

Northern Territory Response to the Commonwealth Grants Commission Discussion Paper - 2023 Update: New Issues

November 2022

Defined Terms	Full form
ABS	Australian Bureau of Statistics
AIHW	Australian Institute of Health and Welfare
APC	Actual-per-capita
ATSI	Aboriginal and Torres Strait Islander
BITRE	Bureau of Infrastructure and Transport Research Economics
Business Support FFAs	Collective name for bilateral Business support payments - Federation Funding Agreement Schedules
CNR	Northern Territory Centre for National Resilience facility at Howard Springs
Commission	Commonwealth Grants Commission
DTF	Department of Treasury and Finance (Northern Territory)
IHACPA	Independent Health and Aged Care Pricing Authority
New Issues Paper	Commonwealth Grants Commission Discussion Paper - 2023 Update: New Issues, October 2022
NP COVID-19 Response	National Partnership on COVID-19 Response
The Territory	The Northern Territory
ToR	Terms of Reference

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1. Introduction

This submission responds to the Commonwealth Grants Commission Discussion Paper – 2023 Update: New Issues (New Issues Paper) provided to DTF on 7 October 2022. The submissions herein are expressed in the order in which they appeared in the New Issues Paper.

2. Submissions

2.1. 2021 Census

2.1.1. Estimated resident population

The New Issues Paper raises two population-related issues, the calculation of *the total state and sub-state populations*, and calculation of *ATSI populations*. DTF agrees with the Commission's preliminary views, that state-total calculations should adopt the 2021 Census, and that 2016 Census-based projections for total ATSI populations should be retained.

2.1.1.1. Total state and sub-state populations

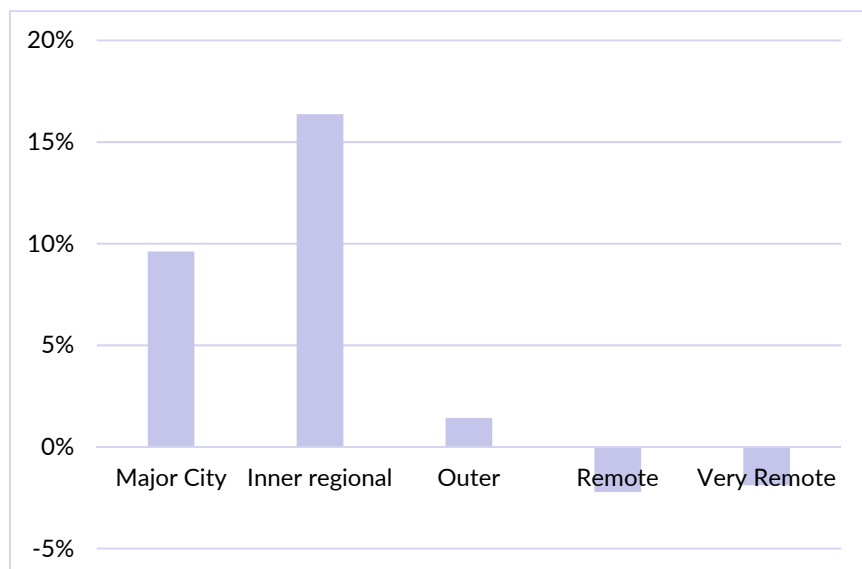
DTF agrees that the 2021 Census is the most reliable and up-to-date measure of state populations, is consistent with past Term of Reference in an Update year, and should be used in the 2023 Update for state total population data. Should the Commission form a different position, DTF would welcome an opportunity to make further submissions.

2.1.1.2. ATSI populations

The New Issues Paper discusses two alternative options for ATSI data: to continue to use forecasts based on the 2016 Census (the Commission's preliminary view), or to use the 2021 Census and pro-rata any excess growth evenly across socio-demographic groups within each state.

DTF observes that past trends in ATSI population growth have been highly uneven across geographic locations. Historically, ATSI growth rates are higher in major cities and inner regional, than outer regional, remote, and very remote areas, as demonstrated in Chart 1 below.

