

WESTERN AUSTRALIAN NOVEMBER 2009 SUBMISSION COMMONWEALTH PAYMENTS (CGC2009/03)

Key Points

- We support the CGC being the final arbiter of the treatment of all Commonwealth payments.
- In our view, Commonwealth payments that affect States' fiscal capacity in areas where needs are already assessed by the Commission, should normally affect the relativities (i.e. should be „equalised“).
- Payments in areas where the Commission has not, or has been unable to, assess relative needs should not affect the relativities.
- Over half of the East Kimberley Development Package funds should not have an impact on the relativities as they are for projects that are Commonwealth or local government responsibilities or to address needs that are not assessed.
- The claw-back of GST deferral compensation (“GST policy decisions”) should not affect the relativities, as it is not relevant to the circumstances of the application years.
- National Network road grants should affect the relativities. We do not believe that these fund needs that are not captured by the proposed assessments in the Draft Report.
- We consider that public transport grants should not affect the relativities.

- The assessment of public transport needs has substantial uncertainty (even in respect to the direction of urban operating subsidy needs), reflecting lack of a sound conceptual model, substantial policy differences between States, and the need for consistency with the assessment of urban roads.

GENERAL COMMENTS

We support the CGC being the final arbiter of the treatment of all Commonwealth payments.

This is consistent with the IGA.

However, full consultation with the States (as required by the IGA) will be very important.

In our view, Commonwealth payments that affect States' fiscal capacity in areas where needs are already assessed by the Commission, should normally affect the relativities (i.e. should be „equalised“).

Failure to equalise payments that reflect past under investment by a State (relative to other States) would distort equalisation and create incentives for States to under-invest.

Reward payments (i.e. payments that are assessed by the COAG Reform Council for achievement of specified objectives), if included in the assessments, may need to be adjusted to reflect a policy neutral level of effort by States to receive these payments (the 2008 Update terms of reference had an explicit „policy neutrality“ clause for non-compliance with SPP condition).

Payments in areas where the Commission has not, or has been unable to, assess relative needs should not affect the relativities.

EAST KIMBERLY DEVELOPMENT PACKAGE

In Position Paper CGC2009/03, the Commission has proposed that the East Kimberley Development Package should have an impact on the relativities. However, we believe that projects within the East Kimberley Development Package (detailed in the Attachment) totalling \$100.4 million (out of the \$195 million package), should not affect the relativities, as they are either not deemed State responsibilities, reducing Indigenous disadvantage, or are not assessed for needs. These projects, and our reasons why they should not affect the relativities, are as follows.

Remote Aged Care Service - \$5.0 million

~ Aged care services are a Federal Government responsibility.

Environmental Health Measures - \$6.8 million

~ Funding is in areas of local government responsibility (i.e. fencing, sewerage ponds and rubbish tips).

Sobering Up Centres - \$0.6 million

~ This funding is for similar purposes to the Commonwealth's intervention in the Northern Territory, which is quarantined. For consistency, the funding provided for this function should not affect the relativities.

Warmum Early Learning Centre - \$0.6 million

~ Childcare services are a Federal Government responsibility. The Attachment notes the Australian Government as the project leader in this case.

Kununurra School Community Library Expansion - \$5.0 million

~ This is a shared community library and is the responsibility of local government.

East Kimberley Teacher Training Facility - \$3.5 million

~ Teacher training services are a responsibility of the Commonwealth Government.

Community Meeting Rooms - \$2.3 million

~ Community centres are the responsibility of local government.

Early Childhood Building for Jungdranung Community - \$1.0 million

~ This project is for the development of community meeting room, which is the responsibility of local government.

Social Housing - \$30.0 million; and Transition Housing - \$20.0 million

~ These projects are targeted at reducing Indigenous disadvantage and should be excluded from assessment as they are of similar nature to the quarantined Commonwealth intervention in the Northern Territory.

~ If either of these payments is included and affect the relativities, then the Commission should ensure that the program is fully reflected in the indigenous housing disability in the Welfare and Housing category.

Wyndham Port Facility Upgrade - \$10.0 million

~ The Commission's draft assessments do not include needs for State subsidies to ports.

Community Infrastructure - \$15.6 million

~ Funding for the Community Infrastructure Investment Package is for projects which are a local government responsibility. These funds should be excluded from assessment.

GENERAL REVENUE ASSISTANCE

The Position Paper proposes assessing the clawback of GST deferral compensation¹ as an offset to the GST pool. We believe that this clawback should not affect the relativities (i.e. it should not be netted off the GST pool). This clawback is a once-off occurrence in 2008-09 (for Western Australia and South Australia) and 2009-10 (for the other States). However, the 2010 Review methods will apply from 2010-11, when there will be no clawback.

¹ This is a repayment by States of earlier overpayment of GST deferral compensation (due to actual compensation required being less than originally estimated). The Commonwealth now refers to this by the title of "GST policy decisions".

□ Therefore, relativities affected by the clawback would not reflect the circumstances of the year in which they apply.

□ This is important, because the clawback distorts the grant pool.

~ Relativities effectively escalate States' needs in line with growth in the grant pool. Therefore, altering the grant pool will result in scaling of all needs.

Also, as the GST deferral compensation grants have not impacted on the relativities in the past, it would be inconsistent for the clawback to impact on the relativities. With respect to the Commission's guidelines for treatment of Commonwealth payments, the GST deferral compensation payments and clawback could be seen as payments that are ceasing under the 2008 Intergovernmental Agreement.

