



Government of **Western Australia**
Department of **Treasury**

Western Australia's Submission to the
**Commonwealth Grants
Commission's
2018 Update**

New Issues

October 2017



Introduction

This submission provides selected comments on issues raised in the Staff Discussion Paper on New Issues for the 2018 Update.

Other issues are either not well enough understood to provide comment on (e.g. Independent Hospital Pricing Authority data), or the proposed treatment does not raise significant concerns for Western Australia.

As a general comment, the intricacy of some of the issues reinforces the need for simplification of the assessments.

1. Use of New Census Data

Estimated Resident Population

Western Australia continues to have concerns with the quality of the new Census data.

- The Census Independent Assurance Panel (CIAP) report does not offer adequate analysis of the State by State impact of issues relating to under/over counts, quality of the imputation process and non-responses.
- These concerns with the CIAP report are shared by the Western Australian Department of Planning.
- The Commonwealth Grants Commission (CGC) needs to satisfy itself of the soundness of the Census-based outcomes for its specific purposes, rather than relying on generic statements such as “The 2016 Census population counts compare well against the preliminary 2016 Estimated Resident Population data ... Counts of the population at the state and/or territory level derived from the 2016 Census also compare well to the Estimated Resident Population ...” (Executive Summary, page iii).

Even accepting the 2016 Census estimates, there is much uncertainty about the intercensal population growth path for Western Australia. The intercensal discrepancy is allocated evenly over the five year period by the Australian Bureau of Statistics (ABS), but this is simply a convenience. The actual allocation is unknown, but is important in the context of the CGC's assessments that use population data prior to June 2016.

The discussion paper considers two options – use the new Census data for all years or use a combination of new population estimates from June 2016 onwards and estimates derived using pre-Census growth rates prior to June 2016.

However, given the dual uncertainty noted above of the 2016 Census estimate and the intercensal growth path, we consider that it is not appropriate to revise previously calculated data years to reflect the new data.

We propose using a third option where existing data years (i.e. up to 2015-16) are based on a pre-Census population series, while the new data years (from 2016-17) are based on a post-Census population series for both point-in-time and annual growth measures.

We believe this to be an appropriate option given:

- it is simple and does not involve creating a notional population series; and
- it provides a clean break between new and old population estimates, and includes an inherent phase-in path for the new population estimates as the data years using the old population estimates drop out of the averaging period.
 - A phase-in is warranted for the uncertainty on the quality of the new State population estimates compared to the previous estimates, as noted above.

As a second best option, the Commission's proposal to impute estimates prior to June 2016 should be adopted.

- This approach is consistent with the approach used in the 2013 Update.
- Full adoption of the new published population estimates should be avoided given the issues noted above regarding the quality of the population estimates.

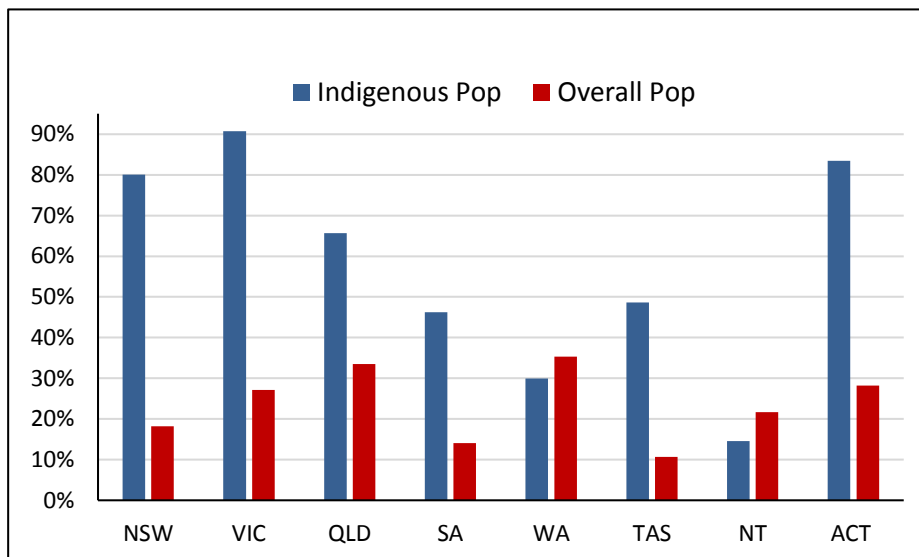
Indigenous Population

We urge the Commission to use caution when considering the new Indigenous population estimates. The 2016 Census counts showed significantly different growth rates among the States, particularly comparing Western Australia and the Northern Territory with the other States.