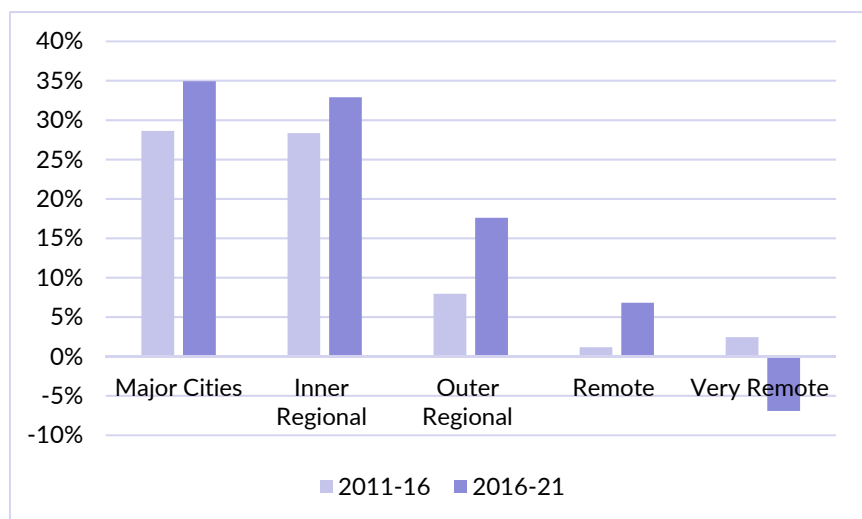
Chart 1 – Aboriginal and Torres Strait Islander Estimated Resident Population Growth 2011-2016 Census



Change in total Australian ATSI Estimated Resident Population, as supplied by the Commonwealth Grants Commission.

While ATSI population data by socio-demographic region is not available, DTF's analysis of initial 2021 Census ATSI population count data indicates that the historical trends in geographical growth rates in ATSI populations has likely continued, with the rate of growth in major cities and inner regional higher than the growth rate in outer regional, remote and very remote areas. Chart 2 illustrates that ATSI population growth rates appeared higher in major cities and inner regional areas than outer regional, remote and very remote.

Chart 2 – Aboriginal and Torres Strait Islander Population Growth Rate



Change in total Australian ATSI population based on 2011, 2016 and 2021 Census count data. Data is intended for illustration purposes to show relative growth rates between regions. Growth rates may vary slightly from other data sets due to changes in geographical definitions and the use of count data. Source: ABS, DTF calculations, based on correspondence of 2017 locality to 2016 remoteness areas.

ABS 2021 Census commentary¹ states that:

There have been significant increases in the number of people identifying as having Aboriginal and/or Torres Strait Islander origin between censuses. Increases in the population are influenced by demographic factors such as births, deaths and migration, and by non-demographic factors including changes in whether or not a person identified as Aboriginal and/or Torres Strait Islander in each Census, the identification of children or others who have had their form completed by parents or someone else on their behalf, and the impact of communications and collection procedures. Changes in Indigenous status between censuses can affect the interpretation of Census data for Aboriginal and Torres Strait Islander peoples. It is important to remember that Indigenous status is collected through self-identification and any change in how a person chooses to identify will affect the count of Aboriginal and Torres Strait Islander peoples in the Census.

DTF understands that the higher growth rate in metropolitan and inner regional areas is more likely attributable to changing self-identification practices. This is in contrast to ATSI population growth in remote areas, where growth is more likely attributable to factors such as natural growth and migration.

Given the significant potential for state-total ATSI population growth to be distributed unevenly across geographic regions within a state or territory, DTF argues that a uniform apportionment of state-total excess ATSI population growth across socio-demographic cohorts within that state is not a reasonable assumption and is unlikely to reflect actual population growth in those cohorts.

As such, in the absence of reliable estimates of socio-demographic growth rates, DTF agrees with the Commission's preliminary view, to continue to use 2016 Census predictions in the 2023 Update.

2.1.2. Urban Transport

DTF considers that the usual and most appropriate course is to use updated data for the urban transport assessment where it is available and fit for purpose. DTF argues that, contrary to the New Issues Paper preliminary view, the 2021 Census Urban Transport data is fit for purpose in the context of the evidence and reasons provided by the Commission to date.

