



**COMMONWEALTH GRANTS
COMMISSION 2021 UPDATE OF
GST REVENUE SHARING
RELATIVITIES**

***NEW ISSUES: COMMONWEALTH
PAYMENTS***

ACT Government submission

ACT GOVERNMENT SUBMISSION

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INTRODUCTION

Each year, the Commonwealth Grants Commission (CGC) conducts an annual Update of Goods and Services Tax (GST) Revenue Sharing Relativities (Update). These annual Updates determine the distribution of the GST grant between the states and territories in accordance with the principle of horizontal fiscal equalisation (HFE). As part of the Update process, CGC staff consult with the states and territories on any new Commonwealth payments to the states and territories that were introduced in the 12 months since the last Update and how the payments should be treated under HFE.

On 29 October 2020, the CGC issued Staff Discussion Paper CGC 2020-02-S, New Issues: Commonwealth Payments and requested comments from the states and territories by 20 November 2020. This outlines the CGC staff position on payments that have been introduced in 2019-20, and whether any payments introduced in 2020-21 should be backcast.

The ACT welcomes the opportunity to comment on the CGC staff proposed treatment of these Commonwealth payments. This response focuses only on those payments for which the ACT has a different view from the CGC on its proposed treatment.

COMMONWEALTH PAYMENTS

COVID-19 PUBLIC HEALTH RESPONSE

CGC staff have recommended that both the Commonwealth funding to state and territory public health services and private hospitals relating to COVID-19 be treated as no-impact for the purposes of HFE in the 2021 Update. CGC staff recommend these positions on the basis that funding to private hospitals are simply pass-throughs for the states and territories and that the drivers for funding to public health services may be influenced by factors not assessed in the CGC's Health assessment.

As outlined in the ACT's submission on CGC staff paper CGC 2020-01-S, New Issues for the 2021 Update, we consider that it is unlikely that the socio-demographic distribution of COVID-19 presentations will have differed significantly from the distribution of all hospital presentations. This suggests that the influence of COVID-19 factors which are not addressed in the Health assessment already are comparatively small. Australia's experience in 2019-20 does not suggest a large differential impact on Health expenditure between the states and territories due to COVID-19. We do acknowledge however that differences in the spread of COVID-19 presentations and related expenditure may be more prevalent in 2020-21 data, particularly given the Victorian outbreak.

Consequently, the ACT considers that the payments relating to state and territory public health services should be equalised, unless evidence of major differential effects on state and territory Health expenditure due to COVID-19 can be presented. The ACT, however, considers that this issue should be reviewed in the 2022 Update and supports the CGC staff proposal that funding to private hospitals be treated as no-impact.

ADULT MENTAL HEALTH CENTRES

CGC staff propose to treat Commonwealth funding to South Australia (SA) to establish an adult mental health centre in Adelaide as no-impact.

CGC staff recommend this treatment on the basis that while the payment supports the provision of state and territory services, other similar centres have been established in other jurisdictions through Commonwealth Own Purpose Expenditures (COPE) – only the centre in SA is being established under a National Partnership Agreement (NPA). CGC staff indicate that they intend not to assess the impact of the COPEs, thus, to maintain a consistent treatment of funding between jurisdictions, the funding to SA should be treated as no-impact.

In principle, the ACT supports the reasoning presented by CGC staff that the funding for adult mental health centres should be treated consistently across all jurisdictions. However, we do not agree with the proposed approach to treat all payments as no-impact. The ACT has in the past supported the inclusion of COPEs in the CGC's assessments where they impact on state and territory fiscal capacities, while acknowledging that data on COPE revenue can be difficult to source. As mental health services are state and territory functions, the ACT considers it appropriate to include these COPEs in the CGC's assessment of state and territory fiscal capacities. Consequently, a consistent treatment would mean that the funding to SA under the Adult Mental Health Centres NPA should be treated by inclusion.

The ACT considers that all funding relating to the development of adult mental health centres, whether by COPE or NPA, should be treated by inclusion in the 2021 Update.

LOCAL SCHOOLS COMMUNITY FUND

CGC staff have proposed that payments to the states and territories under the Local Schools Community Fund be treated as no impact in the 2021 Update. CGC staff recommend this treatment on the basis that the payments are pass-throughs from the Commonwealth to private schools. However, as shown by the Commonwealth Department of Education's data¹, approximately 36 per cent of funding under the Local Schools Community Fund was directed to government schools in 2019-20.

