




Australian Government
Commonwealth Grants Commission

2025 Methodology Review

Services to industry
consultation paper

October 2023

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Overview of category

- 1 The services to industry assessment includes state and territory (state) spending on the regulation and development of businesses, industries, and other economic affairs.
- 2 The services to industry assessment has 4 components:
 - agriculture, fisheries, and forestry (collectively referred to as agriculture) regulation including biosecurity, animal welfare, agriculture and veterinary chemicals, and water resource management
 - mining regulation, including exploration, production, and rehabilitation
 - other industries regulation, including business registration, construction industry regulation, workplace health and safety, and industrial relations
 - business development, including investment and trade promotion, regional development programs, and support for small business.

Current assessment method – 2020 Review

- 3 The services to industry assessment recognises that states face different costs of industry regulation. In contrast, business development costs are assessed as equal per capita on the basis that states spend on business development primarily to facilitate economic activity and new employment opportunities for their populations.
- 4 Total state spending on regulation and development for each industry is aggregated in the Australian Bureau of Statistics (ABS) Government Finance Statistics data. As a result, the Commission uses state provided data to calculate the average share of regulation and development spending to apportion spending to either regulation or development activities. The proportion was fixed at the time of the 2020 Review. Table 1 shows the estimated proportion of state spending on business regulation and development, from the 2020 Review.
- 5 The average proportion of regulation and business development spending for each assessment component used in the 2020 Review are:
 - 50% regulation, 50% development for agriculture
 - 80% regulation, 20% development for mining
 - 53% regulation, 47% development for other industries.

Table 1 Proportion of state spending on regulation and business development by industry, 2010 and 2020 Reviews

	2020 Review by State								2020 Review	2010 Review
	NSW	Vic	Qld	WA	SA	Tas	ACT	NT		
	%	%	%	%	%	%	%	%	%	%
Agriculture										
Regulation	26	61	51	94	44	80	na	29	50	50
Business development	74	39	49	6	56	20	na	71	50	50
Mining										
Regulation	63	83	88	78	85	43	na	72	80	na (a)
Business development	37	17	12	22	15	57	na	28	20	na (a)
Other industries										
Regulation	52	na	61	54	50	16	72	49	53	37
Business development	48	na	39	46	50	84	28	51	47	63

Notes: (a) na = Not available. In the 2015 Review, other industries included mining.

Source: Commission calculation using state and Government Finance Statistics data.

- 6 In assessing net state expenses on business regulation, the method recognises:
 - the costs of regulating business activities are affected by industry size, currently measured by the value of production of the regulated industry, such that larger state industries have a greater cost of regulation
 - states seek to recover the costs of regulating business activities from user charges and levies which are offset against expenses on business regulation
 - the differences between states' public sector wage costs
 - the additional cost of providing services in regional areas
 - 'other industries' regulation is assessed 75% industry size, measured by the value of production, and 25% equal per capita in recognition that some regulatory activities such as consumer protection service the entire population.
- 7 The method does not include revenue raised by state governments through licensing fees and other levies on regulated industries such as gambling. Licensing fees and other levies are assessed in the other revenue assessment.
- 8 State spending on business regulation is the residual of total state spending on industry regulation and development services and the total cost of business development.
- 9 Business development spending is assessed equal per capita with a wage cost adjustment because state population is considered the driver of need and states face different wage costs for government programs.

Data used in the assessment

- 10 The method uses total state spending on agriculture, mining and other industry regulation and development from the ABS Government Finance Statistics for the first 2 financial years. For the final financial year, data are sourced directly from the states.
- 11 The proportion of spending that is regulation or development is estimated using the methods outlined above. The Commission will ask states to provide an updated breakdown of spending on business regulation to estimate the proportion of business regulation and development as part of the 2025 Review. Further details are outlined in volume 2, chapter 22, [Report on GST Revenue Sharing Relativities, 2020 Review](#).
- 12 The value of production of agriculture, mining, and other industries, currently used to measure industry size, is sourced from *Australian National Accounts: State Accounts*, published by the ABS.
- 13 Population statistics are sourced from the National, state and territory population data published by the ABS.
- 14 Wage and Regional cost factors were derived using the methods outlined in volume 2, chapter 27 – Wage costs and chapter 28 – Regional costs of the [Report on GST Revenue Sharing Relativities, 2020 Review](#). Regional cost and wage factors are also subject to this review.