The New Issues Paper preliminary view appears to seek to use 2016 data for an unknown length of time, which may cause the assessment to lack contemporaneity and in particular would not capture emerging trends such as working-from-home arrangements. DTF argues that the reasons provided in the New Issues Paper are beyond the scope of past ToR in an update year and allows selective data adjustment where data does not follow the Commission's expected outcomes. This introduces additional uncertainty into GST Update processes, and potentially biases assessments toward past trends. DTF considers that the Urban Transport matter in the New Issues Paper is a methodology issue, rather than a data issue.

2.1.2.1. Scope of the 2023 Update

DTF submits that the past ToR for an update year would not permit an adjustment to the Urban Transport data for the reasons set out in the New Issues Paper.

The 2022 Update ToR provides that "Where possible, the Commission should: (a) aim to have assessments that are simple and consistent with the quality and fitness for purpose of the available data;" and to allow the Commission to replace data, or amend methods, in an update year if "data problems arise". DTF's view is that these past provisions would only allow the Commission to review methods where it first establishes a data issue.

¹ <https://www.abs.gov.au/statistics/people/aboriginal-and-torres-strait-islander-peoples/aboriginal-and-torres-strait-islander-people-census/latest-release>

It appears that the New Issues Paper discussion seeks to classify a divergence between urban transport passenger usage data in 2021 compared to 2016, or between urban transport passenger usage data and state urban transport expenditure, as a data issue. DTF's view is that there is no data issue and considers that the 2021 Census is likely to remain an accurate measure of actual urban transport usage.

2.1.2.2. Assessment of "fit-for-purpose" data

If the Commission forms the view, contrary to DTF's submission, that the Urban Transport matters are a data issue and the ToR allows an adjustment to the data, DTF submits that a clear, conceptually sound, benchmark to evaluate whether data is "fit-for-purpose" is required and that the New Issues Paper has not established such a benchmark, for the reasons set out below.

The New Issues Paper submits that the 2021 Census Urban Transport data is not fit for purpose because COVID-19 related lockdowns caused a divergence between 2021 and 2016 passenger numbers, while some states submitted that service levels were maintained or increased, and because the 2021 Census data reflects "exogenous factors" rather than "actual demand".

DTF considers that diverging data over time is not sufficient to show that new data is not fit for purpose, and may bias the assessment to historic trends. Benchmarking fitness for purpose against select state actual policies has policy neutrality implications. DTF considers that the Commission has not established how it has distinguished "exogenous" and "actual" demand. COVID-19 may have resulted in genuine and enduring long or medium-term demand changes, such as increased working-from-home arrangements.

For these reasons, DTF contends that the appropriateness of using 2016 data, as opposed to 2021 data, has not been established, and does not support the New Issues Paper preliminary view.

2.1.2.3. Adjustments for new modes of transport

DTF is of the view that using 2021 Census data will ensure that the Urban Transport assessment is contemporary, and removes the need for further adjustments to accommodate new modes of transport since the 2016 Census. The Territory makes no submission on the appropriateness of the specific calculations performed by the Commission in the New Issues Paper on new modes of transport, on the basis of materiality.

2.1.3. Housing

The New Issues Paper preliminary view is to update data on income and rent in the Housing assessment for the 2023 Update using 2021 Census data once available, if the Commission considers that data to be reliable.

DTF notes that following the release of the New Issues Paper, 2021 Census housing data was released and provided by the Commission to states and territories on 20 October 2022 and significantly amended on 3 November 2022. No further commentary on reliability issues was provided by the Commission. DTF's preliminary review of the amended data did not identify any apparent reliability issues, noting the limited time available for consideration prior to consultation on the New Issues Paper due on 11 November 2022.

Should the Commission seek to apply a "fit-for-purpose" test to housing data, DTF submits that similar issues on scope and identifying appropriate benchmarks as discussed in the Urban Transport section of this submission will arise.

2.2. New data source for the number of motor vehicles

The New Issues Paper preliminary view is to use the new Bureau of Infrastructure and Transport Research Economics (BITRE) *Statistical Report: Motor Vehicles, Australia* publication, released on 31 October 2022, to replace the former ABS Motor Vehicle Census publication, which ceased in 2021, to identify the number of motor vehicles to determine the capacity of each jurisdiction's motor vehicle revenue.

