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Victorian DTF Response to 2023 Update New Issues Discussion Paper

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Glossary

Term	Definition
ABS	Australian Bureau of Statistics
AFR	Annual Financial Reports
AIHW	Australian Institute of Health and Welfare
APC	Actual per capita
BITRE	Bureau of Infrastructure and Transport Research Economics
CGC	Commonwealth Grants Commission
DFFH	Victorian Department of Families, Fairness and Housing
DHHS	Victorian Department of Health and Human Services
DH	Victorian Department of Health
DJPR	Victorian Department of Jobs, Precincts and Regions
DTF	Victorian Department of Treasury and Finance
EPC	Equal per capita
ERP	Estimated Residential Population
GFS	Government Finance Statistics
GP	General practice
HFE	Horizontal Fiscal Equalisation
IHACPA	Independent Hospital and Aged Care Pricing Authority
NANE	Non-assessable non-exempt
NAP	Non-admitted patient
National partnerships	National partnerships on COVID-19 business support
NEVDIS	National Exchange of Vehicle and Driver Information System
NHRA	National Health Reform Agreement
NPCR	National Partnership on COVID-19 Response
NWAU	National Weighted Activity Unit
SDC	Sociodemographic composition
SES	Socioeconomic status
States	States and Territories
ToR	Terms of Reference
ZLEV	Zero and Low Emissions Vehicle(s)

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Introduction

On 7 October 2022 the Commonwealth Grants Commission (CGC) provided Victoria with its 2023 Update New Issues Discussion Paper (the discussion paper). The Victorian Government entered caretaker at 6pm on 1 November 2022. The views and information provided in this response are from the Victorian Department of Treasury and Finance (DTF).

DTF notes that the issues identified in the discussion paper are in the absence of terms of reference (ToR) for the 2023 Update, expected to be issued in late 2022. Once the ToR are issued, further consultation with jurisdictions may be necessary. In addition, several of the issues raised in the discussion paper will need to be reflected in the ToR to enable the Commission to take an appropriate approach to the treatment of specific expenses.

DTF appreciates the opportunity to provide input on issues raised by the CGC in the discussion paper and looks forward to continuing to engage with the CGC on these issues ahead of the release of the 2023 Update. DTF extends its thanks to CGC staff for their engagement.

Summary of issues

Topic raised by CGC staff	CGC recommendation	DTF's recommendation
Data – 2021 Census – Estimated Resident Population (ERP)	Use 2021 disaggregated ERP with 2016 Indigenous proportions and 2016 Indigenous projections	Support using 2021 Census ERP data, but do not support using 2016 Census Indigenous projections, propose using 2021 Census Indigenous populations
Data – 2021 Census – Urban transport	Use 2016 passenger numbers with no adjustment for new modes of transport	Support
Data – 2021 Census – Housing	Use 2021 Census data on income and rent in housing assessment	Support
Data – New data source for the number of motor vehicles	Use new BITRE data if available, or retain 2020-21 ABS data for 2021-22 if not	Support
Data – Non-admitted patient service expenses and activity data analysis	Use imputed national weighted activity unit data for GP-type services in the non-admitted patient assessment	Do not support, as an alternative suggest discounting the non-admitted patient assessment
Response to COVID-19 – health	If ToR allow, treat Commonwealth payments as 'impact' and assess state spending APC If ToR do not allow, continue to treat Commonwealth payments as 'no impact'	Support
Response to COVID-19 – Business support	If ToR allow, treat Commonwealth payments as 'impact' and assess non-assessable non-exempt expenditure using reduction in hours worked as a driver, or if data not available, assess APC If ToR do not allow, treat Commonwealth payments as 'no impact'.	Support an APC treatment of expenditure and propose a broader definition of spending, combing non-assessable non-exempt and Commonwealth payments and adding similar past programs for 2019-20 and 2020-21
New state taxes – Victoria's Zero and Low Emission Vehicle tax	Include revenue from Victoria's ZLEV in Motor taxes assessment	Support
New state taxes – Victoria's mental health and wellbeing surcharge	Include Victoria's mental health and wellbeing surcharge in payroll tax	Support
Other – Negative average no worse off relativity	Consider views on how to deal with a negative no worse off relativity	Support no adjustment, use the negative value
New Commonwealth payments	Proposed treatments listed in the discussion paper	Support

Data Issues

2021 Census - Estimated Resident Population

Overview of CGC position

After a Census, the ABS estimates disaggregated Estimated Resident Population (ERP) for the Census year, including the Indigenous population, and produces projections of Indigenous populations at the state and age group level for future years.

These data are not updated again until the following Census. The ABS estimates disaggregated ERP annually, however this does not include Indigenous populations.

Many of the CGC's assessments require disaggregated ERP data, including Indigeneity status, so in the intercensal years the CGC imputes the Indigenous to non-Indigenous breakdown of each disaggregated ERP group. This is done by multiplying the Indigenous proportions of each disaggregated ERP group from the last Census by the total disaggregated ERP group population for the relevant year (step 1). Then, adjustments are made so that aggregations of these data to state and age group level match the Indigenous population projections from the Census for that year (step 2). The calculated Indigenous population is then subtracted from the total population in each disaggregated group to obtain the non-Indigenous population.

Although the 2021 Census total disaggregated ERP data are available, the Indigenous classification will not be available in time for the 2023 Update. This will be provided by the ABS in 2023, ahead of the 2024 Update. Until then the CGC will continue to use the Indigenous proportions of each disaggregated ERP group from the 2016 Census. Similarly, 2021 Census based projections of future Indigenous populations by state and age groups, and revisions to past years for the 2021 Census rebasing, are not yet available. The only 2021 Census Indigenous ERP data currently available are estimates of Indigenous population by state and age group for the Census year itself, 2021.

The discussion paper suggests that applying 2016 Census based Indigenous population shares to the 2021 Census Indigenous total population is problematic, as it assumes any growth above 2016 Census based projections occurred uniformly between the disaggregated ERP groups. Between 2011 and 2016, Indigenous population growth was not uniform across states or remoteness areas.

