



Australian Government

Commonwealth Grants Commission

2021 Update

New Issues for the 2021 Update

Staff Discussion Paper
CGC 2020-01-S

August 2020

Paper issued	24 August 2020
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Contents

Background	1
Response to the COVID-19 pandemic	1
Policy differences	1
Method changes	2
Revenue issues	2
Expense issues	4
Recommendations	7
Implementation of the new HFE arrangements for 2021-22	8
Giving effect to the new legislation	9
Presentation of results	10
New data for the non-admitted patient component	10
Background	10
Overview	11
Analysis	13
Summary and way forward	19
Recommendation	20
Revisions to stamp duty on conveyances and land tax data	20
Recommendations	21
Revised data in the wage costs assessment	21
Recommendations	22
Changes to the compilation of the adjusted budget	23
Recommendations	24
Assessing loans under natural disaster relief expenses	24
Recommendations	25

Background

- 1 In expectation that the Commission will receive terms of reference for a 2021 Update, this paper sets out new issues identified by Commission staff as relevant to the update. The Commission seeks State and Commonwealth treasuries' views on staff proposals.
- 2 In previous updates, the Commission has sent States a New issues paper around October, following the release of the Commonwealth's final budget outcome. To give States a greater opportunity to consider some of the new issues raised this year, the Commission is providing a first New issues paper earlier. A second new issues paper, considering the treatment of new Commonwealth payments, will be sent in October.
- 3 States are asked to provide comments and raise any other issues relevant to this update by Friday 2 October 2020. States should upload their submissions to the CGC Engagement channel in Microsoft Teams. State views on the treatment of Commonwealth payments will be required by late November. The contact officer for queries is Tim Carlton (Tim.Carlton@cgc.gov.au or 02 6218 5728).

Response to the COVID-19 pandemic

- 4 The COVID-19 pandemic, and Commonwealth and State government responses to it, have led to major changes to the Australian economy and society. These changes are continuing to evolve. An issue for the Commission is whether, and if so to what extent, these government responses have resulted in changes to State fiscal capacities that would not otherwise be recognised using the 2020 Review methods.
- 5 Note that, for the 2021 Update, the Commission is concerned only with COVID-19 related changes and their effect in 2019-20. Any effects after 30 June 2020 will be considered in future updates. State circumstances for the 36 months from July 2017 to June 2020 will contribute to this update, but only the last 4 of these months were significantly affected by COVID-19. This may mean that some effects may not be material in this update but may be in future updates, although the size and interstate distribution of pandemic effects in 2020-21 and beyond cannot yet be determined. Staff intend to recommend the Commission only consider issues currently known to be material and affecting 2019-20, not those which may potentially be material in future updates.
- 6 Any changes to the Commission's overall approach or methods in response to the pandemic are a matter for governments. In an update inquiry, the Commission has been historically constrained to applying the methods developed in its most recent review. Any changes to those methods the Commission may consider, to reflect the new and evolving situation, would require terms of reference (ToR) allowing the Commission to modify its 2020 Review methods.

Policy differences

- 7 The health and economic effects of COVID-19 and the reaction to it have affected different States to different extents. This reflects issues over which States have little or no policy control (such as their level of exposure to overseas travellers) as well as issues over which they have significant policy control (such as the extent to which they have enforced a lockdown or closed borders). This may lead to variation in the levels of economic activity of each State and in the health needs of each State's population.

- 8 While States did have significant policy control over the extent of their lockdown, this does not necessarily mean that there were significant policy differences between them. Staff have formed a tentative view that policy differences between States were relatively small up to 30 June 2020.
- 9 Staff observe that all States went into broadly similar levels of lockdown within a relatively short period of time. Under the National Cabinet, States agreed on 8 May to the 3-step framework for a COVIDSafe Australia, which details the steps for the opening up of social interactions and the economy. States have had discretion on how to implement the framework, which resulted in some States lifting restrictions sooner than others and more recently, variations in the restrictions imposed. Arguably this has been driven more by different circumstances between States than different risk appetite or policy intent of governments.
- 10 In the absence of a method for measuring the policy effects, staff consider that the actual level of economic activity and health services is the best available measure of the level of activity that would have occurred under a nationally consistent policy framework.

Method changes

- 11 Under ToR in recent updates, the Commission can only change methods from its latest review if “data problems necessitate changes” or there is “a significant change in arrangements which govern Commonwealth-State relations”. Staff consider it doubtful that such terms of reference would give the Commission scope to change methods in response to COVID-19.
- 12 In some cases, the effect COVID-19 has had on State fiscal circumstances is captured well by the 2020 Review methods, and they remain appropriate. In other cases, the effect of the COVID-19 pandemic on State fiscal capacities may not be captured by 2020 Review methods, which did not anticipate such an event. While it is not yet clear whether any COVID-19 specific disabilities are material or could be reliably measured, States may consider that horizontal fiscal equalisation (HFE) would be best served if ToR afforded the Commission the capacity to make such a change if it deems it necessary.
- 13 In this paper, staff foreshadow an intention to recommend the Commission make certain method changes to health and services to industry, subject to the changes being material. Such recommendations are subject to the ToR allowing the Commission to implement them. If no changes are made to ToR, staff anticipate the Commission would make no change to expense assessments but could make minor data adjustments to revenue assessments.
- 14 The following sections discuss the main revenue and expense issues identified by staff to date. When making submissions, States may wish to comment on other implications of COVID-19 for the Commission’s assessments.

Revenue issues

- 15 To a significant extent, differential effects on State revenue raising capacity due to the response to the COVID-19 pandemic will be captured (although not be able to be separately identified) through the existing revenue assessments. However, States’ responses to COVID-19 raise four revenue issues:
 - whether adjustments are required to revenue assessment methods
 - the appropriate treatment to apply to waivers

- the appropriate treatment to apply to deferrals
- the appropriate treatment to apply to JobKeeper payments.

Are adjustments required to revenue assessment methods?

- 16 The Commission makes adjustments to its revenue assessments when it accepts there are State policy differences that materially affect a State's revenue capacity measures. A COVID-19 adjustment could be considered for a revenue assessment if it was established that State policy responses to COVID-19 were different and those differences had materially affected economic activity and, in turn, a capacity measure used by the Commission to assess revenue capacity.
- 17 Commission staff consider that State policy responses in the assessment period have been broadly comparable. Any differences in the duration and level of lockdowns etc have primarily reflected differences in State circumstances, rather than differences in policy choice. Commission staff do not consider there have been material differences in States' approaches to COVID-19 from a revenue perspective. Even if differences in policy did result in material differences between States in revenue raising capacity, the Commission has no viable approach to adjusting for such differences.
- 18 Commission staff propose to recommend the Commission not make adjustments to revenue assessment methods. However, some data adjustments are necessary to ensure that data remain comparable.

The treatment to apply to waivers

- 19 States have announced decisions to waive, in whole or in part, tax liabilities for the 2019-20 year. These waivers will reduce the revenue collected and, therefore, the effective rate of tax for different revenue streams.
- 20 Commission staff propose to recommend to the Commission that it capture waivers as lower effective rates of tax.
- 21 However, some waivers may be processed as rebates (State spending). In such cases, it would be preferable to apply the same treatment to rebates as to waivers — that is, to apply the relevant revenue disabilities to the rebates. This could be achieved by offsetting the rebates against the relevant revenue category. The Commission will seek rebate data from States to determine whether it is material to offset rebates.
- 22 Commission staff propose to recommend to the Commission that it offset rebates against the relevant revenue category if it is material to do so.

The treatment to apply to deferrals

- 23 States have announced decisions to defer tax liabilities for the 2019-20 year. Deferrals do not affect the amount of revenue collected, only its timing. Deferrals could be assessed in the year they are collected or the year in which the tax liability arose.
- 24 It is possible States' assessed revenue capacities could be materially affected depending on which year deferrals are assessed. In these circumstances, it would be preferable to assess them in the year in which the liability arose. The Commission will seek deferral data from States to allow it to determine whether it is material to assess them in the year the liability arose.
- 25 Commission staff propose to recommend to the Commission that it assess deferred revenue in the year in which the liability arose if it is material to do so.