There appears to be a material data quality and comparability issue with the BITRE data compared to the ABS data, and this would indicate that an adjustment should be made on at least an interim basis. This will allow time for investigations into the BITRE data to determine the reasonableness of the Territory and South Australian heavy vehicle sub-category enumerations and whether any future data or methodology revisions are required.

The BITRE publication notes that while total enumeration is broadly consistent between the BITRE and ABS data sets, there are in some cases significant changes in certain sub-total areas. DTF notes that the variance in 2020-21 between the ABS and BITRE data in the Territory (+4%) and South Australian (+8%) heavy vehicles is significantly above the national variance (-0.1%), set out in Table 1 below. The heavy vehicle year-on-year change from the 2020-21 ABS data to the 2021-22 BITRE data would be 6.73% in the Territory and 10.33% in South Australia, compared to national growth of 2.95%. In comparison, the year-on-year change from the 2020-21 BITRE heavy vehicle data to the 2021-22 BITRE heavy vehicle data would be 2.71% for the Territory and 2.28% for South Australia, compared to national growth of 3.04%.

Table 1 – Difference in motor vehicle enumeration – BITRE and ABS data²

2020-21	New South Wales	Victoria	Queensland	South Australia	Western Australia	Tasmania	Northern Territory	Australian Capital Territory	Australia
ABS MV Census (no.)									
Number of Light Vehicles	5,380,182	4,745,233	3,892,775	1,366,865	2,070,457	468,860	146,178	299,582	18,370,132
Number of Heavy Vehicles	129,101	121,001	101,110	31,895	71,804	12,287	5,868	1,850	474,916
BITRE Publication (no.)									
Number of Light Vehicles	5,449,845	4,780,022	3,941,020	1,372,514	2,080,384	460,994	147,293	293,252	18,525,324
Number of Heavy Vehicles	126,125	120,663	99,987	34,405	73,108	12,214	6,098	1,862	474,462
Variance (%)									
Light Vehicles	1.29%	0.73%	1.24%	0.41%	0.48%	-1.68%	0.76%	-2.11%	0.84%
Heavy Vehicles	-2.31%	-0.28%	-1.11%	7.87%	1.82%	-0.59%	3.92%	0.65%	-0.10%

The difference between the ABS and BITRE data appears to be caused by the reclassification of vehicles previously enumerated by the ABS, from categories that were neither light vehicles nor heavy vehicles into the heavy vehicle category. There is evidence to suggest that some categories of the BITRE data may not be as reliable as the ABS data, for example, BITRE identify a likely undercount of campervans in the Territory, with a total count of only 10 in 2021, and 6 in 2022, compared to 211 in the ABS 2020-21 data, due to campervans not being subject to separate registrations in the Territory. Similar significant declines in campervan estimates are seen in South Australia and Western Australia.

DTF suggests that an adjustment is appropriate at least as a one-off for the 2023 Update to allow time for further analysis of the BITRE data to ensure it is an accurate enumeration for motor vehicle assessment purposes. Possible one-off adjustments may include:

² Source: Bureau of Infrastructure and Transport Research Economics *Statistical Report: Motor Vehicles, Australia*

- that the Northern Territory 2021-22 heavy vehicle estimate be based on the 2020-21 ABS data, inflated by the year-on-year growth rate between BITRE 2020-21 and 2021-22 estimates. This will remove the effects of data reclassifications on the Northern Territory's heavy vehicle data.
- Continue using the 2020-21 ABS data (whether uplifted or not).

2.3. Non-admitted patient service expenses and activity data analysis

The New Issues Paper continues past discussions on non-admitted patient expense and activity data for GP-type services. The issue is that health expenditure data includes non-admitted patient data for GP-type services, while activity data does not, leading to a proxy assessment of state need. The Commission has been investigating available data sets to validate the accuracy of this assessment category. No adjustments have been made to date as the supporting data has not been available for state consideration. The New Issues Paper now provides data for state consideration and proposes to approximate the necessary data by reference to AIHW and IHACPA.