The discussion paper proposes to apply 2016 Census Indigenous proportions of disaggregated ERP population groups to 2021 Census disaggregated ERP populations (step 1). It then proposes to adjust the Indigenous disaggregated group populations to match 2016 Census based projections of state and age group Indigenous populations, instead of using the more recent 2021 Census estimates of state and age group Indigenous population data (step 2).

DTF's recommendation

DTF supports using the most recent available data. DTF supports the CGC's proposal to apply 2016 Census Indigenous population proportions for disaggregated ERP population groups to 2021 Census total disaggregated ERP populations, until updated data are available (step 1). However, DTF does not support using 2016 Census projections of Indigenous state and age group populations to adjust the Indigenous disaggregated ERP populations (step 2). Rather, the most recent available data — 2021 Census state and age group Indigenous population data — should be used.

After the 2021 Census, the ABS significantly revised historical total state and age group populations. These revised population data for 2019-20, 2020-21, and 2021-22 will be used by the CGC in the 2023 Update.

2021 Census data indicate a substantial increase in the Indigenous proportion of the population. The Aboriginal and Torres Strait Islander population grew 23.2 per cent since 2016, compared to 8.6 per cent for Australia's total population.

If the CGC plans to use the 2021 Census revised historical total population data to identify disaggregated population cohorts, for currency and consistency it should also use the 2021 Census Indigenous population data that are currently available to reconcile total indigenous populations. Failure to do so could cause material redistribution of GST contrary to the principles of Horizontal Fiscal Equalisation (HFE) because of the importance of Indigeneity as a driver of the assessment.

Furthermore, the CGC should impute state and age group Indigenous populations for 2019-20 and 2020-21 to account for the known increase in the Indigenous proportion of the population. The ABS indicates 2021 Census-based updated Indigenous population figures for past years will not be released until 2024. This implies the proposed approach would use unrepresentative past Indigenous population figures for both the 2023 and 2024 Updates, if not resolved now.

Failure to apply 2021 Census Indigenous population levels to the disaggregated ERP dataset would also be inconsistent with other assessment data. For example, the housing assessment includes an Indigenous household indicator drawn from the same Census question on Indigeneity that forms the basis of the Indigenous population estimates. Using the 2021 data to determine the number of Indigenous dwellings but the 2016 data to determine the population introduces unnecessary inconsistency.

DTF notes that, regardless of whether 2016 Census Indigenous population projections or 2021 Census Indigenous population estimates (and historical imputations) are used, the same assumption of uniform growth within state and age groups is required because the only full disaggregation by Indigenous status is from the 2016 Census.

2021 Census - Urban transport

Overview of CGC position

The CGC is considering whether 2021 Census transport usage data are a reliable and representative basis for determining states' public transport service needs. At the time the Census was taken, COVID-19 pandemic factors determined the use of urban transport services, rather than actual demand for those services.

Retaining 2016 Census data would not capture expansions to urban transport service levels, such as expanded light rail services in some cities. However, the CGC estimates that adjusting for the expansion of these services would not result in a material change in GST distribution.

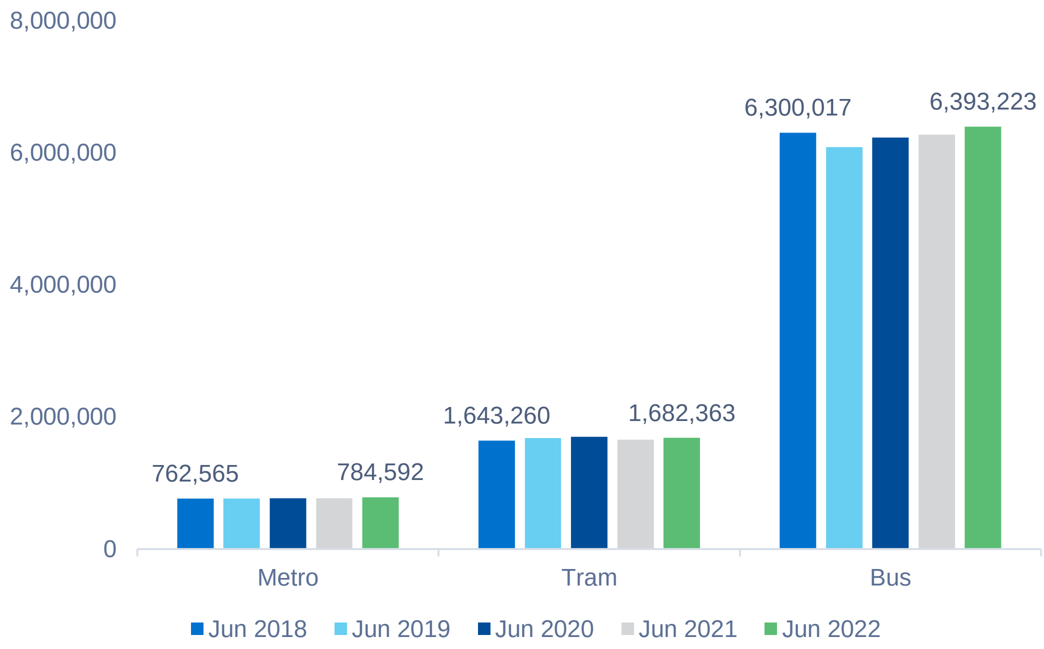
If, as expected, 2021 Census data are deemed not fit for purpose, the CGC proposes retaining 2016 Census data for passenger numbers by mode in the urban transport assessment, with no adjustment to account for changes in the level of service provision or the addition of new modes of transport.

DTF's recommendation

DTF supports the CGC's proposal. Several states had lockdowns in place on the date of the 2021 Census, and nationally many commuters were required or chose to work from home. As such, a snapshot of workers' journey to work on that day is unlikely to be representative of typical public transport service needs.

As noted by the CGC, even Census day transport service level needs would not likely be well represented by Census day patronage levels. For example, Victoria did not reduce public transport services because many essential workers relied on public transport and lowering service levels would have compromised social distancing principles. In mid-2020 Victoria added hundreds of new train and tram services every week to busy lines. Figure 1 shows annual scheduled service numbers across public transport modes remained steady throughout the pandemic.