Category and component expenses

- 15 Table 2 shows total state spending included in the services to industry assessment. In 2021–22, total expenditure increased to around \$21 billion, or 7.2% of state government spending in response to the COVID-19 pandemic.

Table 2 Total services to industry expenditure, 2018–19 to 2021–22

	2018–19	2019–20	2020–21	2021–22
Total expenditure (\$m)	6,020	8,084	11,480	20,796
Proportion of total expenditure (%)	2.5	3.6	4.5	7.2

Source: Commission calculation, 2023 Update.

- 16 Table 3 shows total services to industry expenditure by state. More than half of the services to industry expenditure in 2021–22 occurred in New South Wales. The spending was partly driven by COVID-19 lockdowns across the state which resulted in a significant increase in business support payments.

Table 3 Total services to industry expenditure by state, 2021–22

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Total expenditure (\$m)	11,897	5,962	1,139	486	587	252	226	247	20,796
Proportion of total expenditure (%)	13.9	8.9	1.9	1.3	3.0	3.8	4.0	4.0	7.2

Source: Commission calculation, 2023 Update.

17 Table 4 shows the relative weight of each component in the services to industry assessment. The largest component is other industries regulation, which represented 66% of services to industry expenditure (around \$13.7 billion) in 2021–22.

Table 4 Structure of the services to industry assessment, 2021–22

Component	Component expense	Driver	Influence measured by driver of need
	\$m		
Agriculture regulation	885 (4%)	Economic environment	Recognises the cost of providing regulatory services to the agricultural sector is determined by the level of economic activity measured by the value of production in the sector
		Wage costs	Recognises the differences in wage costs between states
		Regional costs	Recognises the higher cost of providing services in more remote areas
Mining regulation	223 (1%)	Economic environment	Recognises the cost of providing regulatory services to the mining sector is determined by the level of economic activity in the sector
		Wage costs	Recognises the differences in wage costs between states
		Regional costs	Recognises the higher cost of providing services in more remote areas
Other industries regulation	13,693 (66%)	Economic environment	Recognises the cost of providing regulatory services to other industries is determined by the level of economic activity in the sector
		Population	Recognises that some regulatory functions such as consumer protection services target the total population rather than businesses or industries
		Wage costs	Recognises the differences in wage costs between states
		Regional costs	Recognises the higher cost of providing services in more remote areas
Business development	5,994 (29%)	EPC	This is an equal per capita (EPC) assessment. Recognises the driver of these expenses is state population.
		Wage costs	Recognises the differences in wage costs between states

Source: Commission calculation, 2023 Update.

GST distribution in the 2023 Update

18 Table 5 shows the GST impact of the services to industry assessment compared to an equal per capita distribution. The category distributed \$695 million (\$26 per capita) away from an equal per capita distribution in the 2023 Update. Western Australia received over 40% of the GST revenue distributed by the services to industry assessment.

- 19 Further detail on service provision arrangements, the range of services included within this category and the underlying conceptual cases for the assessment methods are explained in volume 2, chapter 22, [Report on GST Revenue Sharing Relativities, 2020 Review](#).

Table 5 GST impact of the services to industry assessment, 2023–24

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect on GST distribution
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Agriculture regulation	-95	-55	13	39	55	54	-19	8	170
Mining regulation	-99	-94	-6	224	-21	-7	-7	10	234
Other industries regulation	211	24	-142	27	-85	-40	2	3	266
Business development	11	-4	-10	11	-7	-3	3	0	25
Total (\$m)	28	-130	-145	300	-58	4	-21	21	695
Total (\$pc)	3	-19	-27	105	-31	7	-44	83	26

Source: Commission calculation, 2023 Update.