□ The clawback has been reduced by a lump sum payout of expected future GST deferral compensation payments from the Commonwealth to the States, so as to permanently terminate the deferral compensation arrangements.

ROAD FUNDING

As discussed in our August 2009 submission on Commonwealth payments and our September 2009 submission on Roads, we believe that capital grants for National Network roads (NNR) should affect the relativities. Capital needs for these roads would be captured by the proposed assessments in the Draft Report.

□ The length of NNR and the traffic on NNR (including "through" traffic) will be picked up in the Roads disability factors.

~ If capital grants for NNR are to not affect the relativities, then road length and traffic on NNR will have to be removed from the disability factors when they are applied to capital stocks.

As discussed in our September 2009 Roads submission, we support the Draft Report's proposed capital assessment of roads.

PUBLIC TRANSPORT

We consider that public transport grants should not affect the relativities, as there is substantial uncertainty in the assessment of public transport needs. We note the following.

□ The draft report has assessed a positive relationship between urban centre population size and urban operating subsidies (e.g. \$210.41 per capita for the Perth UC/L compared with \$266.79 per capita for the Sydney UC/L, a difference of \$56.38 per capita).² This can be compared with actual performance conservatively adjusted for policy differences, shown in the table at the end of this submission, which suggests that per capita operating subsidies for Greater Sydney and the Perth transport region are very similar.

~ The efficiency adjustment to Sydney's costs is likely to be conservative, as we have not adjusted for the non-optimal rail network in Sydney, nor the bulk of the very high rail operating costs in Sydney noted in footnote (c) of the table.

~ Hence it is more realistic to expect that on an efficiency neutral basis, the Sydney per capita subsidy would be less than Perth's.

□ The consultant expressed concern about the inclusion of capital charges in operating costs – for example page 52: “While earlier data suggests that costs in Perth exclude capital charges, it is possible that some capital charges will be included in the costs for Melbourne and Sydney.”

□ The consultant's calculation of opportunity costs is based on replacement costs, rather than current stock values (which should have been used).

□ The consultant's capital cost curve (page 87) is insufficiently curved, due to inflated costs for Melbourne (which has retained an expensive tram system) and Sydney (where the consultant has incorporated a higher track cost factor that should be incorporated after, rather than before, the curve fitting, as it is a unique cost factor), and probably a policy difference between Sydney/Melbourne and Brisbane/Perth.

~ The degree of the curve is important for determining population growth impacts on capital growth. A high degree of bend means that a similar rate of population growth has a higher impact on per capita capital accretion for lower population cities than higher population cities, which tends to offset the higher per capita capital stock requirements of higher population cities.

□ In the roads assessment, the Commission has for this review assumed an equal per capita road length in urban areas. For symmetry, a similar assumption on rail track length should be used.

~ Neither assumption is particularly reasonable, but they are likely to be offsetting on a policy neutral basis.

² This is based on UC/L populations of 1,256,036 (Perth) and 3,641,421 (Sydney), and the subsidy relationship used in the draft report (i.e. per capita operating subsidy = 52.973 multiplied by $\ln(\text{population}/1,000,000)$ plus 198.33).

	Greater Sydney	Perth
Population (thousand)	4,462.837	1,427.530
Operating Cost (\$m)		
- Bus	755.844	193.764
- Rail	1,739.420	173.576
- Ferry	107.306	0.564
- Total	2,602.570	367.904
Fare Revenue (\$m)		
- Bus	275.339	59.640
- Rail	528.569	32.525
- Ferry	50.954	0.644
- Total	854.862	92.809
Operating Subsidy (\$m)	1,747.708	275.095
Passenger km (million)		
- Bus	2,549.700	350.100
- Rail	6,154.300	271.600
- Ferry	132.900	0.500
- Total	8,836.900	622.200
Vehicle km – bus (million)	171.350	49.230
Adjustment to Fare Revenue (\$m) ^(a)		
- Bus	+159.006	
- Rail	+208.429	
- Ferry	+120.221	
- Total	+487.656	
Efficiency Cost Adjustment (\$m)		
- Bus (b)	-81.429	
- Rail (c)	-313.096	
- Total	-394.524	
Adjusted Operating Subsidy		
- \$ million	865.528	275.095
- \$ per capita	193.941	192.707

Comparison of Sydney and Perth Public Transport Operating Subsidies (does not include capital costs)

(a) Sydney adjusted to Perth fare revenue per passenger km.

(b) Sydney buses adjusted to Perth operating cost per vehicle km (Sydney costs are 12.1% higher than Perth). The consultant (page 52) indicated that negotiated contracts in Sydney were 10-20% higher per vehicle km than the competitively tendered contracts in Perth.

(c) The NSW Independent Pricing and Regulatory Tribunal *Review of CityRail Fares, 2009-2012* indicated that “it is both reasonable and achievable for RailCorp to reduce CityRail’s operating costs by 18 per cent per annum by 2011/12 by making efficiency savings.” This 18% has been used in the efficiency adjustment. The Perth system is generally regarded as a model of efficiency. Compare also the 110% higher operating cost per vehicle km for Sydney shown in Table B3 of the consultant’s report.

Source: Commonwealth Grants Commission’s consultant’s report amended average data (pages 68, 69) - except that Perth fare data are unadjusted (the consultant appears to have assumed no WA revenue in 2004-05). NSW Independent Pricing and Regulatory Tribunal *Review of CityRail Fares, 2009-2012*.