Figure 1: Victorian timetabled public transport services scheduled to operate



Note: These are services numbers that DoT includes in monthly public reporting. Figures only relate to Master Timetabled services that were scheduled to operate in the daily timetable. They reflect the impact of planned changes in the daily timetables. They do not include any unplanned cancellations. The minor reduction in tram service numbers in June 2021 from June 2020 levels reflect operational factors and timetable adjustments.

Source: Victorian Department of Transport (DoT)

2021 Census - Housing

Overview of CGC position

Two variables used in the housing assessment to be updated for the 2021 Census could also potentially be distorted by COVID-19 lockdowns: Equivalised Total Household Income (weekly) and Rent Ranges (weekly).

The CGC proposes including the 2021 Census data if reliable, but otherwise is seeking states' input on alternatives.

DTF's recommendation

DTF supports the CGC's proposal to integrate the 2021 Census data on income and rent in the housing assessment if it considers it reliable.

However, during the consultation process on the discussion paper, the CGC provided two sets of Census data for the housing assessment. These datasets used different aggregation processes, resulting in substantially different results. The first dataset underestimated the number of dwellings and capacity to collect rent across jurisdictions.

DTF requests that the CGC review its aggregation, imputation and calculation methodologies for all other Census data to ensure the most representative data are used, particularly where a combination of 2021 and 2016 Census data is required. For example, when 2021 Statistical Area Level 1 (SA1) data are applied to 2016 Remoteness Area classifications. DTF requests that the CGC continue to consult with states and territories on their methods for integrating 2021 Census data.

New data source for the number of motor vehicles

Overview of CGC position

In order to assess a state's capacity to raise motor tax revenue, the CGC has historically sourced data for the total number of registered vehicles from the ABS' Motor Vehicle Census publication. However, the ABS has recently ceased this publication.

The CGC has proposed to use a database being established by the Bureau of Infrastructure and Transport Research Economics (BITRE) and Austroads. The data are based on the National Exchange of Vehicle Driver Information (NEVDIS).

Should the 2021-22 BITRE data not be published in time for the 2023 update, the CGC has proposed using the same number of vehicles as in 2020-21 to complete the assessment.

DTF's recommendation

DTF supports the use of BITRE data to assess capacity to raise motor tax revenue.

DTF also supports the use of 2020-21 ABS data for 2021-22 should the 2021-22 BITRE data not be available in time for the 2023 Update.

Non-admitted patient service expenses and activity data analysis

Overview of CGC position

In the 2022 Update National Weighted Activity Unit (NWAU) data from the Independent Hospital and Aged Care Pricing Authority (IHACPA) for non-admitted patient (NAP) services became available and were adopted by the CGC for the first time. In the discussion paper for the 2022 Update, the CGC raised an issue with the introduction of these data. State expenditure on NAP services includes 'GP-type services', however, activity data (NWAUs) for GP-type services are not available from IHACPA, as GP-type services are not covered under the National Health Reform Agreement (NHRA). GP-type services include allied health, GP and primary care, general counselling and family planning.

In the 2022 discussion paper, the CGC proposed an imputation method to estimate NWAUs for GP-type services. However, it did not have approval from IHACPA to share the underlying data and analysis for the 2022 Update, so was unable to proceed. For the 2022 Update, NWAU data for NAP services were introduced, however no adjustment was made for GP-type services.

Ahead of the 2023 Update, the CGC now has approval from IHACPA to use data for its proposed imputation method for GP-type services and has shared high level results with states. The proposed imputation is to estimate activity for GP-type services using the NWAUs of two broad sub-categories of NAP services: medical consultations and allied health services.

The CGC has requested feedback on whether it should conduct an imputation for GP-type NAP activity data and whether the proposed approach is accurate.

Evaluation of potential options

Victoria did not support the 2022 proposal to impute activity data for GP-type services on the basis that it was unable to determine its accuracy as IHACPA data were unavailable. The CGC has now provided the high-level results of its imputation, however, has not been able to share the underlying data as it has not yet received approval from IHACPA to do so. DTF is now unable to support the proposed imputation without being to analyse the underlying activity data from IHACPA.

DTF and Victoria's Department of Health (DH) have concerns with the accuracy of the IHACPA activity data for GP-type services. These services are generally not in scope for the NHRA, and states are not required to report on these activities. As a result, DTF considers it likely that the activity data are incomplete. As states are not required to report on these activities, Victoria only collects limited data on activity for some services and may not be able to provide the detailed data required. For example, the IHACPA data does not include primary health activity conducted by small and rural health services, and so will not accurately capture all GPs-type service activity.

Information is not readily available to estimate the likely scale and characteristics of GP-type activity, particularly in the timeframe required to respond to the discussion paper. To gain comfort on a robust imputation method and data inputs, this proposal would require significant consultation with states' health departments, beyond the scope and time provided for responses to the discussion paper.

DTF considers the accuracy of the proposed imputation is not able to be tested, as cost weights for GP-type services are not calculated by IHACPA. The proposed approach relies on an assumption that the cost weights for medical consultations and allied health are acceptably close to GP-type services. As DTF cannot be confident in the accuracy of the activity data, it is not able to assess the accuracy of other assumptions and the imputation method.

The discussion paper provides some evidence that the estimated cost weight of 0.0470 for GP-type services may be accurate, through comparison to other potentially similar services. However, DTF notes the range of cost weights for both medial consultations and allied health services overall is wide, from the lowest (at 0.0167) for psychogeriatric services to the greatest (0.1837) for genetics, a cost weight over 10 times larger. There is also variation within the comparable services the CGC presents in Table A3, from general medicine (0.0566) at 20 per cent higher than the CGC's estimate for GP-type services to general surgery (0.0218) at around 55 per cent lower.