The treatment to apply to JobKeeper payments

- 26 JobKeeper payments are a fortnightly payment from the Commonwealth to eligible employers who must fully pass on the payments of \$1,500 to eligible employees.
- 27 Most States will exempt JobKeeper payments from payroll tax. However, New South Wales and Victoria will exempt 'top-up payments' only. Top-up payments are amounts above the employee's standard salary.
- 28 The Australian Bureau of Statistics (ABS) is classifying these payments as wages and salary, but it is unable to separate them from other wages and salaries. As the ABS is the Commission's data source, the Commission will be unable to identify and remove these payments. While this may inflate the payroll tax base, staff expect any impacts to be lessened for the following reasons:
- business eligibility requirements mean only a portion of businesses will be affected
 - many eligible businesses have a payroll below the average threshold and so will not be included in the base
 - New South Wales and Victoria, which appear to account for nearly two-thirds of JobKeeper payments, are not fully exempting JobKeeper payments.
- 29 Commission staff propose to recommend that, on practicality grounds, the Commission not attempt to remove JobKeeper payments from its payroll tax base.

Expense issues

- 30 States have announced new spending initiatives in response to COVID-19 in all expense categories. In some categories, service delivery arrangements changed significantly (for example school education was delivered remotely for many students for some period). Similarly, the socio-demographic profile of people targeted by police may have changed. For most categories, COVID-19 related spending is relatively small, and the drivers of need have not significantly changed. Generally, staff consider that applying the 2020 methods to the new and existing spending remains appropriate.
- 31 There are two categories (health and services to industry) where significant additional spending has been announced, and where there is a potential argument that COVID-19 may result in different needs from those assessed by the 2020 Review methods.

Health

State budgets

- 32 The National Partnership on COVID-19 Response (NPCR) puts in place a 50:50 cost-sharing arrangement (apart from the private hospital viability payment which is 100% Commonwealth funded) for specific COVID-19 related hospital and public health expenditure incurred after 21 January 2020. The agreement complements the National Health Reform Agreement (NHRA). The agreement requires States to report actual hospital and public health activity to the National Health Funding Body (NHFB) within 90 days of the end of the quarter.
- 33 The NHFB has advised that States incurred around \$1.7 billion in COVID-19 related expenses in 2019-20¹. Most of this spending has been on public health, including an estimated \$900

¹ Includes only those expenses within scope of the national partnership. States have announced COVID-19 related health spending of \$4 billion, although this spending is not restricted to 2019-20.

million on personal protective equipment (PPE). COVID-19 related admitted patient costs totalled around \$200 million.

- 34 Staff consider most new spending in 2019-20 will relate to the community and other health services component, such as public health expenses associated with responding to the pandemic and running health information campaigns, contact tracing and some testing services. New spending is also expected in the admitted patient and emergency department components, likely in proportion to the incidence of the virus in each State. The non-admitted patient component will capture spending on testing and other services performed in COVID-19 specific clinics.

Does the current assessment method capture COVID-19 related drivers?

- 35 The current assessment will capture the socio-demographic impact of COVID-19 on average, but not the differential incidence of the virus between States. The 2020 Review health assessments implicitly assume that a 70 year old, low SES, non-Indigenous person in Sydney has the same health needs as a comparable person in Perth, with the national average health needs related to all causes, including COVID-19. While this assumption is generally valid for most health conditions, it may not be valid for COVID-19. Through to 30 June 2020, New South Wales had 41% of cases, with only 32% of the population, and 31% of assessed health needs. This difference does not reflect the socio-demographic differences between States, but differences in their exposure to the virus.
- 36 The fact that the current assessment does not capture the differential incidence of COVID-19 is not necessarily a problem. To have a specific assessment for one geographically concentrated condition but not for a normal flu season, which may also have geographic concentrations, is not necessarily appropriate.
- 37 Adopting this view suggests that the health assessment should remain unchanged as responses to the pandemic would be reflected in a change in the activity (case mix) and any accompanying change in the socio-demographic profile of hospital users. For example, older people are much more likely to suffer serious effects from contracting COVID-19, and the assessment incorporates age as a disability.
- 38 Following the multilateral meeting with States on 29 July, staff consider that only one alternative approach to assessing COVID-19 specific disabilities could feasibly produce a material assessment. As such, this paper focuses consultation on the possibility of using actual NPCR expenses as the basis of an assessment.
- 39 While the NPCR would appear to provide a common policy framework for identifying COVID-19 related health expenses, which could be assessed on an actual per capita (APC) basis, staff are concerned that there may be some policy differences in the expenses States will be reporting to the NHFB, particularly for public health. It is not clear at this stage if the reported expenses will be sufficiently policy neutral to form the basis for an assessment of COVID-19 related expenses.
- 40 Some of the spending under the NPCR for PPE, or bringing forward elective surgery to March 2020, has potential benefits outside of the COVID-19 crisis, and a State with high levels of such spending may have lower needs for such spending in future periods. The accounting treatment of these expenses may affect the Commission's decision on whether NPCR spending is sufficiently policy neutral (for example, whether PPE expenses are accounted for in the period they are purchased, or the period they are used). The NHFB advises that it is still considering whether PPE expenses will be recognised on a consumption or purchase basis. Recognising the expenses on a consumption basis would be more policy neutral.

Conclusions

- 41 Staff consider that the Commission has two possible approaches to assessing health during the COVID-19 crisis:
- continue with the 2020 Review methods for all health expenditure
 - assess COVID-19 related expenses APC based on a nationally consistent framework for reporting eligible expenses, similar to the natural disaster relief expenses assessment. The expenses reported by States to the NHFB under the NPCR may provide the data required for such an assessment.
- 42 The choice between these options would be guided by consideration of the Commission's principles including policy neutrality and practicality.
- Retaining the 2020 Review methods for all health expenditure would not recognise the differential incidence of COVID-19 between States. This will not be an issue if the level of additional spending on COVID-19 patients is relatively small. This approach is valid if the health assessment disabilities sufficiently capture COVID-19 related activity (for example, older people are significantly more susceptible to adverse COVID-19 reactions and the existing assessment includes an age disability).
 - Assessing COVID-19 expenses APC based on the NPCR would recognise that the incidence of COVID-19 may be influenced by factors outside the health assessment, such as population density, or the effectively random location of COVID-19 outbreaks. However, it is likely that even this would be incomplete as States may have some COVID-19 related spending that does not meet the NPCR criteria. Some States may not consider spending under the NPCR to be sufficiently policy neutral.
 - As the pandemic is changing rapidly, the Commission's decisions on this issue for the 2021 Update may not be the most appropriate decisions in future updates.
- 43 On balance, staff consider that for the 2021 Update, the APC assessment would be more consistent with HFE, if this assessment is material and the data are considered reliable. Staff intend to seek information from the NHFB on whether the NPCR expenses are considered reliable and comparable. States are invited to comment on this issue.

Services to industry

State budgets

- 44 States have announced new spending measures of around \$4.7 billion² to support businesses and industries, compared to the category spend of \$5.2 billion in 2018-19. However, it is not clear that all of this announced spending represents new additional spending in the 2019-20 financial year that would be classified as expenses in government finance statistics.³ However, it indicates that the magnitude of spending in this category could increase significantly.

Does the current assessment method capture COVID-19 related drivers?

- 45 The services to industry category includes State spending on the regulation and development of businesses and industries. The Commission uses Government Financial Statistics (GFS) and State data collected during the 2020 Review to estimate business development expenses

² State spending announcements compiled by the Board of Treasurers

³ Some announcements may refer to the value of interest-free or low-interest loans to business, rather than the cost to government of providing such loans.

targeting agriculture, mining and other industries. This facilitates separate assessments of regulation and business development expenses.

