



**Australian Government**  

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**Commonwealth Grants Commission**

# **2022 Update**

## **New Issues**

Staff Discussion Paper  
CGC 2021-01-S

October 2021

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Submissions sought by	<p>12 November 2021.</p> <p>Please upload your submissions to your state's CGC engagement channel.</p> <p>Submissions of more than 10 pages in length should include a summary section.</p>
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## Background

- 1 In expectation that the Commission will receive Terms of Reference for a 2022 Update, this paper sets out the new issues and Commonwealth Payments identified by Commission staff as relevant to the update. The Commission seeks state and Commonwealth treasuries' views on staff proposals for the treatment of new issues and Commonwealth payments.
- 2 In providing advice on state and territory (state) fiscal capacities, the Commission will consider the information provided by states in response to new issues, consistent with the Terms of Reference for the 2022 Update.
- 3 States are asked to provide comments and raise any other issues relevant to this update by Friday 12 November 2021. States should upload their submissions to the CGC Engagement channel in Microsoft Teams. The contact officer for queries is Julie Jasas ([Julie.Jasas@cgc.gov.au](mailto:Julie.Jasas@cgc.gov.au) or 02 6218 5724).
- 4 In addition to the formal submission process Commission staff will continue to engage in discussions with state officials to discuss the response to COVID-19 and other new issues potentially affecting the fiscal capacity of states.

## Response to COVID-19

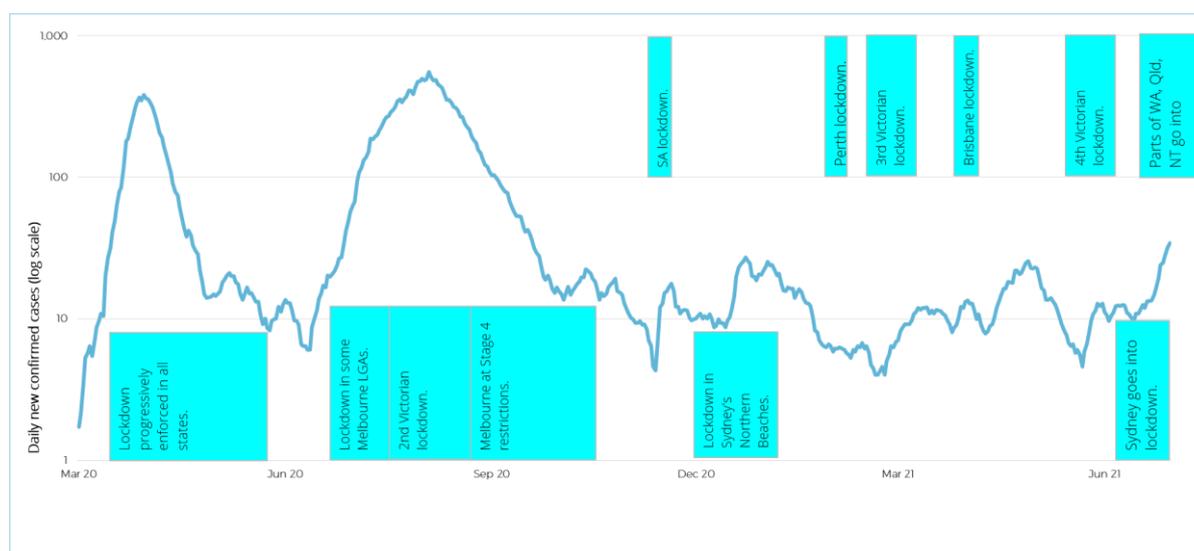
- 5 COVID-19, and Commonwealth and state government responses to it, continue to affect the Australian economy and society. These changes are evolving. An important issue for the Commission is to consider how these government responses have resulted in changes to state fiscal capacities that would not be recognised using the 2020 Review methods. Staff welcome any views that states may have on this matter.
- 6 State circumstances for the 36 months from July 2017 to June 2020 contributed to the 2021 Update, with only the last 4 of these months being significantly affected by the pandemic. For the 2022 Update, 16 months of the assessment period will be affected by COVID-19 developments. However, as the latest year of health data is not available in time for the CGC's annual update processes, the 2022 health assessment will only include data up to June 2020.

## States have had different experiences over 2020-21

- 7 Some of the key COVID-19 policy responses over this period are shown in

- 8 Figure 1. The lockdowns shown in this figure vary in severity, length and geographic scope. In addition to these restrictions, interstate travel has been restricted to various degrees by different states. There has also been significant support from state and Commonwealth governments to businesses and residents.

Figure 1 Daily new cases of COVID-19 and key State restrictions



Source: <https://ourworldindata.org/covid-cases>, 30 June 2021

9 On most available measures, the extent of economic slowdown between 2019-20 and 2020-21 was greatest in Victoria, reflecting its extended lockdown in 2020-21, followed by New South Wales (see **Error! Reference source not found.**). The effect of the slowdown in other states was generally less. The decline in employment and hours worked in the Northern Territory may reflect effects not directly related to the COVID-19 pandemic.

Table 1 Change in economic activity 2019-20 to 2020-21

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	%	%	%	%	%	%	%	%	%
Employed persons	0.3	-1.1	2.4	1.7	0.9	1.7	1.8	-1.6	0.6
Hours worked	0.0	-1.9	2.5	1.1	1.1	4.2	2.9	-1.9	0.4
Household final consumption expenditure	1.3	-3.6	5.2	2.6	2.8	1.4	3.6	6.7	1.1
Gross State product (a)	0.8	-2.0	3.2	3.3	2.3	2.0	nya	4.7	1.3

(a) Preliminary estimates from latest State and Commonwealth budgets.

Source: ABS, Labour force and National Accounts.

## Revenue assessments could follow the same approach as for the 2021 Update

10 In the 2021 Update, the Commission concluded that state revenue policy responses to the economic impact of COVID-19 in the 2019-20 assessment year were broadly comparable. It concluded that any differences primarily reflected differences in state circumstances, rather than differences in policy settings. This meant that existing revenue assessments would largely capture the pandemic's effects on state revenue raising capacity.

11 In the 2021 Update, the Commission consulted states on two specific revenue issues:

- the introduction of tax waivers, rebates, and deferrals
- the effect of JobKeeper payments on the payroll tax assessment.

### **Treatment of tax waivers and rebates could be the same as for the 2021 Update**

- 12 States announced decisions to waive, in whole or in part, tax liabilities for the 2019-20 year. Some states processed waivers as tax rebates. The policy intent of waivers and rebates was the same. The issue for the Commission was whether to apply the same treatment in its assessments.
- 13 Data for 2019-20 showed that six states provided tax rebates in at least one revenue category. Adjustments to remove rebates from the relevant expenses and offset them against the appropriate revenue category were not material for any category.<sup>1</sup> Nevertheless, the Commission decided it would make adjustments in 2019-20 because:
- it would maintain the approach of grouping together revenues that have the same drivers, meaning a state's choice on how it processes its COVID-19 waivers would not affect its GST share
  - it anticipated the adjustments could be material in the 2022 Update.
- 14 Staff have collected data from states to make the adjustments for the 2020-21 assessment year.

### **Treatment of tax deferrals could be the same as for the 2021 Update**

- 15 In some cases, states announced the deferral of tax liabilities for the 2019-20 year. Deferrals affect the timing of revenue collections rather than the amount collected. States differed on whether they reported deferrals on an accrual basis (in the year the liability arose) or a cash basis (in the year it was paid). The issue for the Commission was whether to assess deferrals on an accrual basis or a cash basis.
- 16 Three states reported deferrals on a cash basis. However, the adjusted budget uses an accrual basis. The Commission decided to assess deferrals on an accrual basis and to align the deferrals with the tax base that gave rise to them. This required adjustments for the three states, to move the tax deferral from the year of payment to the year the liability arose.
- 17 Although the adjustments for 2019-20 were not material, the Commission decided it would make them in anticipation of the adjustments being material in the 2022 Update.
- 18 Staff have collected data from states to make the adjustments for the 2020-21 assessment year.

