of GST relativities under the new GST arrangements, this will affect the calculation relativities for the purposes of determining the no worse off guarantee.

'No worse off relativities' are GST relativities that would have applied if the 2018 legislated changes had not been enacted and are used by the Commonwealth Government to calculate

the payments it makes to states to ensure they are no worse off during the transition period under the new GST arrangements.

A negative assessed relativity has not arisen since the introduction of the GST and had previously been regarded as essentially inconceivable.

### Commonwealth Grants Commission Staff Position

CGC staff are seeking views from states and territories if it could lift the negative relativity to zero and adjust the other relativities down in proportion to each state's population to accommodate this increase.

### ACT Position

The ACT considers that increasing a negative average full equalisation relativity to zero is not appropriate, for the purposes of determining the No Worse Off Guarantee (NWOOG). Further, in the context of changes to the HFE system, the ACT considers that the CGC's role in this case is solely to assess relativities on the basis of fiscal capacity.

Allowing WA's full equalisation relativity to rise from a negative value to zero would have the effect of diminishing NWOOG payments to states and territories other than WA by artificially presuming WA's fiscal capacity is weaker than it is. The ACT notes that this arrangement would have no effect on WA's GST grant, which would be dependent on the transitional arrangements and the GST relativity floor – that is, a negative full equalisation relativity for WA, would only affect the NWOOG payments of the other states and territories.

The ACT considers that the NWOOG should fully insulate states and territories from the Commonwealth's decision to depart from the prior Horizontal Fiscal Equalisation system. As such, WA's actual fiscal capacity should be fully reflected in the CGC's calculations and the CGC's calculations in turn should present an unadulterated analysis of states' fiscal capacities.

## NEW COMMONWEALTH PAYMENTS

CGC staff have examined new Commonwealth payments commencing in 2021-22, as listed in the Final Budget Outcome.

### Commonwealth Grants Commission Staff Position

CGC staff propose to treat new Commonwealth payments commencing in 2021-22 based on the guidelines adopted in the 2020 Review:

- Payments which support state services, and for which expenditure needs are assessed, will impact on state fiscal capacities. If needs are not assessed, it will have no impact on state fiscal capacities.
- If a payment has multiple components, and the Commission decides that one or more component should not affect state fiscal capacities, staff will collect information to split the payment to ensure the appropriate treatment is applied.

CGC staff noted that the proposed treatments would change following the direction of the ToR for the 2023 Update.

### ACT Position

The ACT supports the proposed treatments of Commonwealth payments that commenced in 2021-22.





Chief Minister, Treasury and Economic  
Development Directorate

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