- 46 The splits between regulation and business development expenses for each broad industry group that were calculated in the 2020 Review were intended to be fixed, being 53% regulation/47% business development for other industries, 80%/20% for mining and 50%/50% for agriculture.
- 47 Most COVID-19 spending is expected to relate to other industry business development (mainly job creation programs and grants to businesses and households). Therefore, the regulation/business development split for other industries may not be appropriate for 2019-20 and future years. Recalculating the split between sub-components would involve indexing 2018-19 business regulation expenses.⁴ Any other growth in other industry expenses would be assessed as part of the business development sub-component.
- 48 Changing the split would constitute a method change, and may need to occur on an annual basis, at least for the duration of the pandemic. Preliminary staff calculations indicate that recalculating the splits is unlikely to be material in the 2021 Update, but final data have not yet been received.
- 49 Staff propose to test the materiality of re-estimating the regulation/business development split for other industries when State budget data becomes available later this year. If the change in the redistribution resulting from the revised split is material, staff propose to recommend that, subject to terms of reference, the Commission adopt the revised split for the 2021 Update.
- 50 In 2019-20, some States may have been more affected than others by the COVID-19 economic shock. There may be an argument that this could warrant a differential assessment of business development expenses. However, in the past, the Commission has not been able to identify any basis for a differential assessment of business development expenses. Some States have argued that the presence of certain industries in their economy represents a need to support those industries, while other States argue that having a weak economy is the disability that drives the need for business development spending. Conversely, some States argue that the presence of a strong and well-established industry drives the need for spending. Despite States having different economic structures, and different rates of growth, previous Commissions have not identified an appropriate differential assessment for business development expenses. While the scale of the COVID-19 response to the decline in economic activity is likely to be large by historical standards, staff do not consider that it has any unique features that warrant a change to the Commission's approach to the assessment of business development expenses.

Recommendations

Staff propose to recommend that, subject to Update terms of reference, the Commission:

- make adjustments to revenue datasets to ensure comparability, if such adjustments are material:
 - offset rebates against the relevant revenue category
 - assess deferred revenue in the year in which the liability arose

⁴ Options for indexing businesses regulation expenses include growth in total State spending or the national accounts general government implicit price deflator.

- not attempt to remove JobKeeper payments from its payroll tax base on practicality grounds
- assess COVID-19 health expenses from the NPCR on an APC basis, if it is material and reliable to do so
- use State budget data to recalculate the split between regulation and business development for other industries and adopt the revised split if it is material to do so for the 2021 Update
- not introduce a differential assessment of business development expenses due to the COVID-19 induced economic shock.

Implementation of the new HFE arrangements for 2021-22

- 51 The Commission outlined its preliminary understanding of the requirements for its future work in relation to the Commonwealth's new equalisation arrangements enacted in the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018*, in Volume 2, Part A, Chapter 4 of its final 2020 methodology review report.
- 52 The elements to the changes to the distribution of general revenue assistance grants are shown in Table 1 below.

Table 1 Changes to the distribution of general revenue assistance grants

	Inquiry	R2020	U2021	U2022	U2023	U2024	U2025	U2026
Application year		2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Relativities transition								
Relative fiscal capacities (a)		6/6ths	5/6ths	4/6ths	3/6ths	2/6ths	1/6th	0/6ths
Standard State capacities (b)		0/6ths	1/6th	2/6ths	3/6ths	4/6ths	5/6ths	6/6ths
Relativity floor (c)		External	External	0.70	0.70	0.75	0.75	0.75
Grant pool								
GST revenue		Yes	Yes	Yes	Yes	Yes	Yes	Yes
New pool top-up (d)		No	\$600m	No	No	\$250m	No	No
Indexation of top-up (e)		No	No	Yes	Yes	Yes	Yes	Yes

- (a) Relative fiscal capacities refers to the previous arrangements, or applying a full equalisation standard.
- (b) Standard State capacities refers to the new arrangements, or equalising to the stronger of New South Wales and Victoria.
- (c) Commonwealth funding external to the GST pool (if required) will ensure in 2020-21 and 2021-22 Western Australia's grant share is equivalent to a relativity of 0.7 and the Northern Territory's grant share equivalent to a relativity of 4.66. From 2022-23, the floor will be funded from the expanded pool.
- (d) New pool top-ups represent ongoing top-ups to the general revenue assistance grant pool.
- (e) Once commenced, pool top-ups are indexed by the growth in GST revenue.

- 53 From Table 1, it can be seen that the changes for the 2021 Update inquiry are that the recommended relativities for use in distributing general revenue assistance grants for 2021-22 will be a 5/6ths to 1/6th blend of the previous and new arrangements, with the grants being a pool comprising GST revenue along with a \$600 million top-up (boost) payment.
- 54 The relativity floor will be funded by the Commonwealth from outside the grant pool and need not be considered further in this inquiry.

Giving effect to the new legislation

- 55 In preparing its recommended GST revenue sharing relativities for 2021-22, and subject to terms of reference from the Treasurer, the Commission proposes to do the following:
- measure State relative fiscal capacities (as per the previous arrangements)
 - from these relative fiscal capacity measures, derive the corresponding standard State capacities (new arrangements)
 - blend the previous and new fiscal capacity measures as prescribed in the legislation.

Previous arrangements

- 56 In the 2021 Update inquiry, subject to terms of reference, the Commission will continue to calculate State relative fiscal capacities using the methodology adopted in the 2020 Review, including averaging over three assessment years. The Commission indicated in its 2020 Review report that it did not propose to backcast the application year top-up payment (as suggested by Western Australia), despite the assessment years for this inquiry not including such payments. The Commission's view was that a 0.8% increase in the pool size is unlikely to be sufficiently large to have a distorting effect on the grant distributions. Annual growth in the GST revenue can vary by more than this and the Commission's decisions on recommended relativities are not currently subject to expected growth rates in the GST pool.⁵
- 57 Further, the Commission said in its report that it would only undertake backcasting where it could be done reliably.⁶ Staff consider there are practical difficulties in attempting to backcast the top-up payment that mean backcasting cannot be done reliably. First, there are issues with what amount to backcast (either fixed dollar amount or proportion of the pool), while secondly, if the Commission could decide on an amount of top-up payment to backcast to the assessment years, it would then have no way to reliably allocate this amount across State spending categories. It is likely that the Commission would assume that the spending of the boost is in the same proportion to existing spending across categories.
- 58 Section 5 of the amended *Federal Financial Relation Act 2009* specifies the criteria for determining whether the 'no worse off' provisions will be triggered. It states that the 'no worse off' comparison over the transitional years be made on the basis of a comparison between the grants received by a State under the legislated changes and those it would have received if the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018* had not been enacted.
- 59 As the assessment years do not include any top-ups, the relative fiscal capacities calculated by the Commission under the previous arrangements will also represent the relativities associated with the 'no worse off' provision.

New arrangements

- 60 The Commission will use its relative fiscal capacity measures based on the 2020 Review methods to identify the fiscally stronger State as between New South Wales and Victoria (the standard State). Having identified the standard State in an assessment year, the Commission will then derive the corresponding standard State capacities for that assessment year by:

⁵ For example, from 2014-15 to 2015-16, GST revenue grew by 5.5%, while growth reduced to 4.3% from 2015-16 to 2016-17, before returning to 5.5% in the following year.

⁶ See CGC, *Report on GST Revenue Sharing Relativities 2020 Review*, Volume 2, Part A, Chapter 2, pp 128-131.

- bringing States fiscally weaker than the standard State to the capacity of the standard State⁷
- allocating the remainder of the GST revenue pool on an equal per capita (EPC) basis across all States
- dividing the resulting GST distributions by an EPC distribution.

61 The Commission would derive standard State capacities from the same pool and population estimates used to calculate the associated relative fiscal capacities.⁸ In the same way that the relative fiscal capacities are the average of three assessment years, the standard State capacities would similarly be calculated over the average of three assessment years.

Blending

62 Subsection 16AB(3) of the amended *Commonwealth Grants Commission Act 1973* includes a schedule which specifies the proportions of the previous and new arrangements to be blended over the transition years 2021-22 to 2025-26 to derive the GST revenue sharing relativities for those years. This schedule is shown in Table 4A-1 of Volume 1 of the 2020 Review report. For the 2021 Update the blend will be 5/6ths to 1/6th of the previous and new arrangements.