What has changed since the 2020 Review?

COVID-19 increased state government spending on business development and other industry regulation

- 20 State spending on services to industry increased significantly in response to the COVID-19 pandemic. Most of this spending was direct business support, in response to state government travel restrictions and lockdowns to contain the spread of the virus.
- 21 As the Commission noted in the [2023 Update New Issues paper](#), state spending to support businesses during the COVID-19 pandemic differed distinctly from states' usual business development programs. Whereas usual state programs tend to have a long-term focus such as growing new industries and employment, the measures deployed during the pandemic were short-term in nature and aimed at supporting businesses until trading conditions returned to normal.
- 22 The Commission does not expect states to continue this form of business support with the easing of restrictions around Australia in 2022–23. Therefore, there are no ongoing implications for the assessment methods.

Increased volatility in the regulation assessments

- 23 Since 2020, prices for mining and agricultural commodities have experienced significant volatility. In recent years, commodity prices have increased strongly, including in response to the conflict in Ukraine. Significant changes in commodity prices affect the measurement of total factor income which is used to assess state

expense needs for industry regulation. The experience since the 2020 Review is that these changes in prices did not impact the need for state regulation spending.

- 24 In the 2020 Review, the business regulation assessments were simplified by removing population and the number of businesses as drivers of need. However, this has increased the susceptibility of the assessment to commodity prices that do not reflect changes in the need for state regulation spending.

Development and support of industries to transition to net zero emissions

- 25 Since the 2020 Review, international efforts to reduce greenhouse gas emissions have accelerated. This has led to new business opportunities including in mining, manufacturing, and business services as well as challenges for transitioning industries and regions. As a result, Commonwealth and state governments have announced significant spending to support the transition of existing industries to a carbon neutral economy, develop new industries, and offset employment losses in emissions intensive industries. The Commission notes that it has not currently observed a large increase in state spending in this area. The announced and future initiatives could see a significant increase in spending to support industries in the transition to net zero and result in business development comprising a larger share of state government spending in the future.

Implications for assessment

- 26 The Commission has identified 3 issues for consideration:
- Is total factor income the most appropriate measure of industry size to assess agriculture, mining, and other business regulation expenditure, given that it is influenced by commodity price fluctuations?
 - Should the number of businesses be reincluded as a driver in the assessment, subject to it being material?
 - Do states expect the net-zero energy transition to result in a significant increase in business development spending?

Volatility in the regulation assessments

- 27 Currently, the regulation assessments are subject to volatility, driven in particular by changes in commodity prices.

- 28 Prior to the 2020 review, the Commission assessed the need for spending on agriculture business regulation using a weighted combination of the value of production, the number of businesses and state populations. Other business regulation was assessed using a weighted combination of value of production, the size of the non-dwelling private construction sector and population. During the 2020 Review, a separate component for mining regulation was introduced because the assessment was material when considered in isolation from the other industries regulation components.
- 29 In the 2020 Review, the Commission also sought to simplify the assessment where possible, subject to materiality thresholds. To this effect, while the Commission agreed there was a conceptual case for including the number of businesses as a driver of business regulation costs, it removed it as it was not material (Table 6).

Table 6 Materiality of including the number of agriculture and mining businesses alongside value of industry production in the regulation assessment 2020 Review

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Agriculture (\$m)	26	12	-10	-13	1	-11	0	-5
Mining (\$m)	11	4	9	-26	2	3	1	-3
Total (\$m)	38	15	-2	-39	3	-9	1	-8
Agriculture (\$pc)	3	2	-2	-5	1	-22	0	-21
Mining (\$pc)	1	1	2	-10	1	5	3	-10
Total (\$pc)	5	2	0	-15	2	-17	3	-31

Note: The materiality test was based on a 50% weight to the number of businesses in the agriculture assessment and a 33% weight in mining. These weights were based on data from the 2010 Review.

