



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

Western Australia's Submission to the Commonwealth Grants Commission's 2024 Update

New Issues

November 2023

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Further information relating to this report may be obtained by emailing igr@treasury.wa.gov.au

Key Points

Updated Australian Bureau of Statistics (ABS) census data

We are concerned that pre-existing use and cost weights calculated in the 2020 Review may not be applicable to Indigenous persons identified in the 2021 Census. The Commonwealth Grants Commission (CGC) should use 2016 Census-based Indigenous populations for any assessments that do not have use and cost weights updated annually (as it proposes in the Justice assessment).

Other than that, we support the CGC's proposals to use updated census data.

Data issues for consideration

Justice — use of 2021 Census disaggregated First Nations population estimates

We support the CGC's proposal to use 2016 Census-based Indigenous populations in the 2024 Update.

Transport — use of 2021 Census urban area geography

The exceedingly large revisions to the population-weighted densities of the capital cities highlight our concerns with these data. The CGC should retain the previous population parameters for the 2024 Update, pending the 2025 Review.

We support the CGC proposals to update distance to work and slope data, and to not update passenger numbers.

Payroll tax — change in ABS Employment and Earnings, public sector data

The CGC's proposed approach to exclude Australian Defence Force (ADF) and Australian embassy staff will be slightly less accurate than its current approach, so it should compare the two approaches for materiality.

Other issues for consideration

National capital — negative assessed GST needs

We agree that the CGC should suspend the national capital assessment for the 2024 Update.

Mining Revenue — a separate nickel assessment is material

We support a separate assessment of nickel. Our latest data and projections imply a nickel assessment will be material.

New Commonwealth payments

We agree with the proposed treatment of payments.

This submission responds to the CGC's discussion paper *New issues in the 2024 Update*, released in September 2023. That paper contains the CGC's preliminary views.

Updated ABS census data

First Nations population

The CGC intends to use disaggregated Indigenous populations from the 2021 Census for August 2021. It will then project these to December 2022 using growth from ABS projections based on the 2016 Census.

We are concerned that pre-existing use and cost weights calculated in the 2020 Review may not be applicable to Indigenous persons identified in the 2021 Census. The CGC has identified this as an issue in the Justice assessment (see below). We believe the CGC should check whether any other assessments also have use and/or cost weights that are not updated annually, and if so, use 2016 Census-based Indigenous populations for those assessments in the 2024 Update (as it proposes for Justice).

This highlights a general concern of ours with the increasing propensity to identify as Indigenous, particularly in eastern States urban areas. We expect these newly identified Indigenous people will generally not characterise the higher use and cost of State services that this driver attempts to identify. Including these people in new use and cost weights from the 2025 Review data will water down the true weights of disadvantaged Indigenous people. We consider that attention needs to be given to this issue.

Remoteness and socio-economic status

The CGC intends using remoteness and socio-economic status data from the 2021 Census. It will also be able to use socio-economic status for the Health non-State services adjustment disaggregated by Indigenous and non-Indigenous, consistent with other assessments.

We support these proposals.

Discrete First Nations communities

The CGC intends updating the population of discrete Indigenous communities based on 2021 Census data.

We support this proposal.

Other geographic classifications

The CGC intends updating the significant urban areas and urban centres data from the 2021 Census. For the 2024 Update, it will not revise the synthetic road network used for the Rural Roads assessment.

We support these proposals.

Data issues for consideration

Justice — use of 2021 Census disaggregated First Nations population estimates

In the Justice assessment, the CGC proposes to apply 2016 Census-based use weights to 2016 Census-based population estimates for Indigenous people in the 2024 Update, as those use weights may not be applicable to Indigenous persons identified in the 2021 Census.

We agree with the CGC's reasoning and support this proposal.

As noted above, we believe the CGC should check whether any other assessments also have use and/or cost weights that are not updated annually, and if so, use 2016 Census-based Indigenous populations for those assessments in the 2024 Update.

Transport — use of 2021 Census urban area geography

Urban area geography

The CGC proposes to use revised population data to determine urban centre populations and population-weighted density (but not to re-estimate the regression coefficients). These revisions substantially alter the parameters and the assessment impact.

Our 2025 Review submission on Transport raised serious concerns about the quality of the population-weighted density data and resultant impact. The revisions presented in this new issues discussion paper highlight these problems.