- Western Australia's Indigenous population growth was half the national average and the Northern Territory's was one seventh of the national average.

The chart below suggests that since 2001, Western Australia's and the Northern Territory's Indigenous population growth were below the general population growth, as measured by the ABS. This contrasts with other jurisdictions in other States where the Indigenous population growth is significantly higher than their general population growth (in the case of Victoria it is over three times).

Aggregate Population Growth from 2001 to 2016 Indigenous Population versus Overall Population



Source: ABS 2075.0.

According to a 2014 ABS Research Paper¹, the differing growth rates in Indigenous populations across States is not likely due to different rates of fertility, but rather is due to more people identifying as Indigenous that did not in previous Census counts and there is an increasing number of children being born to couples where only one of the spouses are of Indigenous origin.

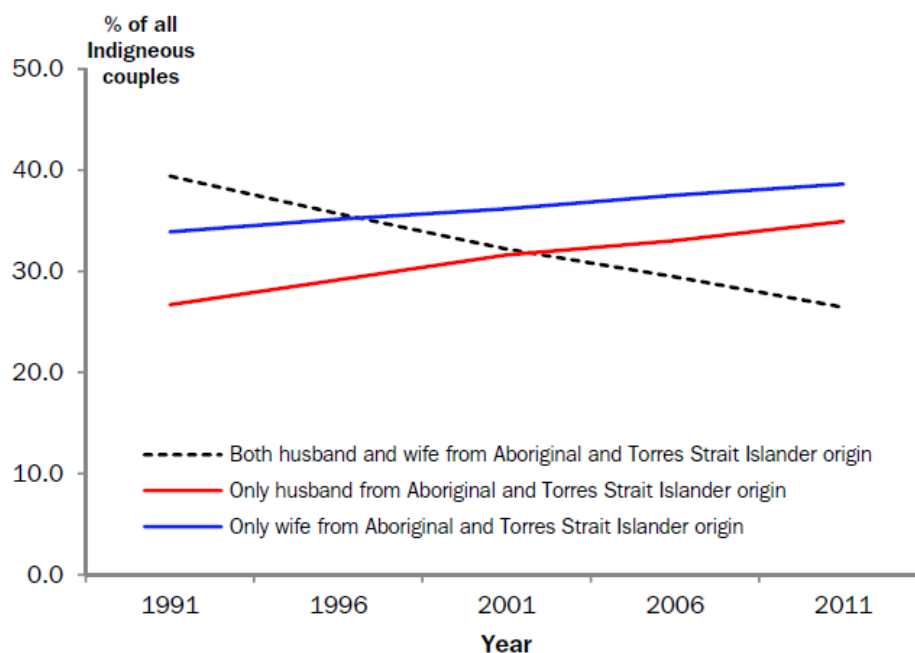
This is relevant for CGC assessments as the characteristics of the Indigenous population are shifting, and changing at different rates across States.

- The CGC has recognised the heterogeneous nature of Indigenous populations between States to the extent of using an indigenous-specific socio-economic status indicator, but whether this is sufficient is not clear.

The ABS, and the CIAP report, has not provided a satisfactory explanation for the vastly differing growth rates across States, or any discussion of changes in the propensity to self-identify as Indigenous or whether there has been a continuation of the decline in the proportion of Indigenous couples where both the spouses are of Indigenous origin (see chart below, taken from the 2014 ABS research paper).

¹ *Exploring Methods to Estimate the Intercensal Population of Aboriginal and Torres Strait Islander Australians* (ABS 1352.0.55.140).

4.3 Indigenous status of couples with at least one side with Aboriginal and Torres Strait Islander origin^{(a)(b)}



Source: ABS unpublished Census data.

(a) Usual residence Census counts, excluding overseas visitors.

(b) Same sex couples and lone parents excluded. One partner being absent on Census night not included.