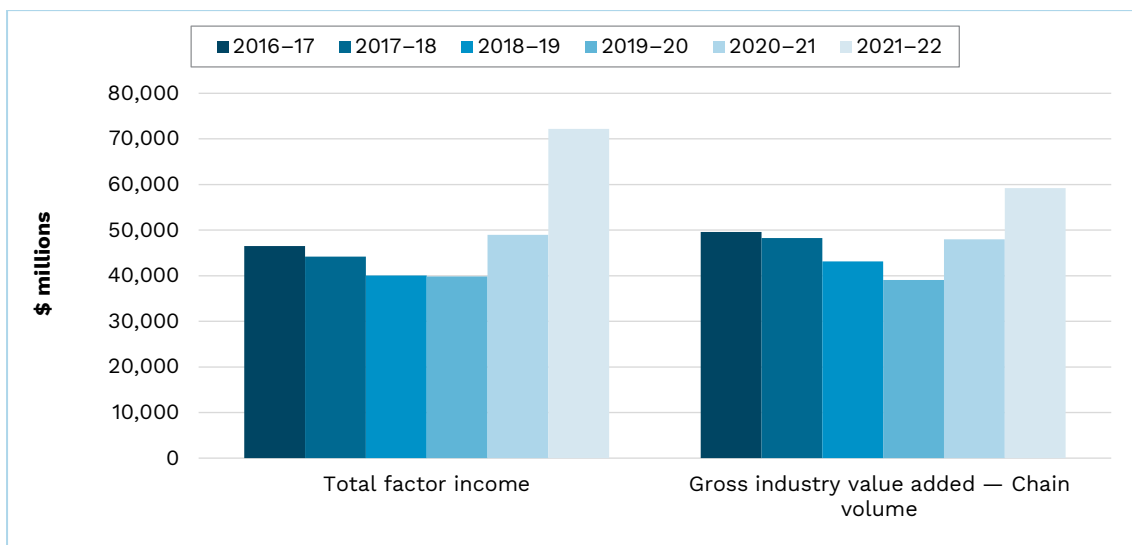
Source: Commission calculation.

- 30 Simplifying the assessment of the agriculture component and the development of a separate mining regulation component with an assessment based solely on value of production, increased the volatility of the assessment (due to swings in total factor income from changes in commodity prices) that did not match changes in spending on regulation.
- 31 Conceptually, price changes are not expected to influence state spending needs for regulation and enforcement. The regulatory task is more likely to be related to the level of production in regulated industries and the number of regulated businesses. This view was supported by South Australia, New South Wales and Victoria in the 2020 Review.
- 32 To improve the accuracy of the regulation assessment, the Commission's preliminary view is to substitute the price sensitive total factor income measure of industry size with a volume-based measure such as the chain volume of industry value added and reintroduce the number of businesses as a driver of need, if it is material.

Replacement of commodity price sensitive total factor income with chain volume of industry value added