Presentation of results

63 Additional tables would be added in the initial chapter of future inquiry reports to:

- show the capacities derived under both the previous and new arrangements, how those were blended during the transition years, any floor adjustments if required, and hence the recommended relativities to be used in distributing the general revenue assistance grant pool
- describe the contribution of each of the change in fiscal capacities, transition blending and floor adjustment, to the change in the grant pool distribution due to the change in relativities from the previous inquiry.

64 Inquiry report chapters addressing changes since the previous inquiry, including the State specific main changes tables, would remain unchanged. They would continue to show the disabilities having the largest effects on State fiscal capacities, in application year dollars.

65 The relativities associated with the 'no worse off' provision would be shown separately.

66 The Commonwealth and the States are welcome to provide any feedback on the Commission's proposed presentation approach.

New data for the non-admitted patient component

Background

67 The Commission's health assessment mainly relies on data from the Independent Hospital Pricing Authority (IHPA). The admitted patient (AP) and emergency department (ED)

⁷ It is conceivable that the standard State will vary between New South Wales and Victoria from assessment year to assessment year.

⁸ This approach differs slightly from that adopted by the Productivity Commission and the Australian Treasury. In their modelling, they derived standard State relativities using application year estimates of the GST pool and State populations. If standard State relativities are based on application year pools and populations, then the calculation of standard State relativities could differ, most likely only slightly, depending on the estimates used. The Commission's approach avoids the question of which application year pool and population estimates to use in the calculations.

components use IHPA's national weighted activity unit (NWAU) data for the assessment of AP and ED expenses, respectively. However, up to and including the 2020 Review, the Commission did not use IHPA's non-admitted patient (NAP) NWAU data for the assessment of NAP expenses because the data were not reliable. Instead the assessment used admitted patient separations as a proxy indicator to measure NAP service use. Regional cost and service delivery scale adjustments, derived using ED activity, were applied to admitted patient separations to measure the cost weighted use of NAP services.

- 68 For the 2020 Review, the Commission considered using NAP NWAU as the coverage of the data is improving. Advice from IHPA indicated it would be best to wait until 2018-19 data became available before considering using it in the assessment. The timing of release of 2018-19 data did not allow staff enough time to assess the quality of the data and to consult with States before the conclusion of the review. Therefore, the Commission continued to use admitted patient separations as a proxy indicator, but in its report foreshadowed that during 2020, the Commission will review the 2018-19 NAP NWAU data and consult with States on whether to use it in the 2021 Update and in subsequent updates.
- 69 2018-19 IHPA data on NAP became available in mid-2020. Staff have now analysed the coverage and quality of the NAP data and compared these with data on other hospital services and the proxy indicator.

Overview

- 70 Non-admitted care includes services provided to patients who do not undergo a formal admission process and do not occupy a hospital bed. Compared to other hospital services, NAP have the greatest number of episodes of service and the lowest cost per episode. Table 2 provides information on types of NAP services and costs.

Table 2 Types of non-admitted patient services, 2017-18

Tier 2 classification		Service events	Average cost per service event
		000	\$
Procedures	Clinics with health care professionals which provide procedural based health services — includes treatment related to chemotherapy, renal dialysis, radiation therapy	1,359	601
Medical consultations	Clinics in which medical consultation typically provided by a medical or nurse practitioner — includes treatment related to ophthalmology, orthopaedics, and obstetrics	9,616	366
Diagnostic services	Clinics that provide diagnostic services as inputs to the healthcare services of other non-admitted clinics — includes pathology, mammography screening	253	394
Allied health and/or clinical nurse specialist intervention	Clinics where allied health personnel and/or clinical nurse specialists provide majority of services — includes midwifery, physiotherapy, and primary health care	9,760	223
Total		21,530	317

Source: [Round 22 NHDC Cost Report infographics, non-admitted care](#), IHPA.

- 71 The IHPA calculates NWAU data for NAP service events in-scope (i.e. eligible) for Commonwealth funding.^{9,10} Potentially, NWAU data provide a good indicator of service use as these reflect both usage and costs (see Box 1).
- 72 IHPA receives two types of NAP NWAU data from the States:
- aggregate activity data
 - patient/episode level data that include information on patient characteristics.
- 73 The Australian Institute of Health and Welfare also has data on NAP but these only cover service events, not costs, and have a different scope.

Box 1 Key terms in measuring and pricing of hospital services

National weighted activity unit (NWAU). IHPA costs all hospital activity in Australia and expresses these costs as NWAUs. An NWAU is a measure of health service activity expressed as a common unit. The average hospital service across Australia is worth one NWAU. To identify the cost of each procedure, IHPA applies price weights and various adjustments. More complex, expensive and lengthy activities are worth multiple NWAUs while simpler, less expensive activities are worth fractions of an NWAU.

The NWAU provides a way to compare and value each public hospital activity by weighting for clinical complexity. The NWAU data reflect the costs of providing different procedures and other factors (for example, remoteness of the patient's address, Indigenous status and specific treatments such as radiotherapy and dialysis)¹¹ that affect the overall cost of each hospital service. It covers the activity of both ABF hospitals and BF hospitals, with the latter tending to be small and more remote.

Activity based funding (ABF) is a method of funding health services where hospitals are paid for the number and complexity of patients they treat.

Block funding (BF) is a method of funding health services for which activity based funding is not applicable due to low volumes, the absence of economies of scale or the inability to satisfy the technical requirements of activity based funding. Block funding is typically applied to smaller rural and regional hospitals or for teaching, training and research in public hospitals.

The key difference between ABF and BF models is that the ABF model calculates an efficient price per episode of care, while the block funded model calculates an efficient cost for the hospital. The annual [National Efficient Price](#) and [National Efficient Cost](#) provide baseline references to determine the amount of Commonwealth funding for public hospitals.

- 74 Table 3 summarises the patient and hospital remoteness adjustments embodied in IHPA's NWAU data for AP, ED and NAP services since 2014-15.
- Before 2018-19, only admitted patient NWAU data included a remoteness adjustment for patient's residence, to reflect the fact that more remote patients are more expensive to service on average.

⁹ Independent Hospital Pricing Authority, 2019, [General List of In-Scope Public Hospital Services Eligibility Policy Version 5.0](#), pp 10-11.

¹⁰ A staff analysis of GFS expenses on outpatients used for the ED and NAP assessments indicates that the NAP GFS data are consistent with IHPA expenditure on in-scope service events.

¹¹ See AP price formula in IHPA [National Pricing Model Technical Specifications 2020-21](#), pp 19-20.

- In 2018-19, IHPA added a new adjustment to reflect the additional costs in delivering admitted patient services when the hospital providing the service is located in remote and very remote regions. IHPA also introduced a remoteness adjustment for patient's residence for ED NWAU.
- For 2019-20, ED NWAU will also include a remoteness adjustment for ED services in hospitals located in remote and very remote regions. The remoteness adjustments that apply to AP will also apply to NAP from 2019-20 onwards.

Table 3 IHPA remoteness adjustments

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
AP	By patient address						
	Outer regional	7	8	8	8	8	8
	Remote	15	16	18	20	25	27
	Very remote	21	22	23	25	29	30
	By hospital address						
	Remote				8	8	7
	Very remote				12	10	14
ED	By patient address						
	Remote / Very remote				22	24	25
	By hospital address						
	Remote / Very remote					5	6
NAP	By patient address						
	Outer regional					8	8
	Remote					27	27
	Very remote					29	30
	By hospital address						
	Remote					8	7
	Very remote					10	14

Note: In 2018-19 IHPA introduced remoteness adjustments for AP services by hospital address, and for ED services by patient address. In 2019-20 remoteness adjustments for ED services by patient address also were introduced.

Source: National Efficient Price Determination 2015-16 to 2020-21, Independent Health Pricing Authority. See the IHPA website (<https://www.ihsa.gov.au/>).