### **JobKeeper payments could continue to be included in the payroll tax assessment**

- 19 The JobKeeper Payment scheme was a Commonwealth funded wage subsidy to eligible employers significantly affected by COVID-19. The scheme had three phases:
- between 30 March 2020 to 27 September 2020, eligible employers were provided an amount of \$1,500 per fortnight, before tax, for each eligible employee
  - between 28 September 2020 and 3 January 2021, the payment was reduced to \$1,200 or \$750 per fortnight per eligible employee, depending on the number of hours worked<sup>2</sup>
  - between 4 January 2021 and 28 March 2021, the payment was reduced to \$1,000 or \$650 per fortnight per eligible employee, depending on the number of hours worked.

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<sup>1</sup> As the 2021 Update assessments were not finalised when materiality testing was undertaken, the materiality of the adjustments was tested using 2020 Review assessments.

<sup>2</sup> To qualify for the higher payment, eligible employees were required to have worked 80 hours or more in the four weeks of pay periods before either 1 March 2020 or 1 July 2020.

- 20 The payments were made directly to eligible employers, who were responsible for passing them on to eligible employees.
- 21 Most states exempted JobKeeper payments from payroll tax. New South Wales and Victoria exempted only 'top-up payments' (amounts above employees' usual salary).
- 22 The ABS classified these payments as wages and salaries, and was unable to separate them from other wages and salaries. In the absence of reliable data with which to make an adjustment, the Commission decided, on practicality grounds, not to adjust the payroll tax base for JobKeeper payments. Features of the payments also suggested an adjustment would not be material.
- 23 Staff consider the reasons for the Commission's decision continue to apply, and that a reliable adjustment for JobKeeper payments cannot be made to the payroll tax assessment in the 2022 Update.

## Recommendations

Staff propose to recommend that the Commission:

- treat tax waivers, rebates, tax deferrals and JobKeeper payments using the same approach as for the 2021 Update.

## The effects on revenue bases of any differences in state policy responses in 2020-21 cannot be reliably measured

- 24 In relation to the 2019-20 assessment year, the Commission concluded that state policy responses to the economic impact of COVID-19 were broadly comparable and that existing revenue assessments would largely capture the pandemic's effects on state revenue raising capacity.
- 25 The first lockdown (from late March 2020) was implemented more or less uniformly by all states. In May 2020, National Cabinet agreed to a '3-step plan' to gradually remove baseline restrictions, although the pace at which this was achieved differed between states.
- 26 In contrast, the lockdowns during 2020-21 differed in length and severity.<sup>3</sup> These are likely to have had different effects on the size of states' revenue bases in 2020-21.
- 27 Staff consider that it is unclear whether the effect of COVID-19 on revenue bases resulted from divergences from average policy or from circumstances beyond a state's control. Further, if there were divergences from average policy, there is no reliable and practical method for identifying and measuring the effect.

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<sup>3</sup> During 2020-21, Melbourne had 4 lockdowns (totalling 130 days), Sydney had 2 lockdowns (Northern Beaches totalling 22 days and Greater Sydney during the last 5 days of 2020-21), Brisbane and other parts of Queensland had 3 lockdowns (totalling 8 days), Perth had 3 lockdowns (totalling 10 days), Adelaide had a 3 day lockdown, Darwin had a lockdown including the last 4 days of June. There were also lockdowns of 12 Melbourne postcodes during July 2020.

## Recommendations

Staff propose to recommend that the Commission:

- make no adjustment to revenue bases for any differences in state policy responses to COVID-19.

### There are some new developments in expense assessments

- 28 For the 2021 Update, the Commission reviewed the health and services to industry expense categories to determine whether the 2020 Review methods remained appropriate in light of states' responses to COVID-19.
- 29 For the 2021 Update, the Commission considered state circumstances over the period July 2017 to June 2020. As previously noted, only the last 4 months of this period were significantly affected by the pandemic. In addition, at this time, the impact of COVID-19 was still evolving and data were not readily available to measure impacts on state fiscal capacities.
- 30 The Terms of Reference for the 2021 Update required the Commission to use the methods from the 2020 Review. In this context, the Commission treated the Commonwealth payments under the *National Partnership on COVID-19 Response* (which represented 3% of total state health expenses) as having no impact on the health assessment because the Commission does not assess COVID-19 related drivers of state health spending.
- 31 While half of the spending under the *National Partnership on COVID-19 Response* was funded by the Commonwealth, the other half was funded by the states. The Commission noted in the 2021 Update that, while there were grounds to suggest that the 2020 Review health assessment may not capture the drivers of COVID-19 related health spending, it did not have relevant data. Notwithstanding this uncertainty, the only available approach in line with the Terms of Reference for the 2021 Update was to apply the 2020 Review health assessment to the state-funded spending under the *National Partnership on COVID-19 Response*. An alternative approach of considering COVID-related health spending along the same lines as natural disaster spending would require a change in the method of assessment and this was not an option under the Terms of Reference for the 2021 Update.
- 32 The Commission committed to consult with states again for the 2022 Update to provide an opportunity to raise new issues with these categories, including whether states consider there were additional costs associated with COVID-19 not captured in assessments or covered by COVID-19 arrangements with the Commonwealth.
- 33 While more data are now available, the Commission acknowledges that the full impact on state budgets of COVID-19 remains unclear; the situation and the policy response by states continue to evolve. The Commission recognises that this uncertainty presents an ongoing challenge for states and for the GST distribution process.
- 34 The ABS publication [One year of COVID-19: Aussie jobs, business and the economy](#) highlights key events and policy interventions impacting on expenses over the period March 2020 to March 2021. It illustrates geographic-based waves in COVID-19 cases placing pressure on the health system and businesses impacted by lockdowns. It also illustrates a broader economic impact with the Accommodation and Food Services industry hardest hit with a 35% drop in payroll jobs in the March 2020 quarter. While other sectors recovered during 2020, this sector has continued to experience job losses. This has affected residents and businesses in the sector across all states and in particular regions where this sector drives the local

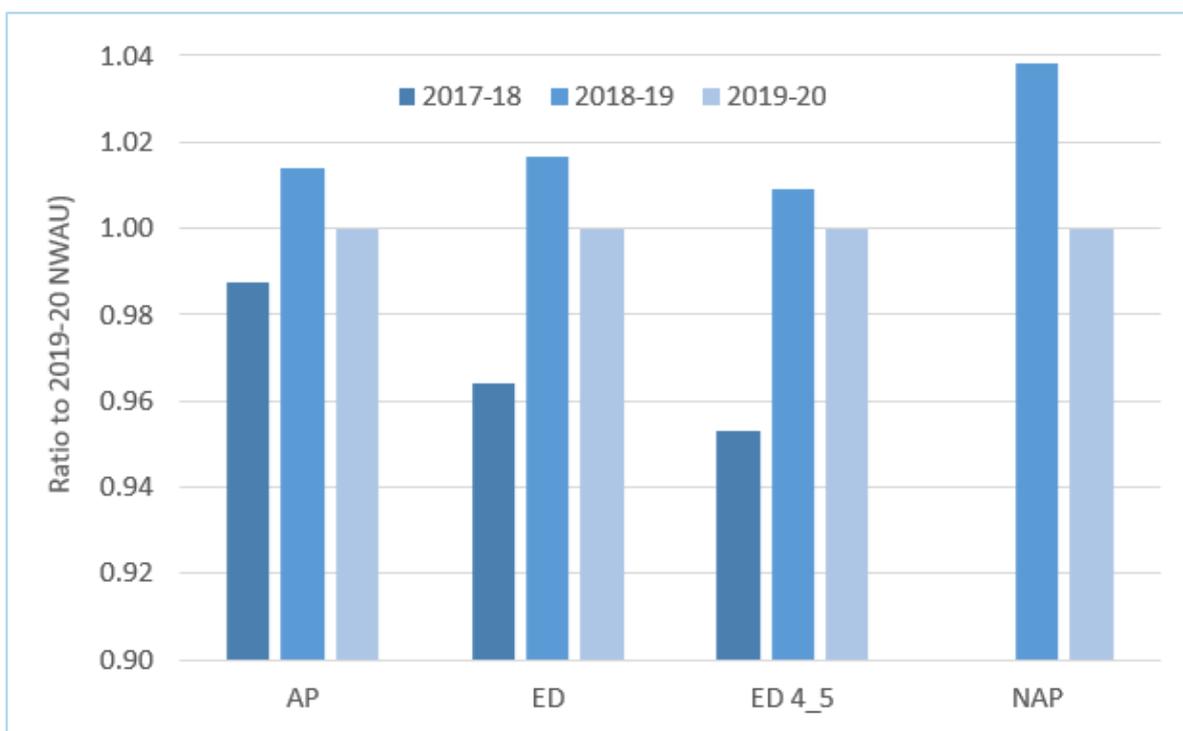
economy. There are, also broad-based public health interventions to support agreed national action including vaccination targets.