DTF notes that the types of health services, supporting administrative structures, demand, and funding mechanisms, differ greatly between jurisdictions and geographic areas. In the Territory, health services in remote aboriginal communities are characterised by high-needs populations serviced through Territory Government run health clinics, as well as the Aboriginal Community Controlled Health Organisation sector. This makes direct comparisons of activity data difficult to analyse without additional commentary to build an understanding of the services and structures in each jurisdiction. DTF is not able to comment on the validity of other jurisdiction's data, however observes that the trends illustrated at Table A1 of Attachment A appear unusual, with high numbers of GP-type services in New South Wales and the Australian Capital Territory, and low or no shares in multiple other jurisdictions.

As with all data, quality is ultimately dependent on the reliability of inputs, which include the administrative practices at the data entry and audit stage. DTF notes that as these services are not in-scope for National Health Reform Agreement funding, the level of validation may vary between jurisdictions, compared to the more consistent validation of other coded clinics within the hospital system. Without additional context to establish that the level of data validation in each jurisdiction is of an equivalent standard, the activities reported in each jurisdiction may not be comparable.

2.4. Response to COVID-19

2.4.1. Health

The Commission has re-sought state submissions on creating a differential assessment of COVID-19 related Health spending need, as the usual health assessment process may not have accurately captured emerging state needs during the pandemic response. The Commission's preliminary view is, if the Commonwealth Treasurer's 2023 Update Terms of Reference (ToR) are amended to allow a methods change in response to COVID-19, then the *National Partnership on COVID-19 Response* (NP COVID-19 Response) will be treated as "impact", and spending associated with that agreement will be assessed on an actual per capita basis.

DTF considers that the preliminary view is not appropriate as it would fail to meet the usual policy neutrality standards and would not correctly define or scope state actual expenditure on COVID-19 matters. DTF submits that the usual Health assessment remains the most appropriate measure of state health needs in the absence of a reliable driver.

2.4.1.1. COVID-19 Policy Responses

In the 2022 Update, the Commission stated that:

States have different views about the drivers of state spending and revenue raising capacity during the pandemic and the role played by policy choices. On balance, the Commission considered that state responses to COVID-19 largely reflected specific state circumstances arising from the pandemic, rather than policy choices. The unpredictable and varying impacts of the pandemic are similar in nature to the impacts of a natural disaster.

On the contrary, it is suggested that with the passage of time, it is appropriate to conclude that state policies have had a differential impact on state's COVID-19 needs.

DTF acknowledges that no policies were infallible at preventing the spread of COVID-19, and that all states implemented significant COVID-19 preventative measures. Nonetheless, there were material actual and potential differences in state policies which should not be attributed to differences in state circumstances.

DTF makes no attempt to discuss the comparative merit of state policies, recognising that the reasons for different policies in each jurisdiction were nuanced, complex and varied but notes that state policies were not uniform in form or effect as found by the Commission, and were open to be influenced by financial and other considerations.

DTF submits that the actual differences of state COVID-19 policy responses relates to the timing of re-opening of state borders in late 2021 and early 2022, and provides a sample of the Territory COVID-19 responses which differed from the policies in place in several other jurisdictions, which allowed the Territory to lower its COVID-19 risk profile, minimising cases, community transmission, and health costs under the NP COVID-19 Response, but resulted in additional costs in other sectors which have not been identified by the Commission.

2.4.1.2. State border re-opening case study

The level of state control on COVID-19 case numbers was perhaps most clearly demonstrated in late 2021 and early 2022. In mid-2021, National Cabinet agreed to the *National Plan to transition Australia's national COVID-19 Response* (Plan). The Post Vaccination Phase of this Plan included easing restrictions such as border controls and the use of lockdowns on vaccinated residents. While all states acted in broad accordance with this Plan, there was significant variability between jurisdictions, particularly on the timing and extent of the removal of border control and lockdown policies.

If, as the Commission has previously found, state policies were uniform, or COVID-19 needs were independent of state policies, the expected result would be for all states to have incurred COVID-19 outbreaks at similar times, or at least that state outbreaks would not be closely correlated to the timing of state policy decisions.