An alternative method to resolve the data mismatch issue with GP-type NAP services is to discount the whole NAP assessment. The 2020 Review states "Discounting allows the Commission to partially recognise a disability when the presumptive case for the disability is established but there are concerns with its measurement." While there is still a rationale to assess states' NAP services, this is negatively impacted by the issues with measurement and the appropriateness of the data. Discounting the NAP overall assessment would avoid implementing a potentially inaccurate imputation and sufficiently guard against potential inaccuracies in the assessment due to the data mismatch. To resolve this data issue fully it would need to be considered as part of the forthcoming

2025 methodology review. This would allow time for fulsome engagement with state health departments and IHACPA for a detailed investigation of this issue and collection of appropriate data. A discount to the NAP assessment could serve as an intermediate solution while this further investigation progresses.

DTF's recommendation

DTF does not support the imputation method for activity data for GP-type services suggested in the discussion paper, because the underlying data and proposed imputation method cannot be tested for robustness.

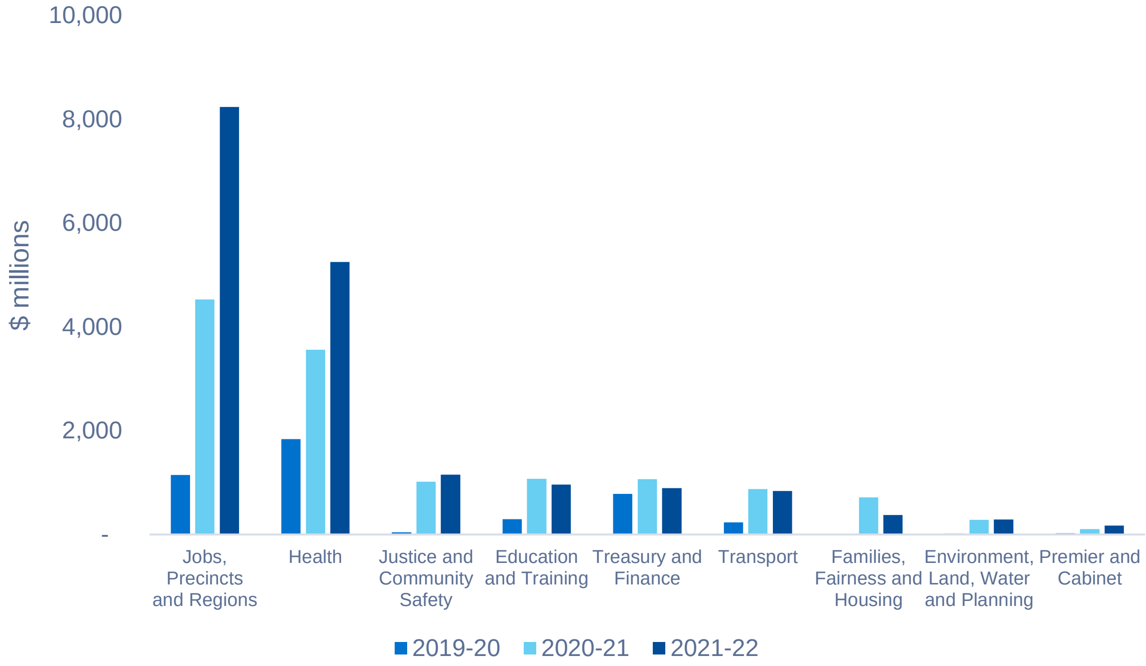
As an alternative to deal with the mismatch of data, DTF suggests the current NAP assessment be retained but be discounted overall to reflect the data issue.

Response to COVID-19

DTF notes the CGC's conclusion in its 2022 Update report that state responses to COVID-19 reflected the unique circumstances faced by governments rather than discretionary policy choices, and that the drivers of COVID-19 related health and business support expenditure were different from the CGC's existing methods. Although the nature of the pandemic and national response has evolved over time, DTF considers the CGC's conclusions from the 2022 Update still hold for the 2023 Update, and any subsequent updates covering the COVID-19 pandemic in its assessment years.

Victorian Government expenditure on COVID-19 response and recovery grew significantly in 2021-22 to $18.2 billion, around $5 billion more than 2020-21, shown in Figure 2 below. Economic support and health remained the largest areas of expenditure in 2021-22, represented by $8.2 billion expended through the Department of Jobs Precincts and Regions (DJPR), and $5.2 billion expended through the Department of Health (DH).

Figure 2: COVID-19 response and recovery – actual expenditure by department 2019-20 to 2021-22



Note: 2019-20 figures for health represent the former Department of Health and Human Services (DHHS), which was subject to a machinery of government change to form the Department of Health (DH) and Department of Families Fairness and Housing (DFFH) from 2020-21 on. Only departments are presented, data for Courts, Parliament and Victoria Police are excluded.

Source: DTF

Health

Overview of CGC position

Despite the CGC's agreement in the 2022 Update that its methods did not capture the drivers of COVID-19 related health spending, the ToR issued by the former Commonwealth Treasurer did not allow it to alter its methods. As such, the CGC has raised again how it should treat COVID-19 related health spending, if allowed through ToR.

The CGC has proposed to treat state spending under the National Partnership on COVID-19 Response (NPCR) on an actual per capita (APC) basis, and for Commonwealth payments under the NPCR to be treated as 'impact' (included in its assessments as a revenue source for states).

In addition, the CGC has sought views on an appropriate approach if ToR do not allow a method change. It has proposed to continue its treatment from the 2021 and 2022 Updates, that Commonwealth payments under the NPCR are treated as 'no impact' (not included in its assessments as a revenue source for states, similarly to payments quarantined through the ToR issued by the Commonwealth Treasurer) on the GST distribution.

Applicability of the current health assessment to impacts of COVID-19

As per its response to the 2022 discussion paper, DTF considers that the CGC's current methods for assessing the need for state health expenditure do not capture the drivers of COVID-19 responses.

The current assessment of state health expenses generally distributes more GST to states with larger higher cost populations. The populations that currently weight towards a higher need for health spending are remote, Indigenous, lower socioeconomic status and older.