- 35 Staff welcome state views on the impact of COVID-19 on state expenses and the drivers of these expenses.

### **The impact of COVID-19 on hospital activity in 2019-20 will now be included in the health assessment**

- 36 The health assessment uses hospital activity data (specifically national weighted activity units) to determine whether it costs each state more or less than the average to provide the average level of health services.
- 37 The Independent Hospital Pricing Authority is not able to provide national weighted activity units data for assessment year 3 in time to be included in the Update. Data for assessment year 2 is therefore also used for assessment year 3. As such, the 2021 Update did not include national weighted activity units for 2019-20 and so did not reflect the impact of COVID-19.
- 38 The 2022 Update will be the first time that some of the impact of COVID-19 on hospital activity will be incorporated into the health assessment.
- 39 The Independent Hospital Pricing Authority has provided the Commission with national weighted activity units data for 2019-20, which covers the first four months of the pandemic in Australia. Figure 2 shows there was a decline in hospital activity for all components in 2019-20. This was partly due to restrictions on some hospital services, alongside measures to support social distancing and changes in community behaviour, which contributed to a less severe flu season, for example.

Figure 2 Level of hospital activity, 2017-18 to 2019-20 (2019-20 = 1.00)



Note: To compensate for patient level reporting being below aggregate level reporting, emergency department (ED) and ED triage 4\_5 data were scaled up in line with the user profile of hospitals in the same remoteness region and with the same funding type. Non-admitted patient (NAP) data have not yet been scaled up due to the current unavailability of aggregate level NAP data.

Source: Staff calculation based on unpublished IHPA data.

40 The next two figures show there were slight changes between 2018-19 and 2019-20 in the distribution of admitted patient national weighted activity units by remoteness area and by age.

Figure 3 Distribution of admitted patient NWAU by remoteness, 2017-18 to 2019-20 (%)

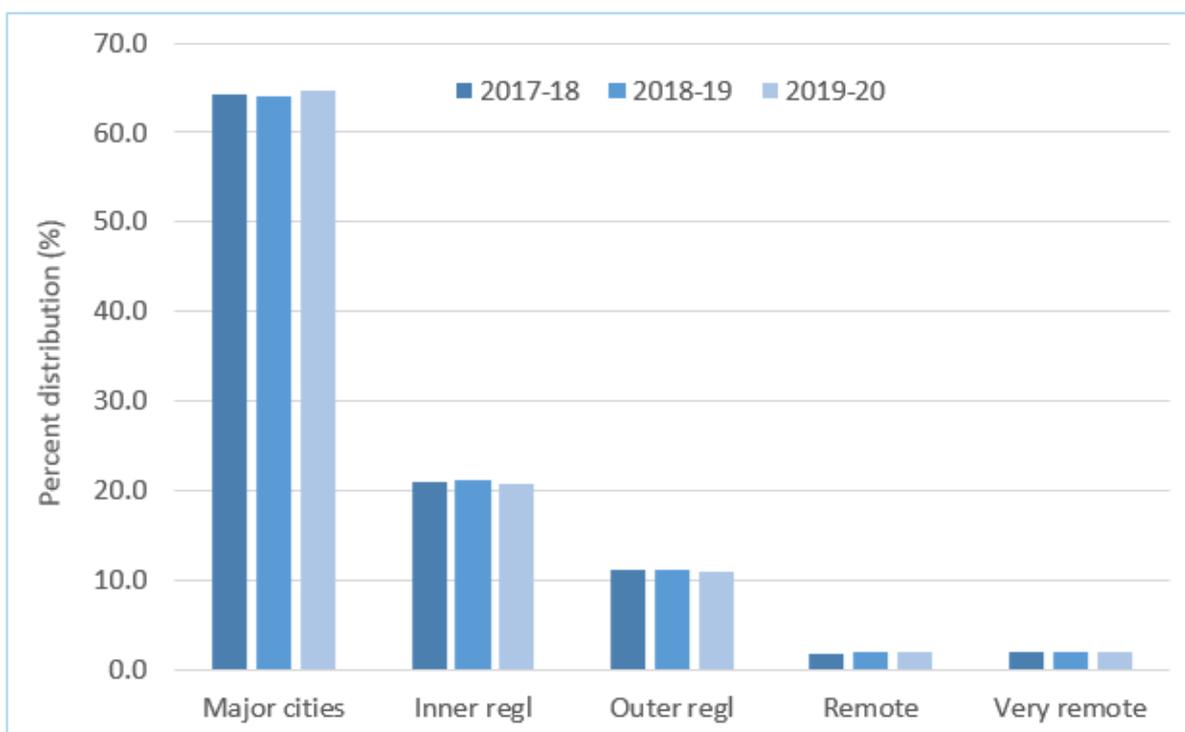
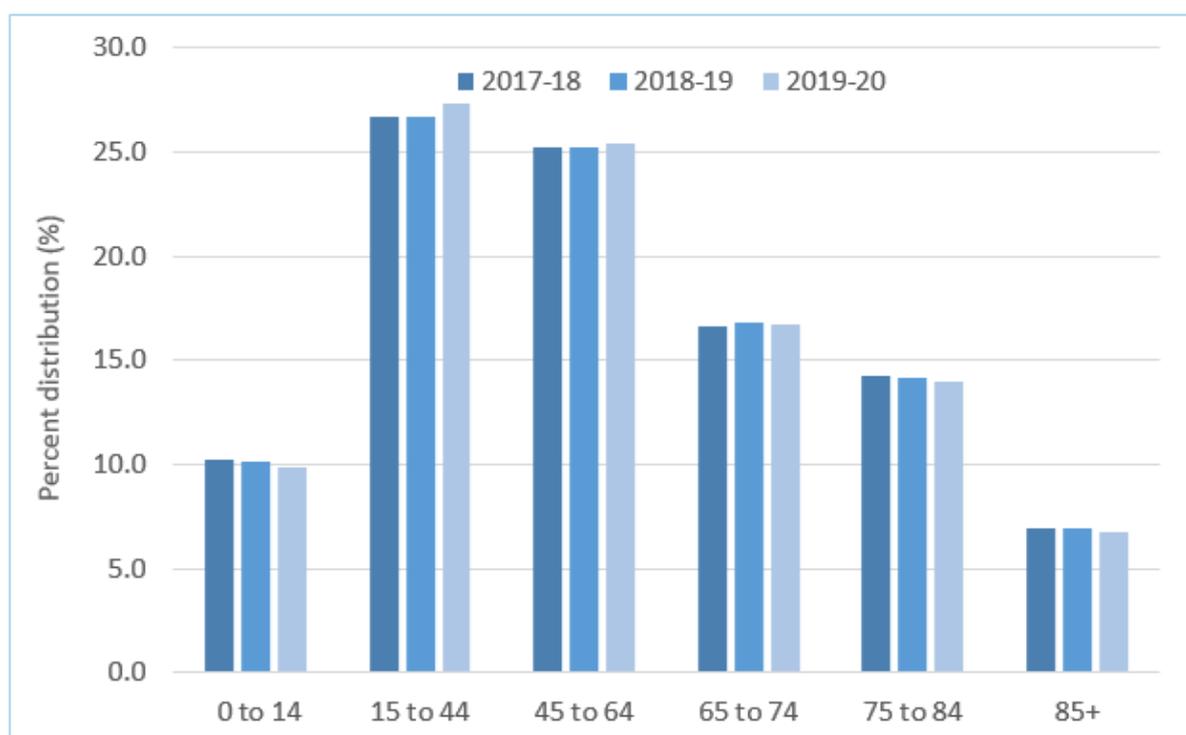