Analysis

Coverage

- 75 Coverage refers to the proportion of aggregate activity data reported at the patient level. It is an indicator of how comprehensive or representative the available patient level data is of total service use. The higher the proportion of aggregate data with patient level details, the more comprehensive the basis of the Commission's socio-demographic composition assessment.
- 76 Table 4 presents NAP and ED aggregates on coverage based on NWAU. The table also provides a breakdown by funding type, where ABF is activity base funded and BF is block funded hospitals/services (see Box 1 for more information about NWAU and ABF/BF).
- 77 The coverage rate for NAP (86%) is below that for ED (97%) but is nevertheless an acceptable level. IHPA is working towards increased patient level reporting and started phasing out

aggregate level reporting in 2019, so coverage is anticipated to continue to improve in future years.

Table 4 Coverage of non-admitted patient and emergency department NWAU data, 2018-19

	NAP		ED		Coverage	
	Aggregate 000	Patient level 000	Aggregate 000	Patient level 000	NAP %	ED %
ABF	1,323	1,142	1,062	1,054	86	99
BF	37	23	82	60	64	74
Unknown	2	2	2	2	77	99
Total	1,361	1,167	1,146	1,115	86	97

Source: Staff calculation on unpublished IHPA data.

78 NAP ABF activity have higher coverage (86%) relative to BF activity (64%), but BF activity represents only a very small proportion (3%) of NAP NWAU. The same pattern is found for ED but at higher levels. Most ABF activity (89%) is in major cities/inner regional areas, while 69% of BF activity is in outer regional/remote areas. Therefore, patient level NAP NWAU coverage is higher in major cities/inner regional areas.

79 To compensate for lower coverage and ensure that there is no urban bias in the NAP data, staff can scale up the patient level NWAU to match aggregate NWAU. Specifically, where there is no patient level data (predominantly in block funded hospitals), staff allocate the user profile of hospitals in the same remoteness region and with the same funding type. This is the method the Commission uses for ED data when coverage is less than 100%.

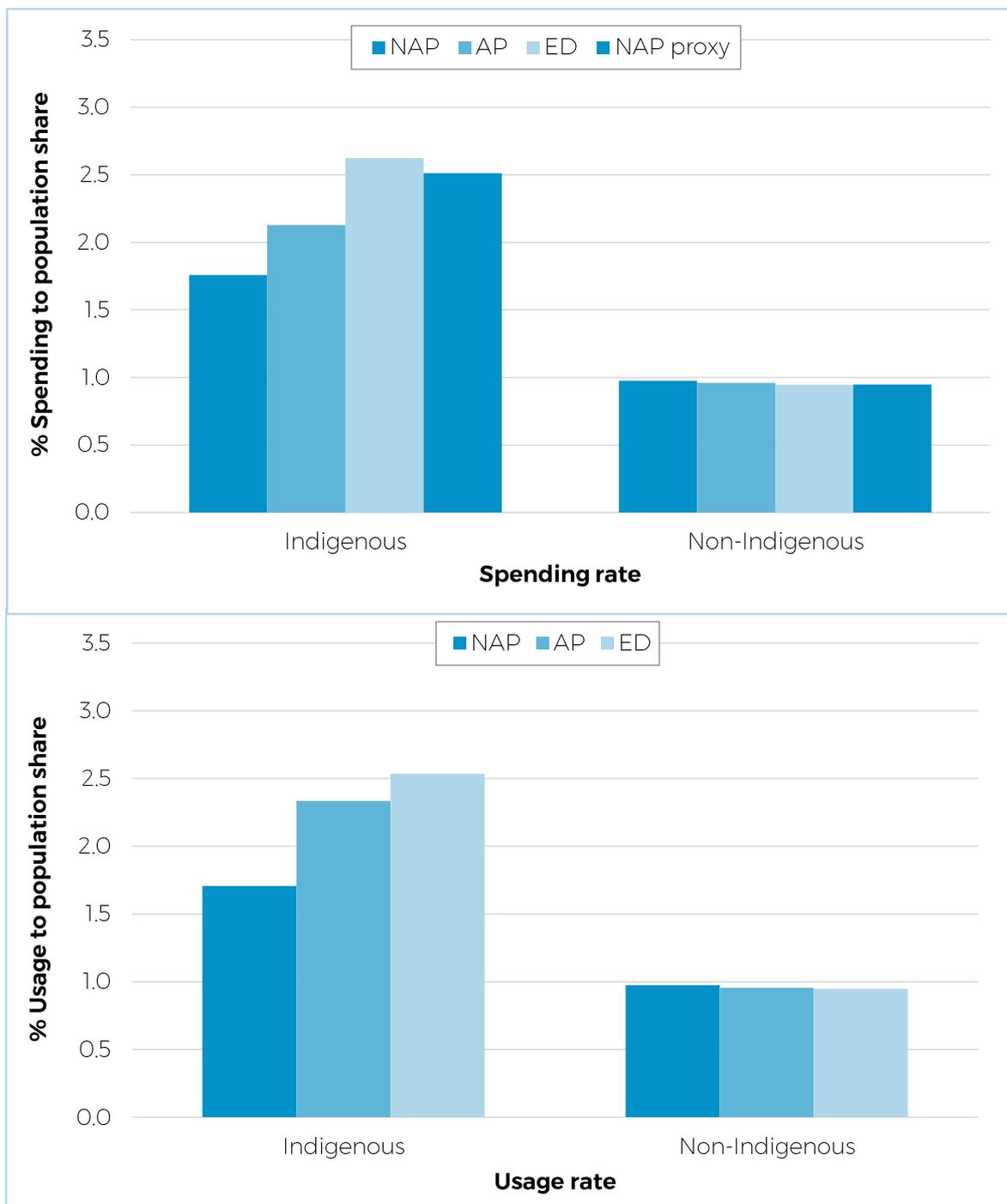
Comparison with AP and ED

80 The charts below compare NAP spending based on NWAU with spending for AP and ED.

81 Figure 1 shows NAP per capita spending rates compared to AP and ED and the NAP proxy indicator. It shows that as with other hospital services, NAP per capita spending varies significantly for Indigenous and non-Indigenous people. NAP spending on Indigenous people is almost twice that of non-Indigenous people, although slightly lower compared with other hospital services.

82 The bottom panel of Figure 1 shows per capita usage rates for NAP, AP and ED based on in-scope separations. The usage rates follow the same pattern as spending rates, with NAP per capita usage for Indigenous people being lower than their usage of AP and ED services.

