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Mr J Spasojevich  
Secretary  
Commonwealth Grants Commission  
Cypress Court  
5 Torrens Street  
BRADDON ACT 2612

Dear John

**2009 UPDATE ISSUES**

Thank you for your letter emailed on 19 December 2008 providing an opportunity for States to comment on a number of issues for the 2009 Update. Please see our comments attached.

In addition, we have noted in our comments that there have been significant refunds of stamp duty on land-rich transactions that occurred in 2005-06. We ask that the 2005-06 revenue base be reduced accordingly, and consideration be given to "over reducing" the revenue base to allow Western Australia to recover the equalisation on these transactions in the 2007 and 2008 Updates.

Yours sincerely

Mark Altus  
DIRECTOR  
REVENUE & INTERGOVERNMENTAL RELATIONS

13 January 2009

Enc.

## **WESTERN AUSTRALIA'S COMMENTS ON 2009 UPDATE ISSUES**

### **STAMP DUTY ON LAND-RICH TRANSACTIONS**

The draft consultant's report on *Conveyance Duty Differences Between States and Territories* supports the uniqueness of Western Australia's listed entity provisions. As previously advised, these provisions have raised substantial revenue.

In addition, we are not aware of any plans by other jurisdictions to "harmonise" with Western Australia's listed entity provisions.

Accordingly, we continue to believe that there is a very strong case to exclude Western Australia's listed entity transactions from the State's revenue base.

### **REFUNDS ON LAND-RICH TRANSACTIONS**

Over the 2008-09 financial year to date, Western Australia has made refunds of \$56 million on stamp duty applying to land-rich conveyances in 2005-06. Due to confidentiality provisions, no further details can be provided.

We request that:

- Western Australia's 2005-06 revenue base be reduced to exclude the value of transactions corresponding to this revenue; and
- consideration be given to reducing Western Australia's 2005-06 revenue base by a further 67% of the value of transactions corresponding to this revenue, to recoup the equalisation of these transactions in the 2007 and 2008 Updates. Over these two Updates, 40% equalisation has already occurred, and needs to be undone over the next three Updates (after which the 2005-06 data year will drop out of the relativities calculation). This requires a 67% weighting on the value of excluded transactions in the 2009 and subsequent Updates.

### **PAYMENTS QUARANTINED BY THE TERMS OF REFERENCE**

#### *Caring for our Country*

This Commonwealth payment subsumes the previous Natural Heritage Trust (currently treated by exclusion) and National Action Plan for Salinity and Water Quality (NAPSWQ - currently treated by inclusion).

The disability factors for Commonwealth funded NAPSWQ spending are based on States' **aggregate** shares of Commonwealth funding for the NAPSWQ (i.e. for the full period of the seven year program), so that over time equalisation should be roughly neutral for each jurisdiction, provided that equalisation is allowed to run its full course. Accordingly, we consider that the Commission should continue to treat the NAPSWQ by inclusion.

However, regardless of how the Commission decides to treat the NAPSWQ, there should be no change to the assessment of States' own spending on the NAPSWQ.

*Northern Territory's share of the Australian Remote Indigenous Accommodation (ARIA) program*

We support the approach proposed by the Commission for the 2009 Update, namely, that ARIA should not be backcast, as it is a new program, and hence should not affect the relativities. See also our comments under *Treatment of community housing and infrastructure payments*.

However, in subsequent Updates (from 2011), when ARIA enters the five year data period, we consider that the Commission will need to exclude all ARIA payments, rather than just the payments to the Northern Territory.

- If this is not done, the effect of the Commission's assessments will be to draw money away from all States and the ACT to the Northern Territory. It seems most unlikely that this is the Commonwealth's intention.

**TREATMENT OF COMMUNITY HOUSING AND INFRASTRUCTURE PAYMENTS**

Western Australia supports the Commission's proposals to:

1. continue treating the Community and Housing Infrastructure Program (CHIP) payments to States and Territories by inclusion
  - we don't consider that the terms of reference requirement to quarantine the Northern Territory ARIA payments is relevant to the treatment of CHIP payments, as ARIA is a new program
  - however, should the Northern Territory CHIP payments be excluded from the assessments, it would be necessary to do likewise for all jurisdictions, otherwise the Northern Territory's grant would increase at the expense of all other States and the ACT; and
2. treat CHIP payments to non-government organisations by inclusion, apart from payments for municipal services and the National Aboriginal Health Strategy
  - as the inclusion of these payments will increase the proportion of Housing expenditure on remote indigenous communities, the Commission should consider whether an adjustment to the Housing cost weight for remote indigenous households is warranted.

## **STAMP DUTY ON NON-REAL BUSINESS TRANSACTIONS**

In a footnote to paragraph 14 of the Attachment to the Secretary's letter, it is stated that:

“Tasmania abolished its duty from 1 July 2008 and the Northern Territory intends to abolish its duty on 1 July 2009. At that point the average policy will be to not impose the duty.”

Western Australia is surprised that the non-imposition of a tax in four States (i.e. Victoria, Tasmania, ACT and NT) comprising around 30% of the Australian population (and a similar percentage of the revenue base) constitutes “average policy ... to not impose the duty.” As at 1 July 2009, four States (comprising around 70% of the revenue base) will continue to impose the tax.

Accordingly, we request that the Commission provide clarification of its decision rule for determining when there is an average policy to levy a tax.

## **UPDATING WAGE INPUT COSTS**

Western Australia accepts the Commission's proposal to update wage input costs using movements in the Labour Price Index.