Figure 4 Distribution of admitted patient NWAU by age, 2017-18 to 2019-20 (%)



- 41 Staff have requested access to preliminary national weighted activity units data for 2020-21 that will include one full year of data influenced by COVID-19. This may become available in December 2021 or early in 2022. Staff will assess reliability, and whether the data show a larger change in patterns of hospital activity. The most recent data published by the AIHW ([Impacts of COVID-19 on Medicare Benefits Scheme and Pharmaceutical Benefits Scheme: quarterly data, 14 September 2021](#)) show there was an increase in MBS service utilisation up to the first quarter of 2021, largely due to the introduction of a telehealth option for consultations. Staff expect a similar increase in hospital activity due to higher service use and costs, the latter due to the increased need for protective gear and higher standards of hygiene and cleaning. Staff are also anticipating an increase in public health expenses for testing, contact tracing and vaccination.
- 42 The distribution of Commonwealth funding under the National Partnership on COVID-19 Response indicates the differential health spending of the states in response to the pandemic. As shown in Table 2, in both 2019-20 and 2020-21, New South Wales and Victoria received more funding under the national partnership than their population shares.

Table 2 Commonwealth payments under the National Partnership on COVID-19 Response

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
2019-20 (\$m)	1,015	824	316	133	80	51	21	22	2,462
Share (%)	41	33	13	5	3	2	1	1	100
2020-21 (\$m)	1,194	986	267	176	67	33	29	60	2,811
Share (%)	42	35	9	6	2	1	1	2	100

Note: Totals may not add due to rounding.

Source: National Health Funding Body and 2020-21 Commonwealth Final Budget Outcome.

- 43 Staff welcome views on the impact of COVID-19 on state health expenses, the drivers of these expenses and whether these drivers differ from those reflected in the health assessment.

- 44 Staff also welcome states' views on the treatment of Commonwealth payments under the *National Partnership on COVID-19 Response* in the 2022 Update, along with the treatment of state funded spending under the Partnership Agreement.

## States' spending on services to industry is likely to remain high in 2020-21

- 45 State spending on industry regulation and business development are assessed in the services to industry category. The data received from the ABS and the states do not allow the Commission to determine whether the spending is for regulation or business development. Therefore, the spending is split based on ratios agreed as part of the 2020 Review.
- 46 In 2019-20 there was a large increase in state spending on services to industry<sup>4</sup>. The increase most likely reflected additional business development measures, rather than regulation, as states sought to help their industries deal with the restrictions caused by the pandemic.
- 47 The Commission consulted with states on whether the ratios agreed as part of the 2020 Review should be changed to ensure the assessment more accurately reflected the reality of spending levels in 2019-20. States supported a change if it would have a material impact on GST distribution, however, there was disagreement over whether it would be a method change or a data change. A change in the split between regulation and business development would not have resulted in a material impact on the distribution of GST revenue for any state. In addition, the Commission decided that a change in the ratios would be a method change and this was not an option for the 2021 Update. The Commission therefore retained the ratios agreed in the 2020 Review.
- 48 The Commission is again inviting state views on this matter, given that business development spending in 2020-21 is likely to be higher (relative to spending on regulatory activities) than historical averages. Staff welcome any alternative views that states may have for improving the assessment of needs in this area. As noted, any change in the split between regulation and business development used in the 2020 Review would need to be permitted under the Terms of Reference for the 2022 Update.

## Recommendations

Staff propose:

- to wait to hear from states before making a recommendation to the Commission.

## Wage costs could be adjusted to remove JobKeeper effects

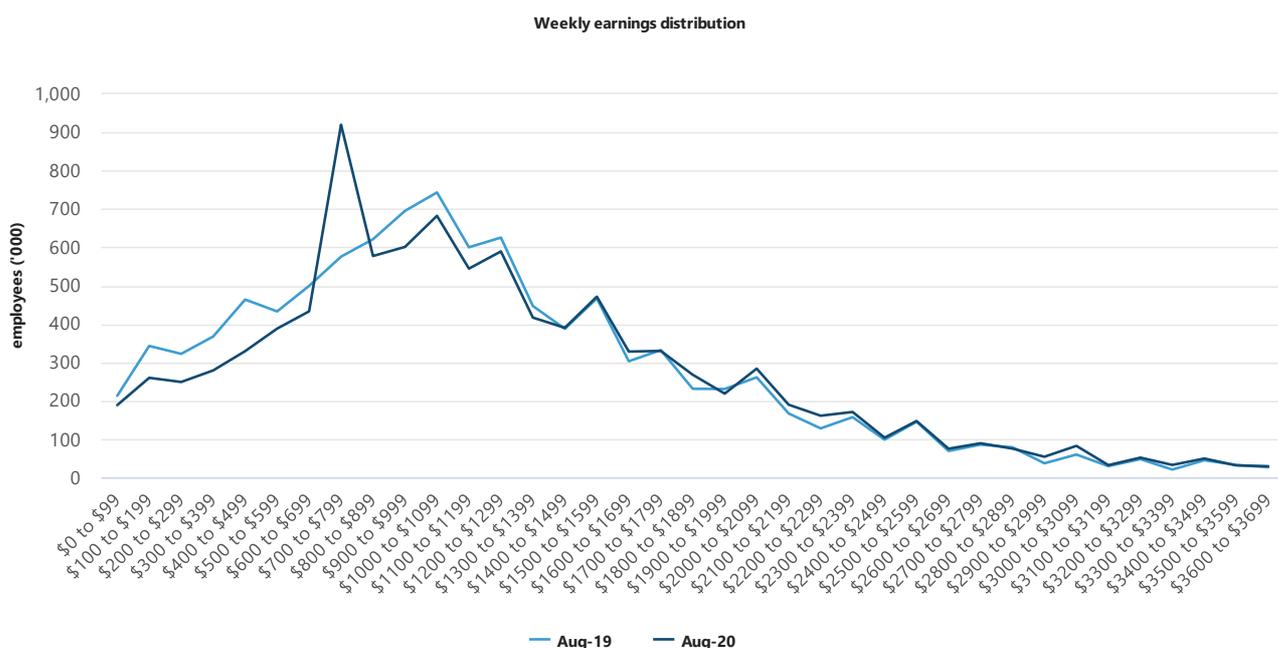
- 49 The wage costs assessment is based on the Characteristics of Employment Survey (COES) data, collected in August each year. In August 2020, many employees were working no hours, or fewer than their normal hours. The Commonwealth Government provided employees with a wage subsidy, JobKeeper. In August 2020, eligible people earned \$750 per week, regardless of the actual hours they worked. One of the features of the JobKeeper payment was that it was paid through to employees, to ensure an ongoing relationship between employee and employer, and so could be expected to be reported as wages by recipients.