Instead, it is clear that there was a direct and immediate correlation between certain policy decisions, and in particular the relaxation or removal of border controls, and the number of COVID-19 cases in the jurisdiction.

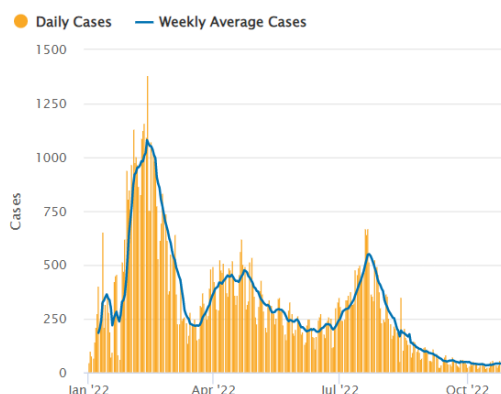
For example, the Northern Territory changed its interstate border policies on 20 December 2021, such that fully vaccinated travellers were no longer required to quarantine. Following this decision, the Territory

experienced a COVID-19 “wave” which escalated in January 2022 and subsequently peaked in February 2022³.

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Northern Te

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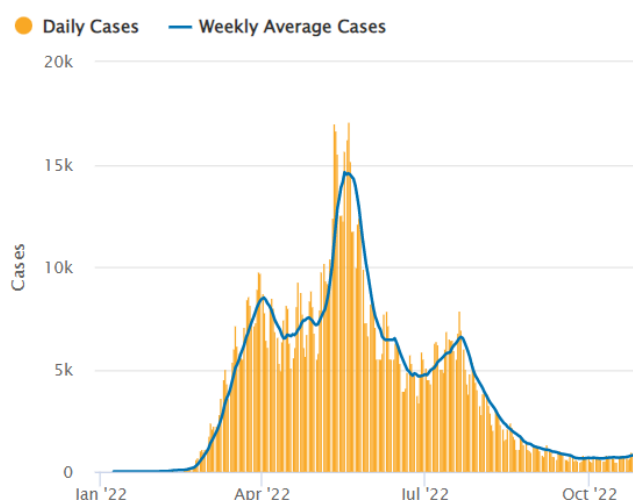


In contrast, Western Australia retained quarantine requirements and did not reopen borders until 3 March 2022. Western Australia experienced a subsequent Omicron “wave” escalation in late March-April 2022, and a “peak” in mid-May.

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DTF contends that it is clear that states had direct policy control over, at a minimum, the timing of COVID-19 cases in their jurisdiction in 2021-22, which affected state expenditure profiles, including under the NP COVID-19 Response.

2.4.1.3. Differential Territory COVID-19 policy responses

While the border policies in late 2021 and early 2022 are the most obvious examples of how state differences in policy decisions impacted COVID-19 cases, there were substantially more policies which impacted state data and expenditure needs throughout the pandemic response.

³ Data sourced from <https://www.health.gov.au/health-alerts/covid-19/case-numbers-and-statistics>

Some examples of measures specifically in place in the Territory, which were different to those in some other jurisdictions, include but are not limited to:

- The establishment of the *Centre for National Resilience for the Organised Repatriation of Australians* at Howard Springs (CNR), used for international and domestic quarantine. The use of a dedicated, and physically isolated, village-style quarantine facility is a significant difference to the hotel quarantine arrangements in most other jurisdictions. Unlike hotel quarantine arrangements in some states, there were no COVID-19 cases which escaped the CNR facility into the community.
- The speed of and extent of lockdown decisions. In the Territory, lockdown declarations were made with as little as one case, and pre-emptive of community transmission. Three lockdowns preceded the first case of community transmission, which did not occur until November 2021. The Territory's declarations were geographically broad, covering entire community regions, for example, lockdowns in Darwin including the surrounding city of Palmerston and Litchfield rural areas. This contrasts with policies in some other jurisdictions which were both antecedent to community transmission, and localised to targeted suburbs or local government areas rather than greater city regions.
- The Territory's border policies were stricter than imposed in some other jurisdictions, though less strict than in Western Australia. From March to July 2020 the Territory imposed a "hard border", limiting travel or requiring supervised quarantine at the CNR for all travellers. From August 2020, a "hotspot" system was used. This initially remained a firm requirement, as large interstate areas were declared hotspots, including entire states. Any travellers returning from those areas were required to enter supervised quarantine at the CNR. These requirements were relaxed in stages, eventually allowing home quarantine for fully vaccinated travellers who met the necessary testing requirements. After December 2021, border controls were significantly relaxed to allow vaccinated travellers to enter the Territory without quarantining. Border controls were lifted for unvaccinated travellers in February 2022.
- The use of Commonwealth Biosecurity zone declarations in the Territory. This covered almost all of the Territory's landmass, other than the major regional centres, and significantly limited all forms of travel within the Territory. The effect was to largely prevent travel to and between remote aboriginal communities. This occurred independently in advance of any instances of community transmission.
- Vaccination policies differed in all jurisdictions. Territory vaccination policies included opening mass vaccination hubs early in the pandemic response to ensure ease of access, broadening the range of eligibility for the Pfizer vaccine earlier than in other states, implementing a strict vaccination mandate for most workers, including the Territory Public Service, and an extensive targeted remote vaccination program.

DTF considers that the Territory's policies were objectively stricter, and appear to have been more successful at preventing the spread of COVID-19, than many other jurisdictions. DTF notes that Western Australian border policies were materially more restrictive than most other jurisdictions, and this among other policy decisions, appears to have limited community transmission of COVID-19 prior to the 2022 calendar year.

DTF notes that the data at Attachment B to the New Issues Paper is impacted by state policies and is not a neutral assessment of state need.

2.4.1.4. Assess state spending associated with the NP COVID-19 Response on an actual per capita basis

DTF argues that it is not appropriate to adopt an actual-per-capita (APC) assessment of the NP COVID-19 Response due to the highly policy-influenced nature of state spending under the agreement, as set out above.

DTF submits that the COVID-19 pandemic was not similar in nature to other types of natural disasters which may warrant an APC assessment, and which have reasonably longstanding and well-established principles. COVID-19 was significantly more enduring than most natural disasters, allowing time for policy responses to impact expenditure under the NP COVID-19 Response and in other areas. Pandemic response policies were a combination of prevention and recovery policies, whereas natural disaster responses tend to be predominantly recovery-oriented.

In addition, the specific circumstances around the negotiation of the NP COVID-19 Response mean it is not fit-for-purpose for an APC assessment. The NP COVID-19 response was negotiated quickly between all jurisdictions and the Commonwealth in uncertain circumstances, with the result including a 50% co-contribution under the hospital and public health components, and fixed funding for COVID-19 vaccine delivery, with a defined and limited scope. This reflected the level of financial assistance jurisdictions were collectively able to negotiate, which were not commensurate with actual state needs. As a specific example, the Territory incurred significantly higher costs than able to be claimed under the NP COVID-19 Response in delivering vaccines to remote communities. As such, the NP COVID-19 Response reflects Commonwealth policy decisions, rather than state needs.

2.4.2. Business Support

The New Issues Paper submits that it is appropriate to make an adjustment to state need to account for differing levels of economic supports that were needed by businesses in each jurisdiction during the COVID-19 pandemic response, if the ToR are amended to allow such an adjustment. This proposed adjustment requires two factors to be identified, the level of state expenditure on business supports, and a metric to determine what drove that expenditure.

The New Issues Paper identified two possible options, to use Australian Taxation Office classifications of *non-assessable non-exempt* income as the measure of state expenditure, and a 'reduction in hours' test to determine state needs. Alternatively, if that data cannot be obtained, to use expenditure under the Business support payments Federation Funding Agreement Schedules (Business Support FFAs) to determine both expenses, and drivers on an APC basis.

DTF contends that, similar to the health assessment, no adjustments should be made to the business support assessments. The adjustment would be inherently subject to policy decisions to an even greater extent than health assessments as states had direct policy control over lockdown duration and severity, and restrictions on public gatherings, which affected hours worked, and because Business Support FFAs reflected state fiscal capacities and Commonwealth policies rather than state need.