- We have previously noted that this is likely to be a conservative assessment, as it does not account for promotion as a staff retention strategy, which is likely to have been stronger in Western Australia. However, while we have provided evidence for this stronger impact in Western Australia, the effect is difficult to quantify.

In response to States' concerns about Western Australian public sector wages not increasing at the same rate as private sector wages, we note the following:

- as the Commission has indicated, individual State policy choices should not impact on the assessments;
- Western Australia has relatively recently implemented significant wage increases for public servants (around 5%<sup>1</sup> in October 2008, backdated to February 2008) and teachers/TAFE lecturers (6% from September 2008, plus structural adjustments) with further significant increases agreed for following years; and
- there was strong anecdotal evidence of the adverse impacts on staff retention and recruitment, and the need to offer non-wage advantages to staff (with follow-on impacts on staff productivity and services), due to the widening gap in Western Australia between public and private sector wages during the period of strong economic growth.

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<sup>1</sup> At higher pay levels. Rises of over 8% were provided at lower pay levels.

## NEW ESTIMATES OF INDIGENOUS ESTIMATED RESIDENT POPULATIONS

The Commission has (implicitly) indicated its intention to use the new ABS final estimates of indigenous estimated resident populations (ERPs).

We do not consider the estimate for Western Australia to be sound. We believe the preliminary estimate for Western Australia (77,928) is likely to be closer to the mark than the final estimate (70,966), as discussed below.

Western Australia notes that the ABS estimates, though final, are still “experimental estimates”.

We understand that it would be difficult (though perhaps not impossible) for the Commission to move away from the ABS final estimates of indigenous ERPs in the short run.

Nevertheless, we would like to record our strong view that the ABS final experimental estimates are flawed and should be carefully reviewed.

A comparison across jurisdictions of indigenous school enrolments with the final experimental estimates of indigenous ERP strongly suggests that the ABS has underestimated Western Australia’s indigenous population relative to other States. This is seen in the following table.

### Indigenous Enrolments (2006) vs ERP (30 June 2006)

	Enrol- ments	ERP	Diff. person	Diff. %	Enrol- ments	ERP	Diff. person	Diff. %
<b>Age</b>	<b>6-9</b>	<b>6-9</b>	<b>6-9</b>	<b>6-9</b>	<b>10-14</b>	<b>10-14</b>	<b>10-14</b>	<b>10-14</b>
NSW	14,491	15,494	-1,003	-6.5	18,065	19,885	-1,820	-9.2
Vic	2,863	3,381	-518	-15.3	3,489	4,150	-661	-15.9
Qld	14,362	15,036	-674	-4.5	17,523	18,621	-1,098	-5.9
SA	2,802	2,794	8	0.3	3,308	3,426	-118	-3.4
<b>WA</b>	<b>7,977</b>	<b>7,184</b>	<b>793</b>	<b>11.0</b>	<b>9,226</b>	<b>8,539</b>	<b>687</b>	<b>8.0</b>
Tas	1,683	1,766	-83	-4.7	2,244	2,387	-143	-6.0
NT	5,205	6,015	-810	-13.5	6,052	7,139	-1,087	-15.2
ACT	395	419	-24	-5.8	468	523	-55	-10.5
<b>Total</b>	<b>49,778</b>	<b>52,090</b>	<b>-2,312</b>	<b>-4.4</b>	<b>60,375</b>	<b>64,670</b>	<b>-4,295</b>	<b>-6.6</b>

Source: Indigenous ERP from ABS 3101.0, June 2008. As only five year age groups were published, the 6-9 age group has been estimated as 80% of the 5-9 age group. Age 5 was excluded due to only partial enrolment of age 5’s across the States. Enrolment data was provided by the ABS on request.

In Western Australia, indigenous enrolments **exceed** the estimated indigenous ERP for the same age groups by 8 - 11%.

By contrast, in other States indigenous enrolments **are less than** the estimated indigenous ERP for the same age groups (the single exception being South Australian 6-9 year olds). On average across the nation, indigenous enrolments are 4½ - 6½% below the indigenous ERP.

While some of this difference may reflect quality issues with the enrolment data, it seems unlikely that this could explain the pervasive difference between Western Australia and the other States. In this regard, Western Australia's student tracking system is designed to minimise double-counting of enrolments.

By way of background, the ABS has preferred its final estimates of indigenous ERP to its preliminary estimates on the basis that the final estimates have significantly lower standard errors, particularly for Western Australia.

- The preliminary estimates were based on regional undercount adjustments (for five regions) based on the Census post enumeration survey (PES) results for these regions – large standard errors result when the regional PES sample is small.
- The final estimates are achieved by smoothing regional undercount estimates (15 regions) towards the national undercount estimate (using the full PES results) – smoothing a lot where the regional standard error is high, and only a little if the regional standard error is low.

However, the ABS has documented its methodology in only cursory fashion, and we have not had time to properly examine the approach. Concerns we have include the following.

- The ABS has used a new, relatively sophisticated methodology which we are not familiar with and desirably should have been reviewed by independent referees.
- The ABS has acknowledged that the final estimates have a bias error (in addition to the standard error). While we are given to understand that the impact of the bias is not large, documentation is lacking.
- It is not clear to us to what extent the lower standard errors in the final estimates are the result of assumptions made by the ABS about the relative quality of the Census and/or PES in different regions of Australia. To the extent that these assumptions are uncertain, the standard errors are understated.
- We understand that there were major difficulties in carrying out the 2006 Census in Western Australia in remote regions, due to the difficulty of finding appropriate Census collectors within the available budget in the booming economic conditions.

Western Australia urges the Commission to do all it can to satisfy itself about the merits of the ABS methodology and results, as indigenous population data is a very fundamental part of the equalisation process.