Figure 1 Spending per capita by Indigenous status, 2018-19

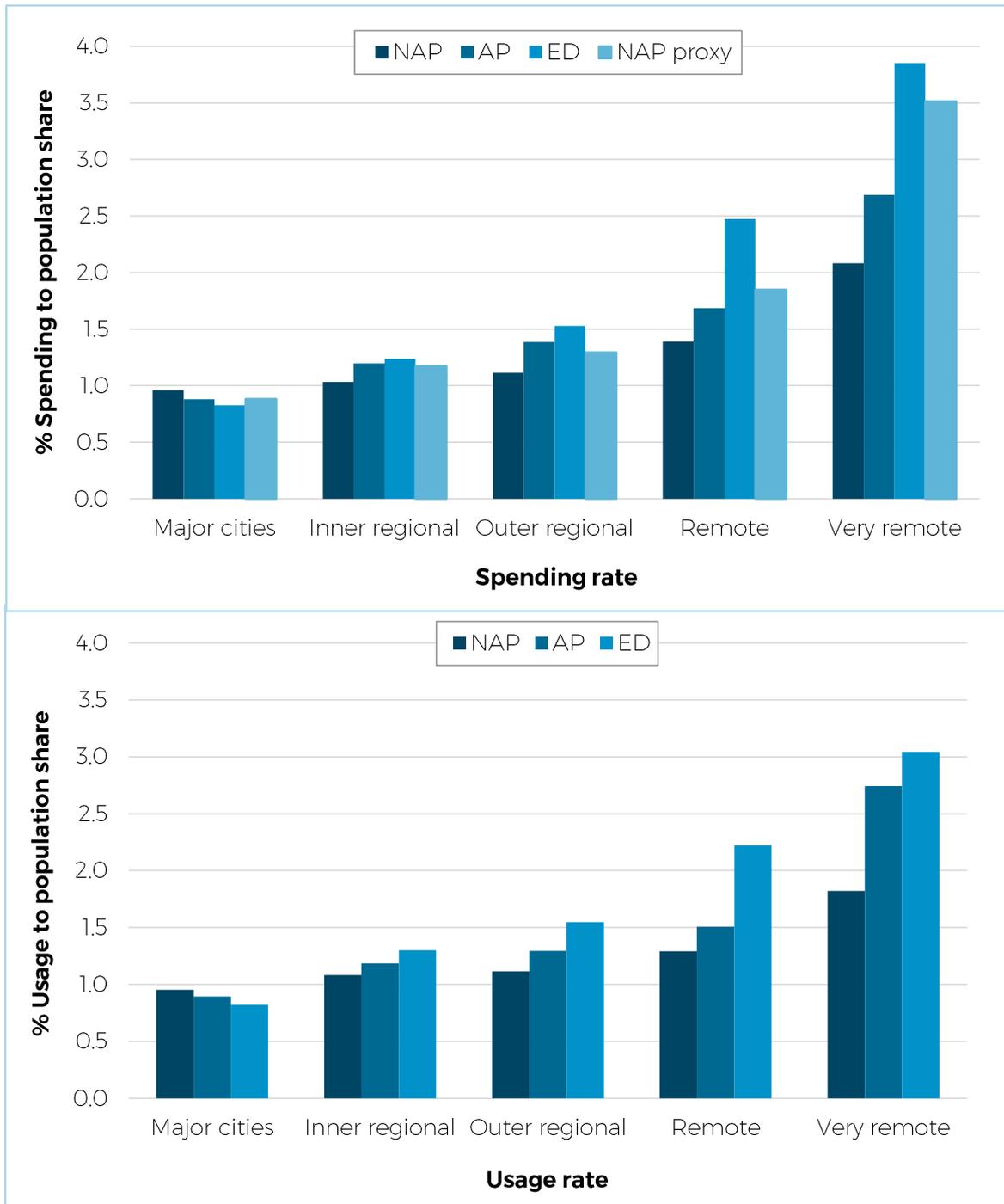


Notes: Relative per capita spending is calculated by dividing the share of spending attributed to each group by their share of total population.
 Relative per capita usage is calculated by dividing the share of in-scope separations by their population share.
 Values greater than one mean that spending on or usage of health services is greater than the relevant groups' share of total population.

Source: Staff calculation using unpublished IHPA data and population data.

83 Figure 2 shows spending and usage rates by remoteness based on patient residence. As with other hospital services, NAP spending increases with increasing levels of remoteness. However, NAP spending and use rates are slightly lower in regional and remote areas, and much lower in very remote areas, compared with AP and ED.

Figure 2 Spending per capita by patient remoteness, 2018-19



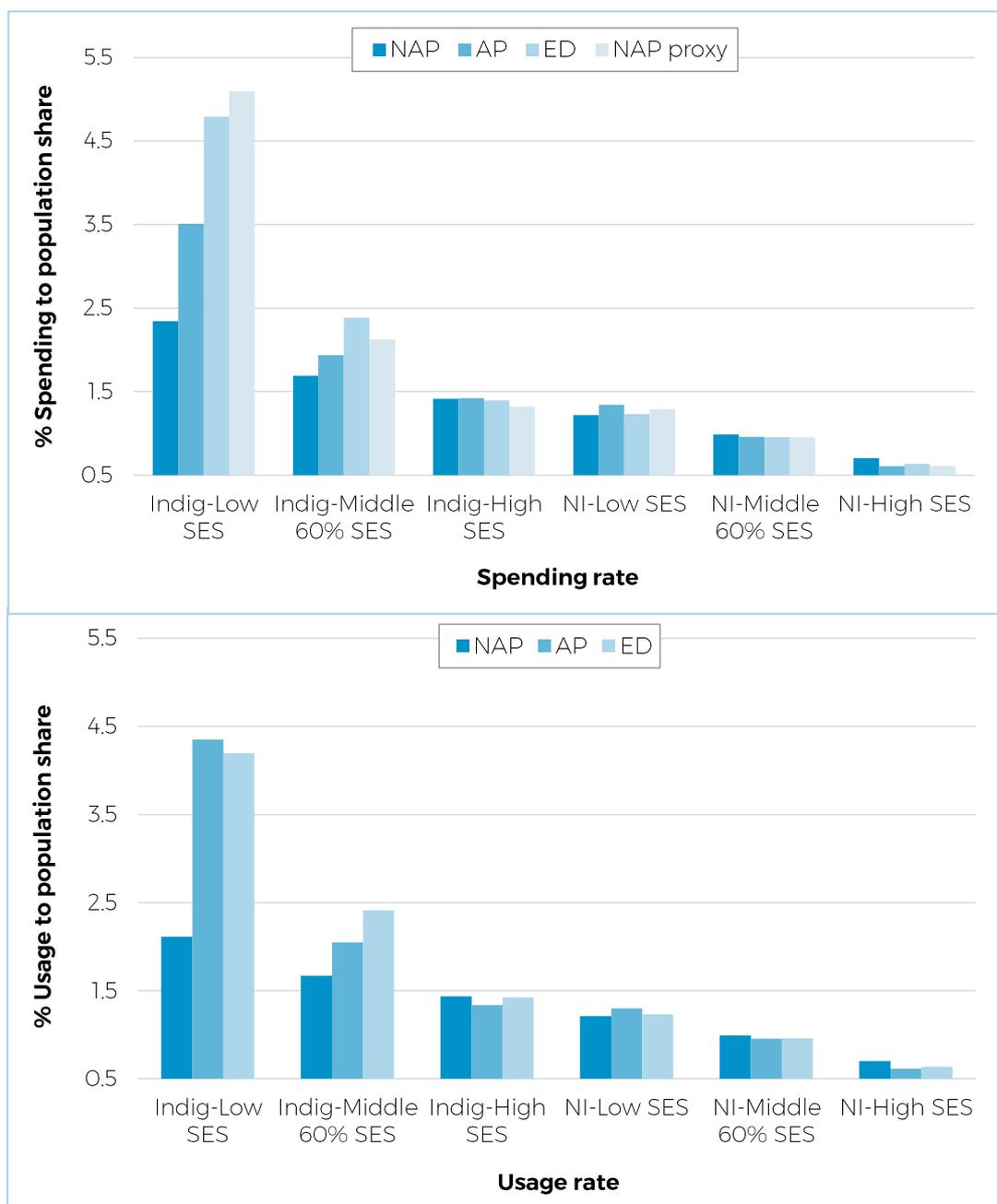
Notes: Spending for NAP, AP and ED include adjustments to capture service delivery scale (SDS) costs not reflected in original BF NWAU. AP and ED NWAU and the NAP proxy indicator include remoteness adjustments. NAP NWAU do not include any remoteness adjustments for 2018-19 but will from 2019-20 onwards. The same remoteness adjustments applied to AP will apply to NAP NWAU from 2019-20 onwards.

Source: See Figure 1.

84 The spending rates in major cities and inner/outer regional areas are about the same level as usage rates. On the other hand, spending rates in remote and very remote areas are above usage rates reflecting the remoteness adjustments included in AP and ED (but not NAP NWAU for 2018-19), as well as the service delivery scale (SDS) adjustments applied to hospital services in more remote areas.

- 85 Staff attribute the relatively lower NAP usage and spending in very remote regions to limited availability of NAP services where people live, particularly specialist and certain allied health services. The NAP services generally available in remote areas are those that require a lower skill set and cost less. While the usage rates include patients in remote areas travelling to access hospital services that are available elsewhere, it is more likely that patients will only travel when their condition becomes more urgent/essential and they are therefore more likely to access AP rather than NAP services.
- 86 The relatively lower NAP usage and spending (relative to AP and ED) for Indigenous people in Figure 1 is consistent with lower usage and spending in regional and remote areas in Figure 2 as Indigenous people comprise a relatively greater proportion of the population in regional and remote areas compared to major cities.
- 87 Figure 3 shows spending and usage rates by Indigenous status and socio-economic status (SES). As with other hospital services, NAP per capita spending varies inversely with SES. The pattern is the same for both Indigenous and non-Indigenous people, but more extreme for the former. NAP spending is lower for low SES people (particularly low SES Indigenous people) relative to AP and ED. This is mainly due to lower usage but differences in costs also contribute.