2. Quality Schools Payment and the Schools Assessment

We agree that Quality Schools is sufficiently like the National Education Reform Agreement (NERA) that the existing terms of reference (about not unwinding the arrangements) should continue to apply. We consider that the provision of Quality Schools (and Students First) funding is essentially a rebranding of the existing funding with similar underlying outcomes.

We also agree that historical Student Resource Standard (SRS) shares is a suitable measure given that it does not unwind educational disadvantage and is unlikely to provide materially different outcomes from using forecast SRS shares.

Even if the terms of reference were to not apply to Quality Schools funding, we would urge caution in varying from SRS shares. These are an independently determined measure of need. It would be incumbent on the CGC to demonstrate that it could produce a more reliable result by any alternative approach.

3. Treatment of Mining Royalties where Bans Have Been Introduced

The discussion paper outlines mining bans that have been implemented by some States. It suggests that these amount to policy influences on the revenue bases, but recommends no changes to the assessments at this stage, as the impacts are not material.

This issue highlights two things.

- There is a fundamental problem with the policy neutrality of the mining revenue assessment.
- The limitations of taking a micro approach of trying to fix the most visible problems, while ignoring the broader issue.

We agree that some States are reducing their revenue bases relative to other States through policy decisions about mining bans. However, this is just one way that State policies affect mining production. Other ways include:

- approval processes and regulation (including their complexity);
- royalty rates, allowable deductions and rebates;
- tax rates and settings;
- provision of services and infrastructure (such as roads, rail and ports);
- support for exploration such as grants and mapping services;
- facilitation of an appropriately skilled workforce;
- legislative support to increase certainty and reduce sovereign risk (e.g. State Agreement Acts);
- regional development (such as the provision of affordable housing);
- fiscal policies that inspire business confidence; and
- support for other industries – this can complement or discourage mining (e.g. agriculture, tourism and renewable energy).

The discussion paper notes (paragraph 113) that the “difficulty of making an assessment of the missing production [due to bans] is that there is no policy neutral measure of State capacity.” The bigger problem is that there is no policy neutral measure of State capacity for total mining production.²

² That paragraph raises the possibility of using known reserves. A problem with this is that known reserves are impacted by policies which encourage exploration and more generally by policies which impact mining.

If the CGC were to adjust revenue bases for mining bans in isolation, there is considerable risk that it would move some revenue bases in the wrong direction, compared to truly policy neutral revenue bases. In this regard, in the 2015 Review, the CGC said that it is unable to identify and remove policy influences from the mining revenue bases.

A moderate general discount would be consistent with the option presented in the discussion paper of making an equal per capita assessment for minerals that are subject to bans in some States (which is a 100% discount). However, it would recognise that policy influences are more pervasive than just bans.

4. Commonwealth Payments Commencing in 2017-18 or 2018-19

Developing Northern Australia

These payments should not impact on the relativities.

They are to promote economic development, linking centres of economic activity rather than population.

In the 2015 Review, the CGC sought to assess roads related to economic activity, but was not able to. It concluded that it would need to examine this issue further as part of the next method review.³

The CGC has not been able to assess economic development activities, and we understand has undertaken no substantive research in this area.

For the above reasons, we believe that the Developing Northern Australia grants are to meet needs that are not currently assessed by the CGC. Hence, these payments should be excluded from equalisation.

Quarantined Payments

There are a number of payments that are quarantined by the Commonwealth in the CGC's terms of reference.

This is the Commonwealth's prerogative. Some of the Commonwealth's decisions in this regard have considerable merit, while others are somewhat dubious.

However, a key concern is transparency. It is difficult for stakeholders to see the impact of quarantining decisions, particularly as they are typically only specified in the terms of reference for the first relevant annual update.

³ Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities 2015 Review – Volume 2 – Assessment of State Fiscal Capacities*, page 347, paragraphs 61-64.

We request that the CGC publish in its annual update and review reports a list of quarantined payments that were made in the relevant assessment years, and the amount of funding by State under each of these payments for each of the assessment years.

We recognise that some of these payments would not impact on the relativities even if they were not quarantined. However, given the above information, stakeholders can make their own judgements as to the relative generosity of each quarantining decision.