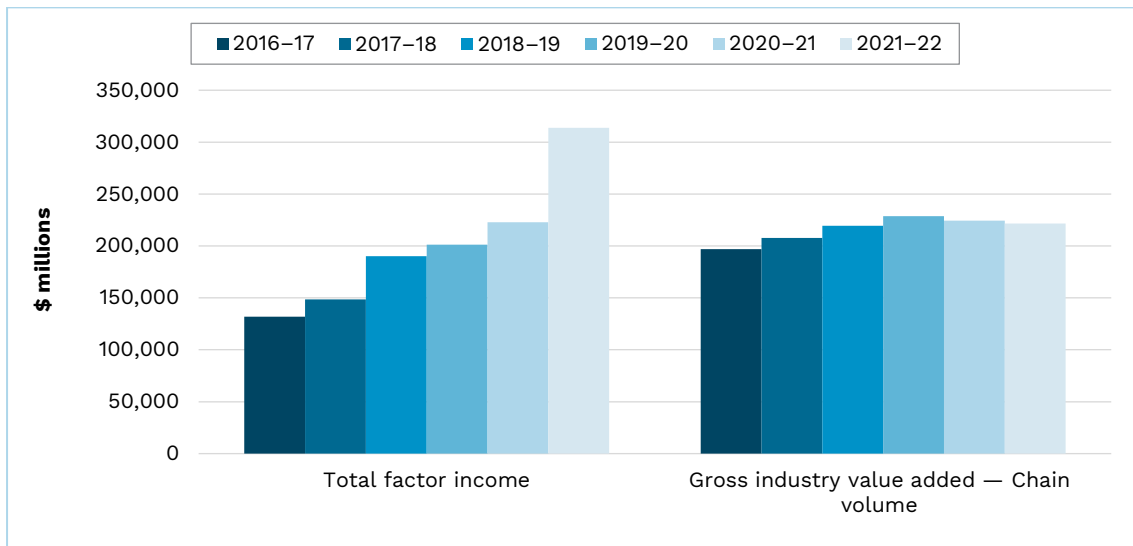
- 33 Chain volume industry value added is a volume driven measure of the contribution of each industry to Gross State Product. The ABS recommends chain volume measures as an indicator of production because it overcomes changes in the mix of commodities produced and changes in relative prices. This measure is expected to better capture changes in the level of production in regulated industries to produce a more reliable measure of state spending needs.
- 34 Figure 1 and Figure 2 show the impact of rising commodity prices on total factor income compared with a change in the volume of production for the agriculture and mining industries. Between 2020–21 and 2021–22, the total factor income of agriculture increased 47% to \$72 billion because of both increased production and high international commodity prices (Figure 1). In contrast, the gross industry value added of agriculture increased 23% to \$59 billion reflecting increased production from improved seasonal conditions.
- 35 Similarly, growth in total factor income of mining in 2021–22 has been driven by a change in commodity prices rather than an increase in the volume of production (Figure 2). Between 2020–21 and 2021–22 the gross industry value added of mining fell 1.3% to \$222 billion, while total factor income rose 41% to \$314 billion.

Figure 1 Comparison of agriculture total factor income and chain volume of production



Source: ABS 2022, Australian National Accounts: State accounts.

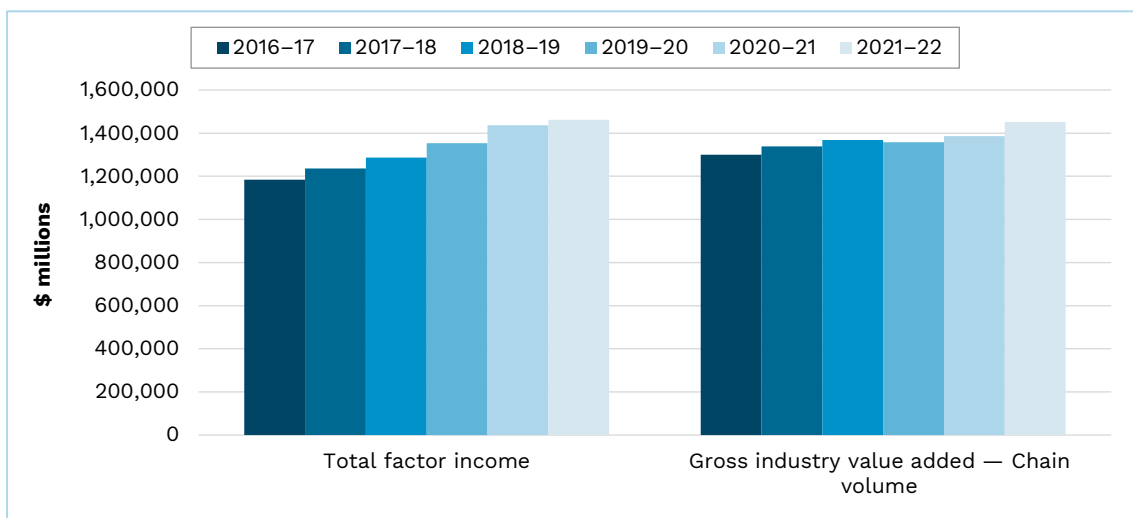
Figure 2 Comparison of mining total factor income and chain volume of production