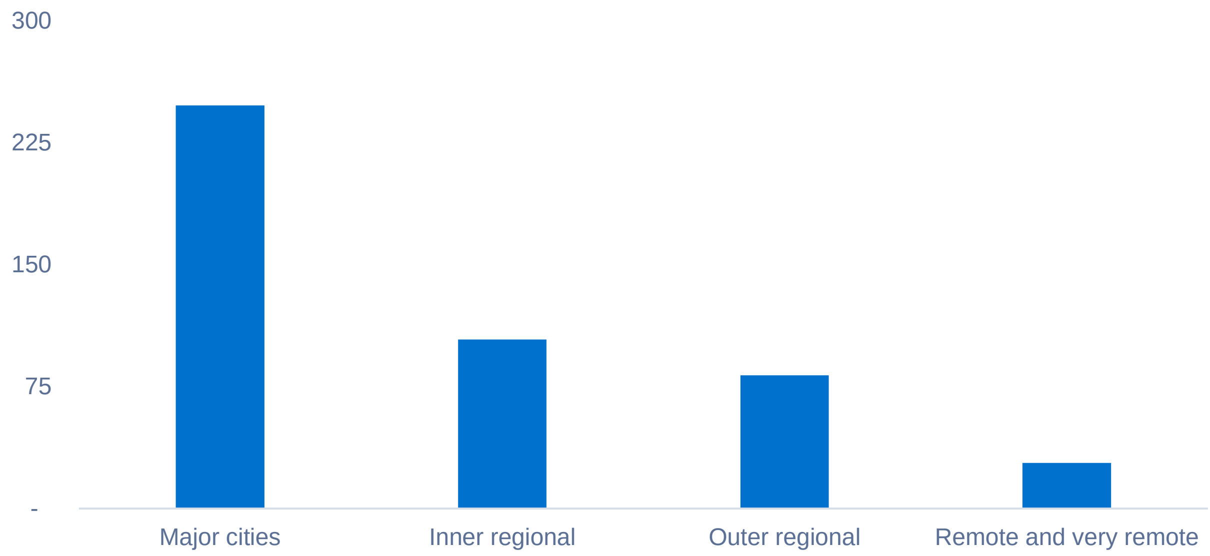
As Victoria illustrated in its response to the 2022 discussion paper, and as the CGC has shown in Attachment B of the discussion paper, these drivers do not relate to the need for COVID-19 health responses and in some cases the relationship is potentially the inverse. Victoria spent significantly more under the NPCR than suggested by the CGC's current assessments, as per Figures B5 and B6 in the discussion paper. According to the CGC's current assessments, Victoria's need for admitted patient hospital services was less than its population share, however its spending under the NPCR for 2019-20 to 2021-22 was over 1.6 times its population share.

COVID-19 has been shown by the World Health Organisation to have a greater impact with high proximity and population density due to aerosol transmission [1]. As such, states' health responses to COVID-19 have needed to be more intensive in higher density, more populous areas, predominantly major cities. The CGC demonstrate this in Figure B3 using data from the Australian Institute of Health and Welfare (AIHW). This is the opposite of the current weighting of the health assessment towards remote populations.

More contemporaneous data on health indicators suggests these trends have continued into 2022. AIHW data on COVID-19 mortality shows a higher incidence per capita in major cities than regional or remote areas to April 2022, see Figure 3.

[1] https://www.who.int/news-room/questions-and-answers/item/coronavirus-disease-covid-19-how-is-it-transmitted

Figure 3: Number of COVID-19 deaths per million population by remoteness area to 30 April 2022



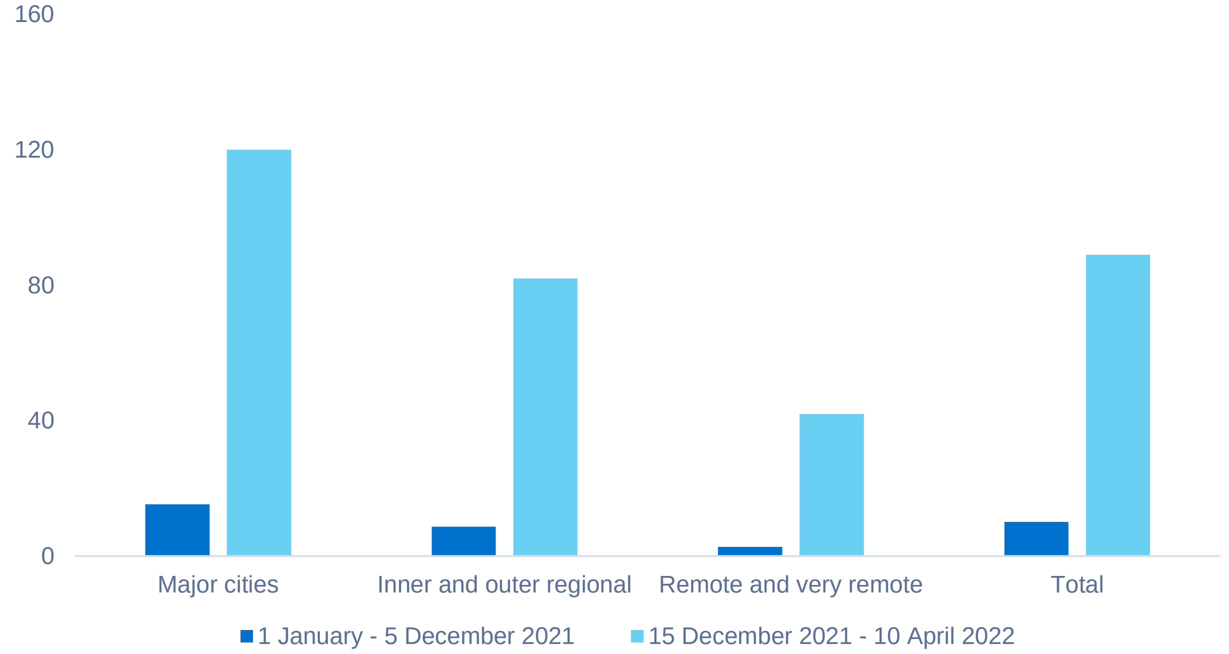
Source: AIHW, The impact of a new disease: COVID-19 from 2020, 2021 and into 2022

AIHW data presented in Figure B4 of the discussion paper on hospital separations of Indigenous patients also show Indigenous separations were lower per capita than non-Indigenous separations across all states.

