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

Western Australian September 2013 Submission to the Commonwealth Grants Commission

2014 Update – New Issues
Discussion Paper CGC 2013-03-S

September 2013

Key Points

First Home Owners Scheme

- For the 2012-13 data year onwards, the Commonwealth Grants Commission (CGC) should net all first home owner assistance off Stamp Duty on Conveyances standard revenues, consistent with the assessment of first home owner assistance provided through stamp duty concessions.
  - This change should not be backcast.

Treatment of Commonwealth Payments

- The CGC should not backcast the distribution of the National Health Reform funding, as it has only Commonwealth estimates, which cannot be expected to be reliable, and it has not been established that the National Health Reform funding relativities are stable over time. Backcasting would also unnecessarily disrupt the full equalisation over time of Commonwealth health payments.
- Contrary to the Discussion Paper proposals, the following Commonwealth payments should impact on the relativities:
  - Assisting preparations towards the launch of the NDIS (unless the CGC determines that it has not assessed needs for the 'unique circumstances' that this payment purports to address);
  - Townsville Convention and Entertainment Centre;
  - Implementing water reform in the Murray-Darling Basin; and
  - ACT Emergency Services.
- Funding for the *Gateway WA* project should be discounted by 50% as it meets needs that are not assessed by the CGC and affects national network roads. This would also be consistent with a precedent established for Queensland in the 2013 Update.

Motor Taxes

- Western Australia includes vehicles registered under Federal Interstate Registration Scheme in the census data it provides to the Australian Bureau of Statistics.

Stamp Duty on Conveyances

- We agree that non-real business transfer duty should be treated as standard policy, but note that the CGC's difficulties with this issue demonstrate that equalisation can only be achieved on a lagged basis, and that backcasting is inappropriate.
- Due to data constraints and the concessional standard rate, we believe that 'land rich' listed company transfers should be assessed equal per capita.

Changing the Analysis in the Update Report

- We support the CGC proposed changed presentation of the change in relativities.

First Home Owners Scheme

While we support the equalisation of the First Home Owners Schemes (FHOS) in principle, we accept that the actual (APC) assessment is no longer appropriate. However, we believe that the solution is to net FHOS expenditures off the conveyance duty standard.

It will still be average policy to provide assistance to first home buyers. All States will still provide a FHOS for new homes, although the grant (and eligibility conditions) varies by State. In addition, four of the States offer a concession or exemption on stamp duty payable.

Nevertheless, we support the Discussion Paper recommendation to cease the current APC assessment of FHOS on the basis that State arrangements have sufficiently diverged to invalidate such an assessment.

Furthermore, we accept that a new factor assessment would need data on the number of first home buyers in each State, stratified by those looking to buy an established home and those looking to buy a new home, which would not be available on a comparable basis due to the differing cap limits across the States. We agree with the Discussion Paper conclusion that the public housing disabilities are not relevant to the FHOS.

However, we do not believe that the solution is an equal per capita (EPC) assessment. The CGC's FHOS assessments have consistently shown differing per capita home purchase activity across the States. In the 2013 Update, these differentials were generally similar to the per capita differences assessed in the Stamp Duty on Conveyances revenue assessment, as shown in Table 1.

Table 1

COMPARISON OF FHOS AND CONVEYANCE DUTY ASSESSMENTS 2011-12 DATA YEAR

	FHOS cost of service provision	Conveyance duty revenue raising capacity [(a)]
NSW	102%	99%
Vic	103%	104%
Qld	86%	102%
WA	124%	108%
SA	83%	73%
Tas	74%	70%
ACT	140%	149%
NT	87%	84%

Source: Western Australian Treasury estimates derived from CGC online assessment system.

(a) For transaction value ranges $0-$700,000 of the 'other conveyances' component.

Therefore, we believe that, commencing in the 2012-13 data year, FHOS expenses should be netted off conveyance duty revenues,[1] consistent with the assessment of first home owner assistance provided through stamp duty concessions.

We also recommend that this change should not be backcast, for the following reasons:

- The CGC's standard procedure is to not backcast changes to States' expenditure policies.
- The policy of providing assistance still exists – the issue is that from the 2012-13 data year onwards, it is too difficult to model directly due to the increasingly divergent schemes offered by the States. The APC assessment for the 2010-11 and 2011-12 data years remains the best assessment for those years, as it is based directly on numbers of first home owners.

These reasons are just as relevant if the CGC decides to implement an EPC assessment.

Treatment of Commonwealth Payments

Backcasting distribution of National Health Reform funding

We do not agree with the proposal to backcast the National Health Reform funding.

Backcasting would unnecessarily disrupt the full equalisation over time of Commonwealth health payments, creating unintended winners and losers among States.

In addition, backcasting is only sensible if the relative per capita shares of reform funding are stable over time, which has yet to be empirically established.

Even assuming this stability, the application year for the relativities (2014-15) is the first year in which actual hospital activity will affect the National Health Reform funding. Therefore, it is likely that actual funding relativities will differ significantly from estimates. Under the CGC proposal, any variance will impact on a State's GST grant dollar for dollar. States that lose from inaccuracies in the estimates will be concerned – justifiably so, as such losses are unnecessary (full equalisation over time can be achieved without backcasting).

We do not believe that the CGC's arrangements for backcasting of specific purpose payments in the 2010 Review set a precedent. The specific purpose payments had a well defined transition to equal per capita shares. There is no such defined transition for National Health Reform funding.

[1] If necessary, these could be pro-rated across the relevant value ranges.

We also note that backcasting the shares of National Health Reform funding from 2014-15 would need to take account of States such as Western Australia having a higher population share in 2014-15 compared to the data years of the 2014 Update. If the CGC does backcast these payments, it should backcast the relative per capita shares of payments in the grant year to health funding in the data years.