2.4.2.1. Drivers of state business support payment need

A reduction in hours worked is not appropriate as a measure of the driver of state need, as it was directly influenced by state policies. This includes the speed, duration, breadth of lockdowns, and policies restricting the movement of people, including public gatherings and the number of persons allowed in venues.

Hours worked would also not capture the need for business supports for reasons unrelated to local lockdown decisions, such as the impact on domestic tourism markets. The Territory economy is more dependent on larger source markets interstate for tourism and related sectors than other states. This was reflected in the Territory's *Federation Funding Agreement Schedule - Business support payments*, which included funding for the *Visitation Reliant Small Business Support Program* and the *Tourism Survival Fund*,

each aimed at tourism, rather than lockdown, supports. The New Issues Paper recognises that turnover, rather than hours worked, may have been an alternative measure of state need, however this data is unlikely to be available and was not suggested in the New Issues Paper preliminary view.

The alternative option provided in the New Issues Paper preliminary view is to utilise the payments under the Business Support FFAs on an APC basis. This would reflect Commonwealth policy decisions, and not state needs. It was also subject to state policy control, including the fiscal considerations of the state at the time the Business Support FFAs were negotiated. The Business Support FFAs were highly divergent in design and effect and are not a standardised basis for assessing state needs.

2.4.2.2. Identifying business support expenditure

DTF believes that the New Issues Paper's proposed methods to identify state business support expenses have limitations. Measuring expenditure under *non-assessable, non-exempt* income, or the Business Support FFAs, will essentially measure Commonwealth policy decisions. However, DTF does not make further submissions on this issue at this time, given that an appropriate driver of state business support need has not been identified.

2.5. New state taxes commencing in 2021-22

2.5.1. Victoria's Zero and Low Emission Vehicle Tax

DTF supports the New Issues Paper's preliminary view to include revenue into the motor taxes category. In future, this may need to be revisited as electric and low emission vehicles remain an emerging technology and state-average policies may change.

2.5.2. Victoria's mental health and wellbeing surcharge

DTF supports the New Issues Paper's preliminary view to include Victorian mental health and wellbeing surcharge on payroll taxable wages as revenue in the payroll tax category. DTF agrees that the surcharge appears to be similar in nature to a payroll tax rate increase.

2.6. Other Issues

2.6.1. Negative average no worse off relativity

Consistent with DTF's position in the 2022 Update, DTF supports no adjustment where a single-year relativity is negative, noting that a jurisdiction's headline relativity (as calculated in accordance with the horizontal fiscal equalisation principles prior to the 2018 reforms) is an average of three single-year's relativities over the update reference period. In its response to the 2022 Update new issues paper, DTF submitted that an adjustment to a single-year relativity was not supported. However, DTF made limited submissions on a negative three-year relativity, as it was not expected to arise at the time.

This issue has no impact on a state's GST relativity due to the 2018 GST distribution reforms which introduced a minimum relativity floor. However, the calculation is necessary in order to determine the amount of Commonwealth no-worse-off-guarantee transition payments, which requires a comparison of the pre-2018 calculated relativities to the post-2018 calculated relativities.

DTF observes that prior to 2018, horizontal fiscal equalisation principles were captured in the Update and Review ToR. While wording has varied from time to time, the ToR ordinarily required "an assessment of

the per capita relativities recommended to be used to distribute GST revenue among the States...”⁴. Similarly, the 2017 Productivity Commission public inquiry into Horizontal Fiscal Equalisation commented that the role of the Commission was such that: *“State governments should receive funding from the pool of goods and services tax revenue such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency.”*

Consequently, DTF considers that as the pre-2018 objective was to distribute the GST revenue, or to ensure states “receive funding from the pool”, a negative three-year relativity would not have been permissible, as a state could not be distributed less than nil revenue. DTF submits that the appropriate method for raising a states’ relativity to nil is to fund the adjustment on an equal-per-capita basis.

2.6.2. New Commonwealth payments

DTF has not identified any issues for comment in respect of the proposed treatment of new Commonwealth payments outlined in Attachment D to the New Issues Paper.

⁴ For example, at clause 2 to the 2017 Update terms of reference.