AIHW data presented in Figure 4 below additionally show that Indigenous residents of major cities were more likely to have a confirmed case of COVID-19 than those in regional or remote areas. This was more pronounced later in the pandemic, in late 2021-22. This is contrary to the current weighting of health disabilities, where remote Indigenous populations are estimated to have higher needs.

This does not diminish that Indigenous Australians or Australians living in remote communities on average experience poorer health outcomes, or require more intensive health services in general, as captured by the current health assessment. However, additional and discrete expenditure responding to COVID-19 has been shown to have different drivers to this broader health expenditure, and so it is not reasonable to apply the same weighting.

Figure 4: Incidence of confirmed COVID-19 cases in Indigenous Australians, by area of remoteness, 1 January 2021 to 10 April 2022



Source: AIHW, The impact of a new disease: COVID-19 from 2020, 2021 and into 2022

The CGC notes activity data are not available for community and public health services. However, the discussion paper shows that, like hospital expenditure, public health spending under the NPCR does not align with the CGC's current assessment method. DTF notes that activity for public and community health services in states reflect COVID-19 health indicators, such as confirmed cases and mortality by demographic groups. Given this, DTF considers the current health assessment is also not appropriate for COVID-19 related public and community health spending.

The discussion paper notes hospital activity data for 2021-22 will be available for the 2024 Update, and that, as COVID-19 was more prevalent through the community, COVID-19 needs could be estimated accurately through the current assessment methods. DTF considers this is unlikely to be a satisfactory outcome for HFE. The evidence provided so far shows there was a significant increase in the distinct impacts of the pandemic in 2021-22. This was coupled with further divergence of the drivers of COVID-19 from the standard health assessment. In addition, the impacts of the pandemic have flow on effects to other aspects of health service delivery, including responding to demand for services that were delayed due to COVID-19 responses. DTF considers if the CGC decides to treat COVID-19 health expenditures separately for the 2023 Update, ToR allowing, it should do so until targeted COVID-19 expenditures cease or become immaterial.

Evaluation of potential options

Drivers of need for COVID-19 related health spending

DTF supports the CGC's view that COVID-19 related health spending should be treated on an actual per capita basis, as it is a policy neutral indicator of need. Given the CGC has already concluded states' responses to the pandemic were due to circumstances rather than policy choices, it follows that states' actual spending on COVID-19 responses is a policy neutral indicator of need. This is the same rationale for treating responses to natural disasters on an actual per capita basis.

DTF notes the aim of the policy neutrality principle is to remove any influence of the GST system on states' policy choices, as in the 2020 Review: "[policy neutrality] aims to ensure that State policy choices have minimal direct influence on HFE assessments and, conversely, that HFE has minimal direct influence on State policy choices".

In the case of COVID-19 health spending, differences in spending decisions were driven by circumstances and not policy choices, and so represent a policy neutral indicator of need. COVID-19 related spending was made in response to the incidence of the virus, following nationally agreed frameworks, as illustrated in Victoria's 2022 discussion paper response.

A report by Scott et al. at the Melbourne Institute provided as part of Victoria's 2022 discussion paper response summarises academic evidence, noting the random and unpredictable nature of viruses. Scott et al. also confirm public health controls from states, at the time of writing, "were universal across all states and territories, and had the affirmation and support of the Commonwealth government and the National Cabinet".[2]

The CGC notes no alternative policy neutral drivers to form an alternative assessment to an APC approach have been identified. DTF considers identifying alternative drivers is unnecessary given the CGC's previous conclusion responses were driven by circumstances. This conclusion should not change for any year the CGC considers relating to the COVID-19 pandemic.

Definition of state COVID-19 related health spending

DTF remains concerned that the NPCR does not cover states' COVID-19 related health expenditure, as noted in its response to the 2022 discussion paper.

According to Victoria's 2019-20, 2020-21 and 2021-22 Annual Financial Reports, Victoria spent a total of $10.6 billion through the DH on COVID-19 responses, noting additional health expenditure may have been delivered by other departments. This is far greater than spending covered by the NPCR of $4.6 billion over the same period. Some of this discrepancy may be due to a timing issue, as the National Health Funding Body completes reconciliation of COVID-19 related expenditure with a lag, and more NHRA funding may be classified under the NPCR. However, if only spending under the agreement were used taking currently available data, then over half of Victoria's COVID-19 related spending would still be assessed using incorrect drivers.

DTF's recommendation

If the 2023 Update ToR allow, DTF supports an actual per capita treatment of states' COVID-19 health related expenditures. DTF supports the Commission's previous finding that states' responses were driven by the circumstances of the pandemic and not policy choices and considers this holds true for any assessment year that states' COVID-19 responses relate to.

DTF notes that spending under the NPCR is unlikely to provide complete coverage of states' health responses to COVID-19. DTF would prefer if a more complete measure of states' COVID-19 health related expenditure could be used in the assessments. However, if one is not able to be identified, then spending under the NPCR is a simple, if partial, solution.

[2] Anthony Scott, Jongsay Yong and Tianshu Bai, Review of COVID-19 policy responses for the GST distribution, Melbourne Institute of Applied Economic and Social Research, 2021

DTF supports the inclusion of Commonwealth payments under the NPCR, if the ToR allow a method change.

If the ToR do not allow this, DTF supports continuing the approach from the 2022 Update, to treat Commonwealth payments under the NPRC as ‘no impact’.

Business support

Overview of CGC position

In the 2021 and 2022 discussion papers, the CGC raised the option of adjusting the existing approach to business support in the context of COVID-19. In the 2022 Update the CGC noted that the pandemic resulted in higher spending on business support, which largely reflected specific state circumstances arising from the pandemic, rather than policy choices. It also noted in the 2022 Update that the unpredictable and varying impacts of the pandemic are similar in nature to the impacts of a natural disaster.

The CGC has again included this issue in the 2023 discussion paper and has proposed that, if the 2023 Update ToR do not allow for a method change, it would continue to treat Commonwealth payments under the national partnerships on COVID-19 business support (national partnerships) as ‘no impact’, on the basis that the drivers of the payments on COVID-19 business support were different from the usual drivers of state spending needs.

