



Submission to Commonwealth Grants Commission

2021 Update New Issues: Commonwealth Payments – November 2020

KEY POINTS

- We consider that States' policies and efficiencies significantly differ in responding to COVID-19, so Commonwealth payments relating to COVID-19 should impact on the relativities (other than for payments to private hospitals).

This submission responds to the Commonwealth Grants Commission's (CGC's) Staff Discussion Paper (CGC 2020-2-S) on the treatment of new Commonwealth payments in the 2021 Update.

We currently have no objection to the CGC staff proposed treatment of Commonwealth payments, other than those discussed below.

The discussion paper identifies the following five payments commencing in 2019-20 related to COVID-19.

- COVID-19 public health response – Hospital Services and State Public Health payments
- COVID-19 public health response – Private hospital financial viability payment
- National Infection Control Training Fund
- COVID-19 Domestic violence support
- COVID-19 legal assistance funding

The CGC staff propose that none of these payments impact on the relativities.

The CGC staff propose that the payment for private hospitals have no impact on the relativities because it is paid to private hospitals via the States. We agree that this payment should not impact relativities, since this payment will not affect States' fiscal capacities under the current Health assessment methods.

For the four other payments related to COVID-19, the CGC staff propose that they have no impact on the relativities because, although they support State services, the drivers of Commonwealth funding (essentially the pandemic) under these agreements may be influenced by factors not assessed in the CGC's existing expense category assessments.

We disagree with this rationale. We consider that these payments affect States' fiscal capacities and they should therefore have an impact on States' relativities. Our concern is that State experiences of COVID-19 are not a policy neutral disability and hence these payments were not distributed based on average policy needs.

As discussed in our 2021 Update New Issues submission, differing States' policies and efficiencies in their COVID-19 responses have significantly affected the differing prevalence of COVID-19 in each State.

Also, in the case of the State component of the public health response payment (where the Commonwealth reimburses States for 50% of their eligible expenditure), our New Issues submission pointed out that the funding levels bear no relationship to the number of COVID-19 cases in each State (neither do they reflect equal per capita or equal per State amounts, which might be expected if the expenses were purely precautionary). Instead they appear to reflect different types and numbers of claims by States. Our submission further noted that the current expenses may also offset expenses in other years.

The funding for each of the other payments also bears no relationship to the number of COVID-19 cases in each State.

A no impact assessment of these payments would be consistent with an actual per capita assessment of the expenses, which would comprise a method change, and require terms of reference that allow this.¹

It would also result in an inconsistent treatment of States' COVID-19 public health expenses between the 50% reimbursed by the Commonwealth (actual per capita) and the 50% funded by the States (differentially assessed), despite the split being arbitrary and not related to discrete spending items.

We recommend assessing COVID-19 expenditure under existing methods for the 2021 Update, and to further consider these issues ahead of the 2022 Update.

¹ We agree with the CGC staff view in the New Issues discussion paper that a change to its usual terms of reference would be required for it to make an actual per capita assessment of Health expenses related to COVID-19 or to change the proportion of Services to Industry expenses that are attributed to business development.