Figure 3 Spending per capita by SES and Indigenous status, 2018-19



Source: See Figure 1.

Comparison with the NAP proxy indicator

- 88 The comparison of spending and usage based on NAP NWAU and the proxy indicator used in the 2020 Review are also found in Figure 1, Figure 2 and Figure 3.
- 89 With the availability of actual data on NAP NWAU, it is now apparent that the proxy indicator overestimated NAP spending. NAP spending based on NWAU are generally lower for Indigenous people, people outside major cities, and low SES people. The difference in level of spending based on NWAU and the proxy indicator is due to two factors, with the magnitude of overspending being almost evenly split between the two:
- the proxy indicator was based on AP usage rates, that are higher than NAP usage rates for these socio-demographic groups
 - remoteness adjustments had been applied to the proxy indicator but not to NAP NWAU.

- 90 As shown in Table 3, NAP NWAU do not explicitly include any remoteness adjustments for 2018-19 but will from 2019-20 onwards. In recent updates, the Commission did not augment NWAU data for AP and ED¹² following the introduction by IHPA of new remoteness adjustments in more recent assessment years. This was on the basis that IHPA is the expert in the field and therefore best placed to quantify the cost of hospital services. The same principle should apply if NAP NWAU data instead of the proxy are used in the 2021 Update. While this will mean spending in remote areas for high cost groups may be understated in the 2021 Update, it will partially offset the overestimation of spending in recent updates. In the 2022 Update the 2019-20 NAP NWAU data with remoteness adjustments will be used for two of the three assessment years.
- 91 If the 2018-19 NAP NWAU data are used for all assessment years in the 2021 Update, this will have a material impact for Tasmania, the ACT and the Northern Territory (Table 5).¹³

Table 5 Estimated GST impact of using non-admitted patient NWAU data, 2018-19

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
NAP NWAU (\$m)	1,760	1,384	1,131	574	416	127	79	66	5,535
NAP proxy (\$m)	1,735	1,336	1,150	576	418	143	70	108	5,535
Difference (\$m)	25	48	-19	-2	-2	-17	9	-42	0
Difference (\$pc)	3	7	-4	-1	-1	-31	22	-172	0

Note: This shows the effect on the GST distribution in the 2018-19 assessment year. Values are assessed expenses calculated using NAP NWAU or the proxy indicator.

Source: Staff calculation using ABS population, Government Financial Statistics (GFS) expenses and unpublished IHPA data.

Summary and way forward

- 92 The 2018-19 NAP NWAU data are reasonably comprehensive. The coverage at 86% is moderately high. Moreover, adjustments can be applied to compensate for the incomplete coverage but ensuring that no urban bias is introduced, which has been the approach to ED data from the 2015 Review to the present.
- 93 The comparison of NAP spending with AP and ED showed good similarity in overall patterns — the population groups that are high cost for AP and ED services are also high cost for NAP services. This provides a measure of confidence in the reliability of the NAP NWAU data. The level of NAP spending is lower due to lower usage by high-cost groups — Indigenous people, people outside major cities and low SES people. This is mainly attributed to the lack of NAP services where people live, and the nature of demand for AP and ED relative to NAP services.
- 94 The comparison of NAP NWAU with the proxy indicator showed that the latter, being based on AP separations, considerably overestimates NAP spending due to the lower usage rates for NAP compared to AP for high-cost groups and the application of remoteness adjustments to the proxy indicator.
- 95 In conclusion, given the relative comprehensiveness and reliability of the NAP NWAU data and the large difference between spending based on NAP NWAU and the proxy indicator, staff propose to recommend that the Commission shift to using NAP NWAU for the 2021 Update and subsequent inquiries, to be used in the same way as it uses AP and ED NWAU data. As only 2018-19 NAP data are currently available, staff recommend that this data be used for all assessment years.

¹² Except for the adjustment to reflect SDS costs that are applied to all components.

¹³ The materiality threshold for data changes is \$10 per capita.

Recommendation

Staff propose to recommend that the Commission:

- endorse the use of NAP NWAU data for the 2021 Update and subsequent inquiries.

Revisions to stamp duty on conveyances and land tax data

- 96 The Commission sources transaction data for land tax, stamp duty on conveyances and mining revenue from State Revenue Offices (SROs). The data are collected annually.
- 97 In recent years there has been an increase in the size of the revisions States are making to previously provided data. The concern is that large revisions increase the volatility of State relativities and negatively affect State budget management. Large revisions may also raise concerns over the reliability of State provided data.
- 98 Table 6 shows the GST effects of revisions to selected revenue bases in recent years.

Table 6 Change in GST from revisions to State provided data

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2017 Update									
Land tax	-75	-72	208	-51	-7	-1	-1	0	208
2018 Update									
Conveyances	117	-47	-37	-19	-12	-4	-3	5	122
2019 Update									
Conveyances	197	-154	2	-22	-14	-5	-4	-1	199
2020 Review									
Land tax	101	-41	-20	-37	-3	0	0	0	101
Conveyances (a)	-78	205	17	-110	-22	-7	-1	-4	222

(a) This also reflects the change in the composition of the category, with non-real property being assessed EPC.

Source: CGC Update and Review reports.

- 99 Commission staff have consulted with the three most populous States on the reasons for the increasing revisions and whether this is likely to be an ongoing issue. Staff sought information on whether the source of problem is in:
- the processes SROs use to extract the data
 - staff turnover and the learning curve to acquire the knowledge to extract the data
 - the complexity of the Commission's data requests.
- 100 In the latter case, Commission staff asked what could be done to mitigate large revisions. Suggestions included more focussed rather than open ended quality assurance questions, additional error checking and seeking more detailed reasons for revisions.
- 101 States said some revisions were to be expected. One source of revisions was revaluations resulting from taxpayers challenging a property's valuation. Revaluations can be significant (as high as 90%) and affect multiple years. These revisions were mostly negative because challenged assessments tended to be revised downward. Another source of revision came from increased compliance activity. This type of revision gave rise to positive adjustments in earlier years. Both sources of revision would arise in the future.

- 102 One State said it experienced difficulties reconciling its SRO data and budget data. It was also concerned about the number of:
- reversals (placeholder transactions that were subsequently replaced)
 - negative transactions
 - double counting of transactions.¹⁴
- 103 It is undertaking further investigations with the aim of improving the data it is providing.
- 104 Consultations with States suggest some revenue revisions are to be expected. However, where they are large, the Commission will seek additional information from the relevant State that can be shared with other States.
- 105 As part of these investigations a State advised staff that ABS GFS data classifies duties relating to the sale of equity in publicly owned corporations to Tax Code 465. This means the GFS conveyance revenue used by the Commission (revenue classified to Tax Code 463) does not include these duties. In the 2020 Review the Commission deducted duties from the sale of major State assets, corporate reconstructions and non-real property from GFS conveyance revenue. Consequently, staff propose to cease the deduction of duties from the sale of major State assets but retain the deduction for duties from corporate reconstructions and non-real property.

Recommendations

Staff propose to recommend that the Commission:

- note States are continuing investigations on improving the data they provide
- note revenue revisions are likely to continue
- note where there are large revisions, additional information will be sought from the relevant State that can be shared with other States
- cease deducting duties from the sale of major State assets from GFS conveyance revenue.

Revised data in the wage costs assessment

- 106 In its 2020 Review report (Volume 2, Chapter 27), the Commission noted that the ABS had revised the Characteristics of Employment survey (CoES) data used in the calculation of wages costs modelled outcomes for 2016-17 and 2017-18. The Commission's view was that, in line with the terms of reference direction to use the latest available data, it should ask the ABS to re-run its model for earlier years. However, since the Commission had not had sufficient time to consult States on the issue, it decided to retain the modelled outcomes for 2016-17 and 2017-18 from the 2019 Update.
- 107 The CoES is a point-in-time survey, conducted in August each year as a supplement to the ABS' monthly labour force survey. The Commission has used data from the CoES in its wage costs assessment since the 2016 Update. Since the ABS has not previously revised these data, the usual practice for the Commission has been to bring in the modelled outcomes for

¹⁴ Double counting could arise with foreign surcharge transactions, because they were entered twice. Once at the base rate and once with the surcharge. However, the full valuation was recorded against both transactions. Similarly, double counting could arise with transactions that were split across financial years. The full valuation was recorded against both transactions.

the latest assessment year and retain the outcomes from the previous inquiry for the earlier years.