The ACT considers that the provision of funding to government schools by the Commonwealth reduces the funding level required from state own source revenue to provide a given level of service. Consequently, we consider that the funding under the Local Schools Community Fund that is related to projects for government schools should be treated by inclusion in the 2021 Update. However, the ACT supports the no-impact treatment for the funding to Catholic and private schools, in line with the methodology set by the 2020 Methodology Review of GST Revenue Sharing Relativities (2020 Review), which specifies that Commonwealth funding of non-government schools be excluded from the CGC's assessment of state and territory fiscal capacities.

NATIONAL INFECTION CONTROL TRAINING FUND

CGC staff have proposed that payments relating to the National Infection Control Training Fund (NICTF) be treated as no impact, as the drivers for expenditure on this program may be influenced by factors not assessed in the CGC's Post-secondary Education assessment.

The NICTF is a NPA which facilitates the provision of nationally accredited infection prevention and control skills across industry, with a particular focus on employees in sectors with high levels of customer interaction, such as retail, hospitality, and aged care. Training places are delivered through public and private Registered Training Organisations.

¹ <https://docs.education.gov.au/documents/local-schools-community-fund-2019-20-approved-projects>

The ACT considers that the training delivered under the NICTF is not likely to be appreciably different from courses delivered in any other priority training area. Further, no evidence has been presented that students in these training placements have substantially different socio-demographic characteristics to students in post-secondary education in general, or that any factors not considered in the Post-secondary Education assessment would result in a material differential impact in training needs across jurisdictions.

Consequently, the ACT considers that in the absence of any evidence indicating a material differential impact in the distribution of students in training places funded under the NICTF, the Commonwealth funding should be treated by inclusion for the 2021 Update.

DARWIN CITY DEAL

CGC staff have proposed that payments to the Northern Territory (NT) under the Darwin City Deal be treated as no-impact. CGC staff have made this recommendation on the basis that payments under the Darwin City Deal primarily relate to Charles Darwin University, which is a Commonwealth responsibility.

The ACT notes that the development of an Education and Community Precinct in the Darwin Central Business District is a major objective of the Darwin City Deal, which includes funding for site investigations, planning and design of the precinct. However, the establishment of the precinct will include several projects which are not directly related to Charles Darwin University. This includes the relocation of the NT Library and the development of an art gallery. Further, the establishment of the precinct includes the construction of a significant associated infrastructure, including new roads.

The ACT considers that the CGC should further investigate the Darwin City Deal and apply an inclusion treatment to those funds that are related to state and territory service delivery. The ACT considers that this would ensure payments under the Darwin City Deal are treated consistently with other city and regional infrastructure development agreements between the Commonwealth and the states and territories, including other City Deals.

LAUNCESTON CITY DEAL

As with the Darwin City Deal, CGC staff propose to treat payments made to Tasmania under the Launceston City Deal as no impact in the 2021 Update, on the grounds that the payments relate to the University of Tasmania and the provision of environmental services which are not differentially assessed under the methods established in the 2020 Review. Similarly, the ACT considers that this proposed treatment does not factor in projects in the agreement that involve the development of infrastructure that otherwise would be assessable. This includes the development of the Launceston Creative Precinct and the development of a new bus interchange. The ACT considers that the CGC should consider these uses of funds under the Launceston City Deal and apply an inclusion treatment to those related to areas of state and territory service delivery that are differentially assessed under the 2020 Review methodology.

COVID-19 LEGAL ASSISTANCE FUNDING

CGC staff propose to treat Commonwealth funding to the states and territories for COVID-19 legal assistance services on a no-impact basis. Similar to other COVID-19 related Commonwealth payments, CGC staff recommend this treatment on the basis that while the funding is in support of state and territory service delivery, the drivers of Commonwealth funding may be influenced by factors not captured in the CGC's Justice assessment.

Likewise, the ACT considers that there has been no clear evidence presented to indicate that any drivers that are not included in the CGC's assessments relating to COVID-19 would have a material differential impact on state and territory expenditure on legal assistance service delivery. The ACT also notes that the funding under this agreement is primarily targeted towards legal assistance in cases of domestic violence – with the terms of the Project Agreement for COVID-19 Legal Assistance Funding requiring that at least 40 per cent of frontline legal assistance funding under the agreement be allocated to domestic violence matters. As domestic violence is a criminal matter, this expenditure would relate to criminal court services, which are assessed differentially under the 2020 Review methodology.

Consistent with our views on other such payments, the ACT considers that in the absence of such evidence, this funding should be treated by inclusion in the 2021 Update.

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