Source: ABS 2022, Australian National Accounts: State accounts.

36 Although the impact of price fluctuations is less pronounced for other industries (Figure 3) the Commission proposes to change from total factor income to chain volume of production to maintain consistency across the regulation assessments.

Figure 3 Comparison of other industries total factor income and chain volume of production



Source: ABS 2022, Australian National Accounts: State accounts.

37 However, there are limitations with this approach. Each year the ABS rebases the prices used in the chain volume measures to prices in the previous year. If there is a change to use of chain volume of production in the assessment, the Commission will establish a base price year in each review and measure the change in production under constant prices to maintain stability in the assessment. The base period would be determined in consultation with the states. The 2 potential methods are:

- an average over time or alternatively
- a single year, which reflects the business-as-usual outcomes in commodity markets.

Reintroduction of number of regulated entities as a driver of regulation costs

- 38 The Commission's preliminary view is to reintroduce the number of businesses as a driver of need to reduce the artificial volatility of the regulation assessments, if it is material.
- 39 Data on the number of businesses in the regulated industries will be sourced from the *Count of Australian Businesses* published annually by the ABS.

Consultation questions

- Q1. Do states support replacing total factor income as measure of industry size with the chain volume measure of industry value-add to assess the need for spending on industry regulation?
- Q2. Do states support the development of an average or representative base year to index changes in the chain volume of production?
- Q3. Do states support the reintroduction of the number of businesses as a driver of need for regulatory spending if it is material?

Will the net-zero transition drive increased business development spending in the future?

- 40 The net-zero transition may significantly affect employment, including in emissions intensive industries like mining and manufacturing. To support the development of green and low-emissions energy generation and industry and provide new employment opportunities including in regions most affected by the transition, states have announced a range of business development programs and funds including:
- Queensland's \$4.5 billion Renewable Energy and Hydrogen Jobs Fund
 - Western Australia's \$750 million Climate Action Fund
 - Victoria's \$1.6 billion clean energy package which consists of \$108 million linked to clean energy industry development¹
 - New South Wales' \$1 billion Net Zero industry and innovation fund, and its \$3 billion in the Hydrogen Strategy, which will provide support for the hydrogen industry.²
- 41 These and future net-zero initiatives could lead to an increase in business development spending in the coming years. However, it is uncertain whether:
- the announcements reflect an increase in assessed state spending, compared with an increase in unassessed spending (such as concessional loans)

¹ The State of Victoria Department of Environment, Land, Water and Planning, Victoria's climate Change Strategy, 2021, page 26

² NSW, Department of Planning, Industry and Environment, NSW Hydrogen Strategy, 2021, page 4.

- there is a conceptual case for a net-zero transition assessment within business development
 - there is an identifiable policy neutral driver for net-zero transition spending,
 - there is sufficient timely and reliable data to develop an assessment.
- 42 The Commission welcomes state views on the treatment of net-zero transition spending and whether there are any identifiable policy neutral drivers of state spending needs which can be used to assess net-zero spending.

Consultation questions

- Q4. Will states be able to identify spending on the net-zero transition and provide it to the Commission to develop an assessment?
- Q5. Can states identify and provide data on potential drivers of state spending on the net-zero transition?
- Q6. Do states expect there to be a sufficient increase in state net-zero transition spending to warrant a separate assessment, within or outside of the business development assessment?