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<sup>4</sup> Based on the 2019-20 data provided to us by states, the category spending increase from 2018-19 was 49%. The revised data for 2019-20 provided by the ABS shows the increase was only 15%. This compares to growth of around 10% in the previous two years.

- 50 A wage that has no relationship with the productivity or other attributes of the employee will affect the measured determinants of wage pressures in a way that does not reflect the genuine pressures that face the public or private sectors in each state. The wage costs regression model excludes own account workers (self employed), and others whose income does not reflect the wage setting pressures of the Australian labour market. Staff consider that in the 2020 survey, those people who received JobKeeper should also be excluded. The survey does not include a specific indicator for JobKeeper payments, so instead staff propose to exclude those employees earning exactly \$750 per week. All people working zero hours (as their usual hours) are excluded from the survey.
- 51 6% of COES respondents earned exactly \$750 per week. **Error! Reference source not found.** shows the difference between the 2019 and 2020 estimated wage distributions from the COES data. The ABS reported that “920,000 employees were earning between \$700 and \$799 per week, which was higher than the 580,000 earning the same amount in August 2019. Most of this increase was from workers who earned \$750 per week, which are likely to include employees who received the \$1500 per fortnight JobKeeper supplement (before the payments were reduced in September).”

Figure 5 Effect of JobKeeper on observed wage levels



Source: Australian Bureau of Statistics, Employee earnings August 2020

- 52 The ABS asks recipients for their income to the nearest dollar as recorded on their most recent payslip. Staff consider the number of workers who are not on JobKeeper earning exactly \$750 per week is likely to be relatively low.
- 53 Staff consider the proposed approach does not represent a change to the methods adopted in the 2020 Review; rather it represents a data adjustment to ensure the Commission continues to measure the concept it intended to measure.
- 54 Staff will perform relevant statistical tests to inform the final decision of the Commission and to understand the causes behind any changes in state coefficients. This will be undertaken in

December alongside the final regression when staff next expect to obtain access to the detailed data. Findings from these tests will be shared with states along with the final regression results and estimates of state wage cost factors.

## Recommendations

Staff propose to recommend that the Commission:

- remove employees earning \$750 per week from the data used in the wage costs regression model.

## Other expenses do not appear to be materially affected by COVID-19

- 55 COVID-19 led to significant changes in the way states provided a range of services in 2019-20 and 2020-21. For example, schooling was delivered remotely during lockdown periods. However, while the methods by which schools delivered education changed, the funding provided to each school did not significantly change.
- 56 Similarly, for example, while utilisation of public transport fell significantly, and the types of crimes and the demographics of criminals changed, the drivers of state funding of transport and police do not appear to have changed significantly.
- 57 Across expense categories, there does not appear to be evidence of major changes in the drivers of state funding over 2020-21 compared to previous years. Therefore, staff have not identified any reason to change any assessments (other than the wage costs assessment) to capture COVID-19 related pressures.
- 58 Staff welcome state views on the current and emerging impact of COVID-19 on the broad range of state expenses and the drivers of spending patterns.

## New Western Australian Native title agreements

- 59 In 2020-21, Western Australia commenced compensation payments in relation to the South-West Native Title Agreement and the Yamatji Nations Indigenous Land Use Agreement.
- 60 Expenses across these settlements total \$1 billion to be paid over 15 years.<sup>5</sup> The ABS will record these payments on an emerging cost basis, that is, in the year the payments occur. However, Western Australian Treasury will accrue these settlement costs to 2020-21.
- 61 Western Australia raised the issue of whether these payments should be assessed fully in the 2020-21 assessment year or assessed across the years in which payments are made.
- 62 The Commission generally relies on ABS Government Finance Statistics (GFS) data for its assessments in the first two assessment years. Native title and land rights expenses are allocated across a range of GFS categories but there is no identifier of these expenses in the GFS data. Therefore, these expense data are requested from the states on an annual basis. The Commission then subtracts total reported native title and land rights expenses from the service expenses component of the Other expenses category in the GFS data so that it can be assessed as a separate component in that category. Under this approach, state-provided data must align with the year to which it is allocated in GFS for internal consistency.

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<sup>5</sup> There remain costs relating to these settlements which are not able to be reliably measured at this stage. These further costs are not included in this \$1 billion and will not be accrued in 2020-21.

- 63 Furthermore, accrual of 15 years of expenses would incorporate expenses likely to be incurred across three methodology reviews into a single update. This approach ignores any future adjustments to either the compensation payments themselves or the method used to assess these expenses. It could also undermine the ability to accurately determine state needs in a given year.
- 64 Staff consider that Western Australia's expenses under the two agreements should be assessed according to the year in which payments are made, not in the year to which they are accrued. This will ensure that these state-reported expenses align with the year in which they are recorded in GFS, and hence in the same year that they are included in aggregate state expenses. It will also ensure the assessment more accurately reflects state needs in the given year.

## Recommendations

Staff propose to recommend that the Commission:

- assess Western Australia's expenses relating to the South-West Native Title Agreement and the Yamatji Nation Indigenous Land Use Agreement in the year they are paid.

## What are the implications if a state's assessed revenues exceed its assessed expenditures?

- 65 If a state's assessed revenues exceed its assessed expenditure, its assessed GST requirement is negative and its assessed relativity is negative.
- 66 If there is a negative relativity in any assessment year, staff consider it appropriate to remove it in the year it arises. Staff propose using the same method that is used to transition a state's relativity to the relativity of the standard state — lifting the affected state's relativity to zero and lowering the relativities of the other states on a population basis.
- 67 While the new arrangements ensure this will not affect GST relativities, if the situation arises it would impact the no worse off guarantee relativities.

## Recommendations

Staff propose to recommend that the Commission:

- lift the affected state's annual relativity to zero and share the cost of doing this among the other states on a population basis.

## New Accounting Standards

- 68 There have been recent changes to the Australian Accounting Standards that staff consider will affect the data flowing into the Capital assessments. These changes are:
- Australian Accounting Standard Board (AASB) 16 *Leases*; and
  - AASB 1059 *Service Concession Arrangements*.
- 69 These changes mean some previously recurrent transactions will now be treated as capital transactions. This will increase the value of asset stock and investment reported by states and decrease recurrent spending.
- 70 The ABS regards these changes as inconsistent with its national accounts standards and will not be incorporating these changes into its GFS data. As the investment and net borrowing

assessments use data from both the ABS and states, these assessments could be based on inconsistent data.

## Data used in the Capital assessments

- 71 The Investment category uses two main datasets to assess states' needs:
- *Value of physical assets. These are sourced from states, and therefore incorporate the new accounting standards.*
  - *Value of investment*
    - the first two years of data for each update are obtained from the ABS GFS data,
    - the third year is obtained from the states (as the latest ABS GFS data is not available in time).
- 72 Comparable concepts for the net borrowing assessment are net financial assets (net of liabilities) and net borrowing or net lending. These are from the same sources as investment: GFS and state data.
- 73 The ABS receives data from states to produce its GFS data. One of the edits it applies is to remove the effect of the new standard. It may be able to reverse this edit in the data it provides to the Commission, although it has not yet confirmed whether this is practical.
- 74 The AASB 1059 change will not come into effect until the 2020-21 financial year. Therefore, states will be reporting these changes for the first time in the 2022 Update, Year 3 data. Staff expect there will be increases in the stock and investment data. At this stage we do not know how large these changes will be.
- 75 The ABS has advised that under AASB 16, investment is likely to be higher by up to \$100 million per year, around \$4 per capita. AASB 1059 changes are expected to be smaller than this. The increase in investment will be offset by a decrease in recurrent expenses, and the increase in assets will be offset by an increase in financial liabilities. Therefore, it appears unlikely that the adjustment will be material (at the \$10 per capita data adjustment materiality threshold). However, staff have requested data from the ABS to be consistent with the new standards. If the ABS can provide this data, and the impact is material, Commission staff intend to recommend the Commission use the adjusted data. This would mean the investment and net borrowing assessments would use consistent definitions.