If the 2023 Update ToR allow for a change in methods the CGC propose to treat Commonwealth payments under the national partnerships as ‘impact’, and to assess state expenses that meet the definition of non-assessable non-exempt (NANE) income using a driver of need based on the reduction in hours worked in each state. If data on state expenses that meet the definition of NANE cannot be obtained, it proposes to assess the state spending associated with the national partnerships on an APC basis.

Applicability of current assessment method

State spending on economic support is assessed under the services to industry category. The spending is split into two parts: industry regulation and business development. Regulatory spending includes business registration, licensing of tradespeople, energy market regulation and more. Business development includes activities like mining exploration, tourism, marketing, and industry research and development.

The current services to industry assessment “recognises that states face differing costs for industry regulation but not for spending on business development”[3]. The categories ‘regulation’ and ‘business development’ are then assessed differently. They are split according to the ratios set out in Table 1 below.

Regulation expenses are assessed using a differential assessment, with disability factors including sector size, regional costs factors and wage costs factors. Business development expenses are assessed EPC as population is considered to be the driver of states’ expenditure needs[4]. This is the category that COVID-19 related business support would be assessed under.

[3] Page 351, CGC 2020 Review Volume 2, Part B
[4] Page 360, CGC 2020 Review Volume 2, Part B

Table 1: 2020 Review ratios for regulation and business development

Industry	Regulation	Business development
Agriculture	50 per cent	50 per cent
Mining	80 per cent	20 per cent
Other industries	53 per cent	47 per cent

This means that spending on business support relating to COVID-19 is currently assessed as being equally distributed across states, proportionate to population. However, the impacts of COVID-19 and the resulting business support payments were clearly not distributed in this way. This is demonstrated by Figure 1 from the discussion paper, showing payments received under national partnerships were over $900 per person in Victoria, far greater than the assessed EPC distribution (which attributes only around $500 per person to Victoria). As such, the drivers of spending for COVID-19 do not align with the current industry assessment.

Evaluation of potential options

The COVID-19 pandemic has had a severe impact on the economies of all states, with significant impacts in Victoria concentrated in 2019-20, 2020-21 and 2021-22. As a result, the Victorian Government provided a range of supports since the beginning of the pandemic, targeting businesses and industries that faced the most significant impacts from COVID-19 public health orders. Victoria has already provided extensive analysis and evidence on this topic in response to the 2022 discussion paper.

Drivers of need for COVID-19 related business support spending

The discussion paper notes the CGC considers the reduction of business turnover an accurate reflection of the need for COVID-19 business support spending, however these data are unlikely to be available to the CGC in time for the 2023 Update.

The next option considered by the CGC is the reduction of hours worked in each state from the ABS Longitudinal Labour Force Survey. The discussion paper suggests this captures a relevant driver, as the ABS has noted that the COVID-19 period was characterised by people losing hours more than jobs. The CGC also notes that the reduction in hours worked is strongly correlated to lockdowns in major cities, business support payments under the national partnerships and Commonwealth JobKeeper payments.

While hours worked appears to be a reasonable measure, it does not fully capture the drivers of COVID-19 related business support. The incidence of COVID-19 cases and a national suppression policy with associated lockdowns impacted business activity and required business support spending by states. Hours worked presents a consequential impact but is not in itself a driver of business support spending. Its use may also understate the impact on affected businesses and their need for support. Government payments may have sustained reported hours worked, while business turnover (the CGC's preferred measure) may have declined more significantly, suggesting this more accurately reflects businesses need for support.

An APC assessment of COVID-19 related business support would accurately capture the actual need for business support expenditure faced by states, given the CGC has already concluded states' responses to COVID-19 largely reflected circumstances rather than state specific policy choices.

Definition of state COVID-19 related business support spending

The CGC proposed two options to define spending on business support relating to COVID-19. The first option would use spending under national partnerships as the scope of the assessment, with the second option to use support declared as NANE income.

The Victorian DJPR spent around $13.9 billion from 2019-20 to 2021-22 on COVID-19 economic supports, noting that additional spending on economic support may have been delivered by other departments. This is far greater than the $3.1 billion of Commonwealth funding delivered to Victoria through the national partnership, and also greater than programs eligible for NANE treatment. Defining state business support spending in either way would significantly understate Victoria’s COVID-19 response, particularly for 2020-21.

While using spending under the national partnerships or spending under programs with NANE treatment would provide the CGC with some consistency around state circumstances and policy choices, they are both limited and do not provide full coverage of states’ COVID-19 business support spending. National partnerships were unique to each state and, as noted by the CGC in the discussion paper, only cover measures delivered from 2021-22 (after the Commonwealth Government’s Job Keeper program ended) and would not include state spending from 2019-20 or 2020-21.

Some of the programs declared as eligible for NANE treatments do cover 2020-21, however not all earlier programs received NANE treatment. For example, the original Business Support Fund and its expansion administered by Victoria in 2019-20 and 2020-21 were precursors to the Business Support Fund 3, which later received approval for NANE treatment. As such, if COVID-19 spending is defined under national partnerships or with NANE treatment, these earlier programs should also be included.

Reporting and data collection

As part of the CGC’s request for states’ views, the CGC asked for comments on the reporting burden on states to provide data on spending under various COVID-19 business support programs.

DTF does not consider that this data gathering and reporting would be onerous, as much of the information is reported internally through budget and analysis processes. Victoria published a summary of this expenditure by category in recent years.

Data to capture the broadest coverage of state business support spending under both national partnerships and programs with NANE treatment are not immediately available and would require consultation with the relevant delivery departments or agencies. DTF considers the CGC should make this data request to states, and that it should be possible for all states to complete, to determine the broadest coverage of COVID-19 business support spending.

DTF’s recommendation

If the 2023 Update ToR allow method changes, DTF supports treating COVID-19 business support expenditure from states on an APC basis. As with health spending, DTF supports the CGC’s previous finding that states’ responses were driven by the circumstances of the pandemic and not policy choices, supporting an APC assessment.