Proposed assessment

Differences from the 2020 Review approach

- 43 Subject to comments from the states, the Commission proposes to replace industry total factor income with the chain volume measure of industry value added as the driver of need for spending on industry regulation. The Commission views this approach as appropriate because it reduces the impact of commodity price volatility on the distribution of regulation costs between states by tying regulation expenses to the changes in the volume of production.
- 44 The Commission also proposes to revisit the materiality of the number of businesses as a driver of need in the regulation assessments. If the number of businesses is shown to be material, and states support the reintroduction, the Commission proposes to reintroduce the number of businesses as a driver of state regulation spending.
- 45 Currently, the Commission does not propose to change the business development assessment from a deliberative equal per capita assessment, because of the lack of alternative drivers of need.
- 46 The Commission welcomes state views on the treatment of net-zero transition spending in the business development assessment. If there is a significant increase in spending, and there is evidence that state expenditure needs differ, the Commission may have to discuss with the states the appropriate assessment of this spending.

Proposed assessment structure

47 Table 7 shows the proposed structure of the services to industry assessment.

Table 7 Proposed assessment structure for services to industry

Component	Driver of need	Influence measured by driver of need	Change since 2020 Review?
Agriculture regulation	Economic environment	Recognises the cost of providing regulatory services to the agricultural sector is determined by the level of economic activity in the sector measured by volume of production	Yes
	Number of businesses	Recognises that the cost of providing regulatory services to the agriculture sector is determined by the number of regulated entities	Yes
	Wage costs	Recognises the differences in wage costs between states	No
	Regional costs	Recognises the higher cost of providing services in more remote areas	No
Mining regulation	Economic environment	Recognises the cost of providing regulatory services to the mining sector is determined by the level of economic activity in the sector measured by volume of production	Yes
	Number of businesses	Recognises that the cost of providing regulatory services to the mining sector is determined by the number of regulated entities	Yes
	Wage costs	Recognises the differences in wage costs between states	No
	Regional costs	Recognises the higher cost of providing services in more remote areas	No
Other Industries regulation	Economic environment	Recognises the cost of providing regulatory services to 'other industries' is determined by the level of economic activity in the sector measured by volume of production	Yes
	Number of businesses	Recognises that the cost of providing regulatory services to 'other industries' is determined by the number of regulated entities	Yes
	Population	Recognises that some regulatory functions such as consumer protection services target the total population rather than businesses or industries	No
	Wage costs	Recognises the differences in wage costs between states	No
	Regional costs	Recognises the higher cost of providing services in more remote areas	No
Business development	EPC	This is an equal per capita (EPC) assessment. The driver of these expenses is state population	No
	Wage costs	Recognises the differences in wage costs between states	No

New data requirements

48 The Commission will ask states to provide an update of their estimated expenditure on business development and regulation for agriculture, mining, and other industries. This will be used to re-estimate the regulation/development split used in the assessment.

49 Subject to state comments, the Commission may request data from the states to inform the development of a net-zero transition assessment, including:

- state expenditure on the net-zero transition
- drivers of state spending on the transition.

Consultation

50 The Commission welcomes state views on the consultation questions identified in this paper (outlined below) and the proposed assessment. State submissions should accord with the 2025 Review framework. States are welcome to raise other relevant issues with the Commission.

- Q1. Do states support replacing total factor income as measure of industry size with the chain volume measure of industry value-add to assess the need for spending on industry regulation?
- Q2. Do states support the development of an average or representative base year to index changes in the chain volume of production?
- Q3. Do states support the reintroduction of the number of businesses as a driver of need for regulatory spending if it is material?
- Q4. Will states be able to identify spending on the net-zero transition and provide it to the Commission to develop an assessment?
- Q5. Can states identify and provide data on potential drivers of state spending on the net-zero transition?
- Q6. Do states expect there to be a sufficient increase in state net-zero transition spending to warrant a separate assessment, within or outside of the business development assessment?