## Revenue Recognition

- 76 Staff do not expect changes to accounting standards for revenue recognition to significantly impact the relativities. Staff use Final Budget Outcome (FBO) data from the Treasury to determine the value of Commonwealth payments that impact, or do not impact, relativities. This is balanced against the grant revenue recorded in the Government Finance Statistics (GFS) provided by the ABS for the first two assessment years and the unit record data provided by states for the third assessment year. Any unreconciled balance is distributed on an equal per capita basis so as not to affect relativities.
- 77 The only data affected by the new standards are the state data for Year 3. In Year 3, FBO data may be inconsistent with state reported grants. However, feedback from states suggests payments from the Commonwealth are usually received and expensed in the same reporting period. Therefore, there is no reason to expect large imbalances between reporting in the two sets of data.

## Recommendations

Staff propose to recommend that the Commission:

- use ABS GFS data adjusted to be consistent with the accounting standards AASB 16 and AASB 1059 if doing so is materially different from using ABS GFS data as published.

## Health assessment – non-admitted patient data

### Issue

- 78 The Commission uses cost weighted activity data as part of its health assessment.
- 79 In the 2020 Review, the Commission decided it would move away from using a proxy indicator for non-admitted patient cost weighted activity once the Independent Hospital Pricing Authority's national weighted activity unit data were sufficiently robust.
- 80 In the consultations with states on new issues for the 2021 Update, Tasmania raised concerns with the comprehensiveness of the non-admitted patient national weighted activity unit data. The expense data used in the non-admitted patient assessment, which is based on the Government Finance Statistics classification of non-admitted patient activity, includes GP-type services. However, the non-admitted patient activity data from the Independent Hospital Pricing Authority exclude these services.
- 81 An issue for the Commission is whether to adjust the non-admitted patient national weighted activity unit data to include GP-type services, and hence make the expense and activity data used in the health assessment for non-admitted patients consistent. Commission staff are seeking state views on this issue and the proposed methodology.

### Description of GP-type services

- 82 There are about 150 types of non-admitted patient services, categorised into 4 clinic types — procedures, medical consultations, diagnostic services and allied health.
- 83 The non-admitted patient services that do not meet the Independent Hospital Pricing Authority's criteria<sup>6</sup> to qualify for funding under the National Health Reform Agreement (and therefore excluded from the national weighted activity unit data) are:
- general practice and primary care
  - primary health care
  - family planning
  - general counselling
- 84 For simplicity these are referred to as GP-type services. Australian Institute of Health and Welfare data indicates that these services represent around 5-10% of total separations. It classifies these services under two clinic types — either medical consultations or allied health.

### Imputing national weighted activity units for GP-type services

- 85 The disaggregated Independent Hospital Pricing Authority data for GP-type services includes activity data on total non-admitted patient separations, but there are no national weighted activity unit data.

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<sup>6</sup> IHPA (2019), [General List of In-Scope Public Hospital Services Eligibility Policy](#) version 5, p 11.

- 86 An estimate of national weighted activity unit for GP-type services (that is cost weighted units) can be gained by multiplying the data on total separations (activity) by the average number of national weighted activity unit per total separation for medical consultations and allied health. This is based on an assumption that the average cost weight for medical consultations and allied health is the most closely related to GP-type services.

## Implications

- 87 The non-admitted patient activity data used for the assessment do not align with the non-admitted patient expense data. The excluded services represent around 5-10% of total services but a disproportionate amount are provided to Indigenous people, and in very remote areas. Including activity data on GP-type non-admitted patient services is likely to materially increase the cost weight used in the assessment for Indigenous people and people in remote and very remote areas.

## Recommendation

Staff propose to recommend that the Commission:

- include imputed national weighted activity unit data for GP-type services in the non-admitted patient assessment to ensure the scope of services covered by the activity data aligns with the services covered by the expense data.

## New Commonwealth Payments

### Treatment of Commonwealth payments commenced in 2020-21

- 88 Staff have examined new Commonwealth payments commencing in 2020-21, as listed in the Final Budget Outcome, 2020-21, and propose to treat them as set out in Attachment A, Tables A-1 and A-2. The proposals are based on the following 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.
- 89 Table A-2 of Attachment A provides a list of projects under the City and Regional deals that commenced in 2020-21 and our proposed treatment for each project.

### Terms of Reference requirements

- 90 The Commission is yet to receive Terms of Reference for the 2022 Update. The proposed treatment of some new Commonwealth payments would change, if directed by Terms of Reference. The following payments were quarantined by the 2021 Update Terms of Reference:
- Road safety projects that fall under the Government's *JobMaker Plan — Infrastructure Investment — road safety and upgrades* that was announced in the 2020-21 Budget.
  - Payment to Queensland of \$105 million relating to remote housing.

- Contribution of \$93.9 million relating to Tasmania’s Marinus Link Project.

91 Additionally, payment for the proton beam therapy facility commenced in 2020-21. This was quarantined by the 2019 Update Terms of Reference.

### **Treatment of Commonwealth payments commencing in 2020-21**

92 Table A-3 of Attachment A provides a list of new payments that will commence in 2021-22. Although some of those payments shown will also affect the year in which the 2022 Update relativities will apply, staff do not propose to backcast any of them because they do not represent a major change in federal financial arrangements. Staff will consider their treatment in the relevant future updates.

# Attachment A

## Proposed treatment of Commonwealth payments commenced in 2020-21

Table A-3 Proposed treatment of Commonwealth payments commenced in 2020-21. *Final Budget Outcome, 2020-2021*

Commonwealth payment description		2020-21 \$m	Proposed treatment	Reason for treatment
<b>Health</b>				
Kangaroo Island nurse outreach program	Funding to provide an outreach Primary health care nurse practitioner to complement the existing public and private health services on Kangaroo Island, South Australia.	1.2	Impact	Payment supports state services for which needs are assessed.
Reducing Stillbirths	Grants to the RCPA and RANZCR so they can provide more stillbirth autopsies and investigations. It will also be used to develop educational resources to support parents.	1.0	Impact	Perinatal services are provided in state and non-state settings. On balance, staff consider this should be an impact payment because it supports state services for which needs are assessed.
Centre for National Resilience	Funding to support increased quarantine capacity at the Centre for National Resilience (NT), including capital expenditure, health services and facility operations to accept Australian repatriations.	69.6	No impact	This payment is supporting a national objective (the repatriation of Australians).
Quarantine arrangements in Tasmania	Funding to support the delivery of quarantine services in Tasmania, including health services and agreed operational costs associated with the quarantine services to accept Australian repatriation.	4.0	No impact	This payment is supporting a national objective (the repatriation of Australians).
Queensland 2032 Olympic and Paralympic Games Candidature	Funding to support the assessment of the 2032 Olympic and Paralympic Games opportunity, including the development, management and administration of candidature for Queensland to host the 2032 Olympic and Paralympic Games.	4.5	No impact	The payment supports the assessment of Queensland's bid to host the 2032 Olympic Games and Paralympic games. Needs are not assessed for major international sporting events.
<b>Skills and workforce development</b>				
Energising Tasmania	Funding for Registered Training Organisations to deliver nationally-recognised qualifications to workers in areas of priority skills needed to support the Battery of the Nation initiative and, more broadly, energy, infrastructure and related sectors in Tasmania.	4.6	Impact	Payment supports state services for which needs are assessed.
Job Trainer Fund	Funding to provide an additional 340,700 training places to help school leavers and job seekers access short and long courses to develop new skills in growth sectors and create a pathway to more qualifications.	386.4	Impact	Payment supports state services for which needs are assessed.
Revitalising TAFE campuses across Australia initiative	Funding to support small infrastructure projects such as building and construction works to expand, upgrade or refurbish TAFE facilities and buildings; purchasing or upgrading specialist-training equipment; and investing in technological infrastructure.	21.0	Impact	Payment supports state services for which needs are assessed.