To address the shortcomings with defining business support as either state spending under national partnerships or under programs with NANE treatment, a combination of payments under both national partnerships and payments with NANE treatment should be used as the basis for the assessment to provide accurate coverage. This will likely require further consultation and a data request from states on spending separately under national partnerships and that which received NANE treatment. DTF considers this request is not overly onerous for a material assessment issue.

In addition, to ensure significant spending from earlier years is fully captured, the definition of COVID-19 business support should be expanded to include similar or precursor programs that were implemented in 2019-20 and 2020-21. This can be defined as programs that were initiated in 2019-20 and 2020-21 that were precursors to programs later assessed as NANE or covered by the national partnerships on COVID-19 business support, such as the original Business Support Fund. This would also provide greater internal consistency over the three assessment years.

If the 2023 Update ToR do allow for a change in methods, DTF supports treating Commonwealth national partnership payments as 'impact'.

If ToR do not allow for method changes, DTF supports the approach to continue to treat Commonwealth national partnership payments as 'no impact'.

New state taxes commencing in 2021-22

Victoria’s Zero and Low Emission Vehicle (ZLEV) tax

Overview of CGC position

The CGC has proposed the inclusion of Victoria’s ZLEV revenue in the Motor taxes category. The ABS classifies these revenues as Motor taxes in the Government Finance Statistics collection used by the CGC. The CGC has stated that leaving this revenue under the Motor taxes category would not materially affect that assessment, and therefore proposed it is assessed in the Motor taxes category until the next review period.

Victoria’s recommendation

DTF supports the CGC’s proposed recommendations, given the immaterial impact at this time. However, assessment decisions regarding ZLEV charges should be reviewed again in the future.

Data sources to conduct a separate assessment of ZLEV charges for future updates, if this becomes appropriate, need to be identified. Current motor taxes are assessed using registration numbers for specific vehicle types. DTF is currently unable to identify an accurate data source from the ABS or the newly proposed BITRE data source that includes sufficient information about ZLEV registration or kilometre usage. Additionally, Victoria’s ZLEV charge is distance-based and therefore does not align methodologically with the motor taxes assessment. Should materiality change, an approach which accounted for these different drivers would need to be developed.

Victoria’s mental health and wellbeing surcharge

Overview of CGC position

The CGC has proposed assessing the surcharge as part of the payroll tax assessment.

DTF’s recommendation

DTF supports the proposal to assess the mental health and wellbeing surcharge under payroll tax.

Other issues

Negative average no worse off relativity

Overview of CGC position

CGC staff raised the possibility of a negative assessed relativity in a single assessment year in the 2022 discussion paper[5]. A negative relativity arises when a state's assessed revenues are greater than its assessed expenditure requirement and implies the state requires no GST to meet its expenditure burden.

For the 2022 Update the Commission decided to allow a state to have a negative assessed relativity in an assessment year without adjustment.

For the 2023 Update, CGC staff have raised the possibility of a negative three-year average assessed relativity. This is a potential issue as Western Australia (WA) had a negative assessed relativity in the 2020-21 assessment year and the discussion paper notes may have another in the 2021-22 assessment year. This would cause its three-year average assessed relativity to be negative.

The discussion paper seeks state views on an appropriate approach to a potential negative three-year assessed relativity. It does not note a preferred approach, however it suggests options including:

- increasing the negative relativity to zero, reducing all other states' relativities by population share to accommodate, or
- allowing the negative relativity to stand.

Evaluation of potential options

As noted in the discussion paper, a negative three-year assessed relativity will have no impact on state shares of the GST pool under the new system legislated in 2018, as states' relativities are lifted to at least the relativity floor of 0.7 in 2023-24, rising to 0.75 from 2024-25.

However, a negative assessed relativity will influence states' no-worse-off payments, as these are based on the difference in GST distributions from the current arrangements to the former system. To increase a negative assessed relativity to zero would reduce all other states' no-worse-off payments.

The discussion paper notes that a negative relativity has not previously arisen. DTF notes this is only a theoretical issue, as practically the GST pool is now distributed according to the arrangements for transition to the new system. Accordingly, there is no need to identify practical measures to resolve such an outcome. The no-worse-off payments that would result from a negative relativity would respond to the extraordinary fiscal circumstances it would represent, under the system which existed when the Commonwealth Government determined to alter its operation.

The proposal in the discussion paper would only disadvantage states through lower no-worse-off payments and not address any practical issue with the operation of the GST system.

[5] Assessed relativities refer those calculated as if the 2018 legislation were not enacted. The actual relativities used to distribute the GST under the new system are referred to as GST relativities.

DTF’s recommendation

DTF supports allowing a negative three-year average assessed relativity to stand with no further adjustments from the CGC. As noted above, a negative assessed relativity does not pose a practical issue for the CGC’s recommended relativities or the distribution of the GST pool, due to the operation of the new system legislated in 2018. There is no need to resolve the potential insufficiency of the GST pool to achieve equalisation, as GST will not be distributed on a negative relativity. The extraordinary fiscal circumstances implied by a negative assessed relativity are effectively and appropriately accounted for through no-worse-off payments to impacted states.

Further, DTF considers this issue beyond the scope of a new issue for an annual update. At a minimum a change to adjust a negative relativity to zero represents a method change to the underlying GST distribution methodology and would need consideration as part of the forthcoming 2025 review. DTF anticipates that the substantial policy and fiscal implications would require focussed discussion between the Commonwealth and states, potentially through the Council on Federal Financial Relations. DTF notes that this is unlikely to be an urgent concern, given it now appears unlikely WA will experience a second year of a negative assessed relativity in 2021-22.

New Commonwealth payments

The CGC has provided a list of proposed treatments for a range of Commonwealth payments to states. At this stage DTF has not identified any concerns with this list.

DTF supports the proposed treatment of payments under national partnerships on COVID-19 business support as ‘no impact’ if ToR do not allow changes relating to COVID-19 expenditures. If ToR allow, DTF supports payments under national partnerships on COVID-19 business support treated as ‘impact’.