- 108 The ABS has rerun the Commission's econometric model, using the revised data for 2017-18 and 2018-19.¹⁵ Table 7 shows the change in relative private sector wage levels, after the low level discount has been applied. Advice from the ABS is that the revisions primarily relate to the definition of employees and changes to its imputation and 'outliering' processes. The revisions also include rebenchmarking to reflect the latest revisions to estimated resident population data.
- 109 Commission staff consider that, assuming terms of reference for the 2021 Update continue to include the requirement that the Commission use the latest available data, the Commission should adopt the modelled outcomes based on revised data for 2017-18 and 2018-19. The ABS has not indicated whether revisions to the CoES data are likely to become a regular occurrence, although it has flagged that it intends to change the frequency of the survey at an unspecified future date. As in previous inquiries, Commission staff will separately provide States with the modelled outcomes and associated statistical information for the most recent assessment year (2019-20).

Table 7 Relative private sector wages, original and revised data, 2017-18 and 2018-19

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Original								
2017-18	0.9%	0.6%	-0.6%	-1.1%	-4.0%	-4.6%	7.6%	4.7%
2018-19	1.0%	-0.9%	-0.7%	2.8%	-3.4%	-4.4%	3.0%	4.6%
Revised								
2017-18	1.3%	0.0%	-0.3%	-0.2%	-5.6%	-5.5%	7.5%	4.7%
2018-19	1.4%	-0.9%	-1.4%	3.2%	-3.8%	-5.1%	2.9%	4.7%
Difference								
2017-18	0.4%	-0.6%	0.4%	0.8%	-1.6%	-0.9%	0.0%	0.0%
2018-19	0.4%	0.0%	-0.7%	0.4%	-0.4%	-0.7%	-0.1%	0.1%

Note: The modelled outcomes are expressed relative to the national average private sector wage level. A 12.5% discount has been applied.

Source: Commission modelling based on CoES data.

Recommendations

Staff propose to recommend that the Commission:

- use the modelled outcomes based on revised CoES data for 2017-18 and 2018-19.

¹⁵ The 2018 CoES data, used to model relative wage costs for 2018-19, were also revised after the modelled outcomes were provided to the Commission for the 2020 Review.

Changes to the compilation of the adjusted budget

- 110 Commission staff have reviewed the approach taken in the 2020 Review to deriving consolidated expenses, user charges and investment for urban transport and housing.
- 111 Following discussions with the ABS, for assessment years up to year 2,¹⁶ user charges, expenses and investment for the urban transport and housing assessments will be based on ABS GFS¹⁷ data for the non-financial public sector (NFPS). The NFPS is a consolidation of the general government (GG) and public non-financial corporations (PNFC) sectors. In the 2020 Review, the consolidation was made by the Commission using the ABS State general government (GG) sector and public non-financial corporations (PNFC) sector data. This change will simplify the adjusted budget calculations and improve the reliability of the data.
- 112 For year 3,¹⁸ ABS GFS data are not available. User charges, expenses and investment for the urban transport and housing assessments will continue to be sourced from preliminary State GFS GG and PNFC data. The Commission will eliminate intra-sector transactions using the source destination (SD) codes in the State data to derive consolidated estimates for the NFPS.
- 113 Experience from the 2020 Review indicates that the urban transport SD codes in the preliminary State GFS data are not as reliable as those in the final ABS GFS data. Because of these issues with the State GFS data, the Commission intends to undertake additional checks to validate year 3 user charges and expenses data using published State financial reports from relevant transport agencies. In addition, the capital data request will now request urban transport investment data in addition to the balance sheet data. There are no similar issues with the housing transactions.
- 114 Commission staff have identified further issues with the urban transport data.
- 115 Detailed analysis of State unit record data indicates that the majority of transactions in COFOG-A¹⁹ 1132 Urban water transport freight services relate to port services and not urban transport. Therefore, the Commission intends to reclassify this COFOG-A from the urban transport component to non-urban transport component.
- 116 Victoria's GG subsidies to V/Line are recorded as urban transport by Victoria and the ABS. However, the Commission considers V/Line services to be non-urban transport. From this update onwards, the Commission will ensure that the GG subsidies to V/Line are included in the non-urban transport expenses component.
- 117 In the NFPS data, all Queensland Rail (QR) expenses and user charges (urban and non-urban) are classified as urban transport. Non-urban rail passenger transport expenses can be identified from the ABS GFS GG data and the State unit record data. From this update onwards, the Commission will use these two datasets to identify QR non-urban rail passenger transport expenses and reallocate them to the non-urban transport component. The non-urban transport share of QR user charges could not be identified but the amount is likely to be relatively small. Therefore, the Commission does not intend to make an adjustment to the user charges.

¹⁶ Year 2 is the second last assessment year. In the 2021 Update, 2017-18 is year 1 and 2018-19 is year 2.

¹⁷ ABS Government Financial Statistics.

¹⁸ Year 3 is last assessment year. It is 2019-20 in the 2021 Update. Final State budget data for Year 3 are not available from the ABS on time for the update. Year 3 data are sourced from the States.

¹⁹ Classification of the functions of government – Australia. Its purpose is to classify revenues, expenses, and transactions in non-financial assets in terms of the government purpose (for example, education and health).

118 Commission staff will consult with Victoria and Queensland about these adjustments after State GFS data are received later this year. If other significant adjustments are required, staff will consult the affected States.

Recommendations

Staff intend to:

- for years up to year 2 — use the ABS GFS NFPS data to estimate user charges, expenses and investment for urban transport and housing
- for year 3 — continue the 2020 Review approach of consolidating the State GG and PNFC data
- check the accuracy of the year 3 urban transport data accuracy against published information
- reclassify COFOG-A 1132 Urban water transport freight services from the urban transport component to non-urban transport component
- ensure that the GG subsidies to V/Line are included in the non-urban transport expenses component
- adjust Queensland Rail expenses to remove non-urban expenses using the ABS GFS GG and the State unit record data
- make no adjustment to Queensland Rail user charges unless the non-urban share can be identified reliably
- consult with affected States before making significant changes.

Assessing loans under natural disaster relief expenses

119 The natural disaster relief expenses assessment recognises the net costs States incur due to natural disasters. The assessment should apply a consistent treatment to the various types of assistance (grants, concessional loans and interest rate subsidies) provided by States to individuals, businesses, community organisations and local governments as well as to the different forms of reimbursement provided by the Commonwealth (grants and concessional loans).

120 Previous assessments inflated the value of concessional loan expenses relative to interest rate subsidies because loan values were used in the assessment. Staff propose to correct this by including in the assessment only the net cost to States of providing concessional loans, that is, a State's interest rate subsidies on loans.

121 In recent years only New South Wales, Queensland and Tasmania have provided concessional loans, and these loans have been small. To change the treatment of concessional loans would move up to \$2 per capita (Table 8). As the change is not material, no adjustment will be made to correct for the overstatement of expenses in previous years, as per the Commission's revision policy for this assessment.²⁰

²⁰ The Commission's policy is described in the 2017 Update report, page 38.

Table 8 Change in the redistribution after modifying the natural disaster relief expenses assessment, 2020-21

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Change in the redistribution (\$m)	5	4	-13	2	1	0	0	0	-11
Change in the redistribution (\$pc)	1	1	-2	1	1	0	1	1	0

Source: State and EMA data from the 2020 Review and 2021 Update.

122 To calculate the net cost of providing concessional loans, States will be asked to separately identify their concessional loans and their cost of borrowing.

Recommendations

Staff propose to recommend that the Commission:

- change the natural disaster relief expense assessment of concessional loans to only assess the cost of providing the concessional interest rate, and not to assess the initial loan value
- request data from States on concessional loans and States' cost of borrowing in the natural disasters data request.