Commonwealth payment description		2020-21 \$m	Proposed treatment	Reason for treatment
<b>Community services</b>				
COVID-19 Self-isolation for Remote communities	Funding to reimburse states for some of the costs incurred in the provision of government funded self-isolation facilities for the duration of the Remote Travel Restrictions. in the Northern Territory, Western Australia, South Australia, and Queensland.	3.6	No impact	Payments under this program are for the reimbursement of the costs of self-isolation facilities in several states. Quarantine arrangements are part of the national response to COVID-19. This serves a national interest and is a Commonwealth responsibility.
<b>Affordable Housing</b>				
HomeBuilder	This initiative supports the residential construction sector and encourages consumers to proceed with purchases or renovations that may have been delayed due to the effects of COVID-19.	865.7	No impact	This is a payment from the Commonwealth to third parties via the state. The state is administering the program on behalf of the Commonwealth.
Social impact investments – Youth at risk of homelessness	Funding to state governments to trial social impact investments which aim to help young people at risk of homelessness.	0.5	No impact	Needs are not assessed for 'Other welfare'.
<b>Infrastructure</b>				
Local Roads and Community Infrastructure	Funding of \$1.5 billion over two years to support local councils to deliver priority local road and community infrastructure projects across Australia, supporting local economies and communities to cope with COVID-19.	835.2	No impact	Payments support local governments.
Public Safety Mobile Broadband	Funding to support the delivery of a proof-of-concept trial for a Public Safety Mobile Broadband (PSMB). The PSMB supports Australia' to prepare for, and respond to, natural disasters and emergencies at the national scale.	8.0	No impact	Disaster mitigation is a state responsibility. However, needs are not assessed.
Regional recovery partnerships	\$100 million over two years to support recovery and growth in 10 COVID-19 affected regions: (NSW) The Snowy Mountains; Hunter and Newcastle; Parkes Regions; (QLD) Cairns and Tropical North Queensland; Gladstone; Mackay-Isaac-Whitsunday Regions; (TAS) all of Tasmania; (VIC) Gippsland Region; (SA) Kangaroo Island; and (WA) South West Region.	48.8	No Impact	Payments support local council type services.
<b>Environment</b>				
Bilateral energy and emission reduction agreements	These agreements support the provision of reliable and affordable power to remote areas in WA and the NT.	28.5	Impact	Payment supports state services for which needs are assessed
COVID-19 World and National heritage	Funding to support the domestic tourism industry and regional communities through on ground projects to improve infrastructure at World and National Heritage sites.	32.7	No impact	Payment supports state services, but expenses (environmental protection) are not assessed.
Disaster risk reduction	Funding to states to reduce the risk and impact of disasters on Australians in line with the priorities of the National Disaster Risk Reduction Framework.	20.9	No impact	Disaster mitigation is a state responsibility. However, needs are not assessed.

Commonwealth payment description		2020-21 \$m	Proposed treatment	Reason for treatment
Environmental assessment systems upgrade	Funding to support activities to establish new and interoperable environmental assessment systems including an online environmental assessment portal, an environmental assessment system, and a biodiversity data repository.	3.0	No impact	Payment supports state services, but expenses (environmental protection) are not assessed.
Environment Restoration fund	Funding to protect Australia's water, soil, plants and animals, and support their productive and sustainable use.	1.0	No impact	Payment supports state services, but expenses (environmental protection) are not assessed.
Fishing and Camping Facilities program	Funding for local councils to improve, maintain or build new boating, marine rescue, fishing and camping facilities (such as boat ramps).	3.3	No impact	Payment supports local council type services.
Forestry Industries Bushfire Salvage Transport assistance	Grants to cover the additional costs of salvage log haulage to processing mills and/or storage facilities to forestry entities impacted by the 2019-20 bushfires and COVID-19 (for storage assistance).	10.7	No impact	While business development is a state provided service, the only bushfire related needs that are assessed are those directly covered by the Disaster Recovery Funding Arrangements.
Future Drought Fund/Farm business resilience	Funding to provide farm businesses with training to develop strategic management skills and support the development of a Farm Business Plan to better plan for and manage drought. Funding will be provided from the Future Drought Fund.	16.0	Impact	The assessment of business development expenses does not recognise the spending needs of States in response to drought. However, the payment description implies funding will be provided to all regional agricultural areas and not specifically drought affected areas. On this basis, the payment should impact relativities.
Future Drought Fund/Regional Drought resilience planning	Funding to support group partnerships with local councils and regional stakeholders to develop Regional Drought Resilience Plans for agriculture. Funding will be provided from the Future Drought Fund.	9.9	Impact	The assessment of business development expenses does not recognise the spending needs of states in response to drought. However, the payment description implies funding will be provided to all regional agricultural areas and not specifically drought affected areas. On this basis, the payment should impact relativities.
Horticulture netting trial scheme	Horticultural Netting Infrastructure Grants help primary producers in the Riverland and Adelaide Hills/Greater Adelaide region to fund the purchase and installation of new netting or the replacement of any damaged netting over land used to grow horticulture crops.	23.6	Impact	Payment supports state services for which needs are assessed
Recycling Infrastructure	Funding for improved recycling outcomes by addressing critical infrastructure gaps in Australia's waste management and resource recovery system.	4.5	No impact	Recycling and waste management services are the responsibility of local government.
Securing Forestry resources for economic security	Grants supporting storage of wood products sourced from forests affected by the 2019-20 bushfires. This will mitigate both the effects of the Coronavirus economic downturn and the bushfire-induced short-term timber oversupply by extending the life of fire-affected timber that must be harvested now.	5.4	No impact	While business development is a state provided services, needs are not assessed for the impacts of bushfires or for COVID-19.

Commonwealth payment description		2020-21 \$m	Proposed treatment	Reason for treatment
Water for the Environmental special account/Implementation of constraints measures	Funding to NSW, Vic, and SA to ease or remove constraints to the delivery of water to environmental assets in the Murray-Darling Basin.	4.0	Impact	Payment supports state services for which needs are assessed
Water for the Environmental special account/Off-farm Efficiency program	\$1.4 billion over four years for state-led efficiency measures in the Murray-Darling Basin under the Water for the Environment Special Account.	35.0	Impact	This program is designed to "increase the volume of water available for irrigators and communities." Agriculture regulation is a state function for which needs are assessed.
<b>Other purposes</b>				
National Legal assistance partnership	The Australian Government is providing additional funding for legal assistance services delivered by legal aid commissions, community legal centres and		Impact	Payment supports state services for which needs are assessed
- Aboriginal and Torres Strait Islander Legal services	Aboriginal and Torres Strait Islander legal services	79.5		
- Community legal centres		48.5		
- Domestic Violence Units and Health Justice Partnerships		9.9		
- Legal aid commissions		234.3		
- Social and Community Services Sector supplementation		12.3		
- State and territory legal assistance administration		3.9		
National Legal Assistance Partnership/Family advocacy and support services	Funds for the operation of family advocacy and support services by legal aid commissions. They are providing integrated duty lawyer and family violence support services at locations across Australia.	9.9	No impact	This payment primarily supports family law court services, a Commonwealth function.
Queensland Country Bank Stadium	Construction of a new multipurpose sporting stadium in Townsville.	5.0	Impact	Payment relates to the planning and building of cultural venues which are the responsibility of state governments, and needs are assessed.