- The revisions to the population-weighted densities of the capital cities range from an increase of 0.4% for Adelaide to an increase of 21.8% for Melbourne. The average increase is 10.4%.

These are very large increases. The CGC should treat data that are this uncertain as highly unreliable.

- Our analysis in our 2025 Review submission shows that population-weighted densities are a major contributor to Urban Transport grant impacts. We also estimate that the revisions in Table 2 of the new issues discussion paper are a major contributor to the impacts presented in Table 3 of the discussion paper.

Notwithstanding this, it is not reasonable for the CGC to argue that it should not re-estimate the regression coefficients if it were to use revised data for the independent variables. The discussion paper suggests that the new data has similar characteristics to the old data because the changes reflect the revisions, and concludes from this that as the characteristics have not changed, the coefficients do not need updating. However, if the characteristics had changed, that would be a reason to not update the regression coefficients, as the independent variables would no longer be consistent with the 2020 Review net expenses. Indeed, the revisions imply that the CGC now has better estimates of the independent variables. If those

better estimates had been available in the 2020 Review, the CGC would have estimated different coefficients.

- Nevertheless, the CGC should not update the coefficients if it concludes that the revisions do not improve the data, which (given the volatility) would not be an unreasonable conclusion.

We conclude that the CGC should retain the existing 2016 Census-based urban populations and population-weighted densities (and the existing regression coefficients) for the 2024 Update, pending the 2025 Review.

Other data

We agree with the CGC's observations that distance to work data would not have been distorted by COVID-19 and slope data should be relatively stable, so there are no concerns with updating this data. The increase in the Perth distance to work is highly plausible given the growth in Perth.

We agree that the CGC should not use the 2021 Census passenger data, due to distortion by COVID-19.

Payroll Tax — change in ABS Employment and Earnings, public sector data

The CGC assesses Payroll Tax using ABS compensation of employees data (CoE), adjusted to remove Australian embassy and ADF staff, general government employees, and remuneration below the average threshold. The last two adjustments are done by multiplying the public sector CoE by the proportion of ABS wages and salaries data that exclude these payrolls. The adjustment for Australian embassy and ADF staff has been done by directly removing them from CoE, but the CGC can now make this part of the wages and salaries adjustment, so proposes doing so.

When the CGC uses wages and salaries data to exclude remuneration from CoE, it relies on an assumption that the proportional relationship between CoE and salaries and wages is the same for remuneration being excluded and remuneration not being excluded.

Currently, it does not have to use this assumption for Australian embassy and ADF staff. However, under its proposal, it will be extending this assumption to these staff.

The choice is between the CGC doing a precise data adjustment to CoE or for simplicity doing an approximate data adjustment using wages and salaries data. If the difference is not material, the simpler approach is fine, but if the difference is material the CGC should retain its current method.

Other issues for consideration

National capital — negative assessed GST needs

The CGC provides the ACT with additional funding for its higher costs as the national capital. However, pay rates for the Federal Police (who provide all the ACT's policing) are now below the general wages costs assessment, which would make the national capital assessment a net negative for the ACT.

This raises conceptual issues which we think would be best addressed in a method review.

Hence, we support the CGC's pragmatic proposal to suspend the national capital assessment in the 2024 Update.

Mining Revenue — a separate nickel assessment is material

The CGC's Mining Revenue method is that any mineral for which needs are material should be assessed separately.

By our calculation, the nickel revenues that we recently received (and will provide in our data return)¹ will result in a nickel assessment over \$35 per capita for the average of the 2024 Update data years (assuming Western Australia remains the only State/Territory producing nickel).

Using our latest Budget forecasts of nickel royalties for the 2023-24 to 2026-27, we calculate that a nickel assessment would be over \$40 per capita² for the average of the data years used for the 2025-26 to 2028-29 grant years (again, assuming Western Australia remains the only State/Territory producing nickel). Our latest internal forecasts do not alter this result.

Hence, we support the CGC assessing nickel separately in the 2024 Update.

New Commonwealth payments

We support the proposed treatment of the Commonwealth Payments featured in the paper, and the treatment of the additional three payments identified from the Commonwealth's 2022-23 Final Budget Outcome.

¹ Since the release of the new issues discussion paper.

² The new materiality threshold assumed for the 2025 Review.