Table A-4 City and Regional Deals

Commonwealth payment Description	2020-21 \$m	Proposed treatment	Reason for treatment
<b>Townsville</b>	<b>15.0</b>		
Port of Townsville channel upgrade		No Impact	While ports are a normal state government service, the Commission does not assess expenditure needs for ports in its non-urban transport assessment.
Reef HQ		No Impact	Payment is out of scope as it is for Australian government agency.
<b>Geelong</b>	<b>10.1</b>		
Revitalising Central Geelong - Geelong Train Station Upgrade		Impact	Payment supports state services for which needs are assessed.
Revitalising Central Geelong - Green Spine Block 1		No impact	Payments are for local government/ community infrastructure in Geelong. Needs are not assessed for these types of services.
Revitalising Central Geelong - Green Spine Block 3		No impact	Payments are for local government/ community infrastructure in Geelong. Needs are not assessed for these types of services.
Geelong Waterfront Safe Harbour Precinct		No impact	Payments are for local government/ community infrastructure in Geelong. Needs are not assessed for these types of services.
Priority Projects - Shipwreck Coast Masterplan		Impact	Payment is primarily related to improving tourism by the state government. This is a normal state service and needs are assessed.
Redevelopment of Apollo Bay Harbour		Impact	Payments are related to infrastructure that will improve tourism. This a normal state function and needs are assessed.
Point Grey, Lorne Redevelopment		Impact	Payments are related to infrastructure that will improve tourism. This a normal state function and needs are assessed.

Commonwealth payment Description	2020-21 \$m	Proposed treatment	Reason for treatment
Apollo Bay to Skenes Creek Coastal Trail		Impact	Payments are related to infrastructure that will improve tourism. This a normal state function and needs are assessed.
Redevelopment of the Queenscliff Ferry Terminal		No impact	The payment is for infrastructure related to the functions of a Port (ferry terminal). While ports are a normal state government service, the Commission does not assess expenditure needs for ports in its non-urban transport assessment.
<b>Darwin</b>	<b>45.0</b>		
Education and Community Precinct		Split	Expenses for higher education services (ie, university buildings) are not a state service and needs are not assessed.  State government libraries are a normal State service and needs are assessed
<b>Perth</b>	<b>27.8</b>		
Edith Cowan University CBD Campus		No impact	Expenses for higher education services (ie, university buildings) are not a state service and needs are not assessed.
CBD Transport Plan		Impact	Payments are for normal state government road upgrades/safety and needs are assessed.
<b>Adelaide</b>	<b>9.6</b>		
The Innovation Hub		Impact	Payments are for business development purposes. These are normal state functions and needs are assessed.
Smart Technology - Free WiFi		Impact	Payments are to improve communications infrastructure. This is a normal state type service and needs are assessed.
Smart Technology - CCTV		Impact	Payments are to improve communications infrastructure. This is a normal state type service and needs are assessed.
Smart Technology - Experience Adelaide		Impact	Payments are to improve communications infrastructure. This is a normal state type service and needs are assessed.
Aboriginal Arts and Culture Centre		Impact	Payment supports a new cultural centre. This is a normal state function and needs are assessed.
Carrick Hill		Impact	Payments are related to improving tourism. This a normal state function and needs are assessed.

Commonwealth payment Description	2020-21 \$m	Proposed treatment	Reason for treatment
Mitcham Hills Trail & Glenthorp Loop		Impact	Payments are related to improving tourism. This a normal state function and needs are assessed.
<b>Hinkler</b>	<b>0.3</b>		
Outer Harbour Pre-feasibility Study		No impact	The payment supports business development of a port. While ports are a normal state government service, the Commission does not assess expenditure needs for ports in its non-urban transport assessment.
<b>Albury-Wodonga</b>	<b>1.5</b>		
Preliminary Strategic Work		Impact	The payment supports state planning functions for the Albury - Wodonga regional councils. This is a normal state function and needs are assessed.
<b>Barkly</b>	<b>3.8</b>		
Community Sports		No impact	Payments are for local government community sports programs and needs for these types of services are not assessed.
Economic Growth Strategy		Impact	Payments are for business development purposes. These are normal state functions and needs are assessed.
Youth Infrastructure		No Impact	Payments are for local government sport and community infrastructure, and local jobs across the Barkly region. The payment is not related to state government services. Needs are not assessed.
Tennant Creek Visitor Park		Impact	Payments are to develop social housing. This is a normal state government function and needs are assessed.
Barkly Local Community Projects Fund		No impact	Payments are for local government type community infrastructure, and to support the local community in the Barkly region. The payment is not related to state government services. Needs are not assessed.

Commonwealth payment	Description	2020-21 \$m	Proposed treatment	Reason for treatment
Barkly Business Hub	Supporting regional business creation and growth by building local business capacity and helping local businesses capitalise on economic opportunities in the region by connecting them with investment opportunities.		Impact	Payments are for business development purposes. These are normal state functions and needs are assessed.

## Commonwealth payments commencing in 2021-22

Table A-3 Commonwealth payments commencing in 2021-22, *Federal Financial Relations, Budget Paper No. 3, 2021-22*

Commonwealth payment	Description	New in 2021-22 \$m
National perinatal mental health check	Funding over three years from 2020-21 to deliver a national Mums, Dads and Bubs check for perinatal depression before leaving hospital. (Due to begin in 2020-21, but no payment made.)	6.0
Social impact Investments – Vulnerable priority	Funding to state governments to trial social impact investments which aim to assist vulnerable priority groups. (Due to begin in 2020-21, but no payment made.)	0.5
National forestry industry plan	Funding to support the states to offer advice on the establishment of new farm forestry assets, private native forestry and Indigenous forestry areas' suitability for sustainable harvesting of forest products. (Due to begin in 2020-21, but no payment made.)	1.8
Emergency response fund – flood mitigation	This payment is to help communities to better prepare for extreme weather events and flooding. Funding will be drawn from the Emergency Response Fund, which can be used to reduce the risk of future natural disasters, as well as to fund emergency response and recovery following natural disasters. (Due to begin in 2020-21, but no payment made.)	50.0
National Water Grid Fund	Funding, through the National Water Grid Fund, to support the development and delivery of nationally important water infrastructure projects.	102.3
Feasibility study into Curtis Island LNG Electrification	The Australian Government will provide \$1.5million to the Queensland Government to support a feasibility study into the electrification of liquefied natural gas facilities at Curtis Island, Queensland. This will support the Government's aim of unlocking more gas supply for the domestic market.	1.5
Gas well trials	The Australian Government will provide competitive grants to support gas field trials in the North Bowen and Galilee basins, in partnership with industry, experts from the University of Queensland and the Queensland state Government	15.6
Hydrogen ready gas generation	The Australian Government will support new gas generation projects to be hydrogen ready. Funding will support hydrogen-ready capability through grants for hydrogen-ready turbines or associated hydrogen supply infrastructure.	5.0
National Plant Health Surveillance Program	The Australian Government is providing funding to support Australia's plant biosecurity system through the National Plant Health Surveillance Program. The program focuses on early detection of national priority plant pests that can enter and establish in Australia.	1.0
North Queensland strata title resilience pilot program	The Australian Government will provide funding to support strata title properties in North Queensland to undertake disaster mitigation works to improve resilience. The Queensland Government will implement and administer the initiative.	8.0
Reducing regulatory burden and streamlining audit arrangements in the dairy sector	On 3 March 2020, the Australian Government announced a \$14.8million investment as part of the deregulation agenda to help the dairy industry by raising export awareness, reducing red tape and streamlining audit arrangements	0.5
National Legal assistance partnership - Increased legal assistance for vulnerable women	The Australian Government is providing additional funding for legal assistance services delivered by legal aid commissions, community legal centres and Aboriginal and Torres Strait Islander Legal services	31.6
- Legal assistance family law pilot program		3.6

Commonwealth payment	Description	New in 2021-22 \$m
- Supporting increased child sexual abuse prosecutions		1.6
- Supporting people with mental health conditions access the justice system		15.0