Backcasting National Education Reform Agreement (NERA) funding

The Discussion Paper proposes not backcasting NERA funding, as there is insufficient information to do so and the funding changes are small in 2014-15. We agree with this proposal due to:

- the reasons given in the Discussion Paper;
- the above arguments against backcasting the distribution of National Health Reform funding; and
- the uncertainty cast on NERA arrangements by the change of Commonwealth Government.

Assisting preparations towards the launch of the NDIS

We do not agree with the reasoning in the Discussion Paper that this payment should have no impact on the relativities because it is "on the behest of the Australian Government".

The full criterion in the CGC's Commonwealth payment guidelines is that a payment will not impact on the relativities is it is "for programs delivered at behest of Australian Government which lead to above average or unique State outcomes".

However, this payment is to achieve the policy that all States are adopting.

It is possible that this payment could be classified as being in relation to needs which have not been assessed, as it addresses "unique circumstances" of Tasmania and the ACT.[2] However, the Commonwealth Budget Papers do not explain the nature of these unique circumstances. The CGC should determine these unique circumstances, if it is to exclude this payment from its assessments.

Townsville Convention and Entertainment Centre

Although this payment is made to local government, provision of convention and entertainment centres is sometimes undertaken by States, as it is in Western Australia. As this facility has been described as being at "international standards" by austadiums.com.au, it appears to provide a State type function (as it would generally be beyond the financial capacity of a local government and would service a wider population). Therefore, we believe that this payment should affect the relativities.

[2] Commonwealth 2013-14 *Budget Paper No.3*, page 75.

Implementing water reform in the Murray-Darling Basin

We believe that this payment should affect the relativities.

The Commonwealth states that the National Partnership on Implementing Water Reform in the Murray-Darling Basin "will ensure continuing progress in restoring the Basin's rivers to health and securing strong regional communities and sustainable food and fibre production"[3].

These are all core State activities, and do not provide a service to the Commonwealth any more than Western Australia's own expenditure on river health, regional development and services to industries.

ACT Emergency Services

We believe that this payment should affect the relativities.

The Commission has stated that these funds are to be paid for State expenses where needs could not be assessed.[4] However, the Commission assesses public safety services in the Other Expenses category[5] (where the ACT already receives administrative scale and national capital disabilities).[6]

Regional Infrastructure Fund (RIF)

As RIF funding began in 2011-12, it was addressed by the CGC in previous annual updates. However, Western Australia's first payments under the RIF began in 2012-13, when Western Australia received RIF funding for the *Gateway WA* project.[7]

The CGC's previous decision was that RIF funding will affect the relativities, except that projects which affect national network roads will have a 50% discount.

We believe that the CGC should apply a 50% discount to RIF funding for the *Gateway WA* project, for the following reasons.

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3 Commonwealth 2013-14 *Budget Paper No.3*, page 96.

4 Commonwealth Grants Commission, *New Issues for the 2014 Update*, page 26

5 Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities – 2010 Review*, Vol 2, page 416

6 Ibid, page 421.

7 More detail on the *Gateway WA* project is available at: http://www.mainroads.wa.gov.au/BuildingRoads/Projects/UrbanProjects/Pages/GatewayWA.aspx

1. This project is designed to facilitate the large growth in the flow of people and goods in and out of Perth. In this regard, Perth airport passenger traffic has grown much faster than total national capital city airport passenger traffic. Perth airport passenger traffic as a share of total national capital city airport passenger traffic has increased from 7.5% in 2000-01 to 10.0% in 2010-11 to 11.1% in 2012-13.[8] This growth is well in excess of the growth in Western Australia's population share, which means that Western Australia's expense and capital needs in this area will not be properly recognised by the CGC process unless the effects of passenger demand growth on road length and use are properly recognised.

   Although the CGC has an assessment of road use (traffic volume) within urban centres, the road length (lane kilometres) assessment within urban centres is only a proxy based on urban population, which covers "transport [of] people and goods around the urban centre".[9] Therefore, the road length needs addressed by grants for the *Gateway WA* project are not assessed by the CGC.

2. We note that the CGC excludes 50% of national network road funding from its assessments, but has never satisfactorily explained why it has done so. The case for excluding 50% of the *Gateway WA* project appears much stronger. The CGC needs to ensure that its decisions are transparently consistent.

3. We note that the *Gateway WA* project affects Leach Highway, Roe Highway and Tonkin Highway at places where they form part of the national network and so should receive a 50% discount in line with the CGC's 2013 Update decision.

Motor Taxes

The CGC has asked if States include vehicles registered under Federal Interstate Registration Scheme in the heavy vehicle census data they provide to the Australian Bureau of Statistics (ABS).

Western Australia includes these vehicles in the data that it provides to the ABS.

Stamp Duty on Conveyances

Treatment of Duty on Transfer of Non-Real Business Property

The Discussion Paper proposes treating the levying of duty on non-real business property transfers as standard policy, because the majority of States intend levying it in the application year.

We agree that this is appropriate because it is consistent with the 2010 Review methods.

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8 Bureau of Infrastructure, Transport and Regional Economics website – *Australian Infrastructure Statistics Yearbook 2012* and *Monthly Airport Traffic Data*.

9 Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities – 2010 Review*, Vol.2, page 348, paragraph 30

However, we note that this reverses the treatment of the 2013 Update, when levying non-real transfer duty was assessed as not standard policy.

The fundamental problem is that the CGC is seeking to achieve the impossible – modelling the situation of the application year in advance. Our July 2013 submission to the 2015 Review argued that equalisation can only be meaningfully achieved on a lagged basis – in which case, the CGC should never backcast States' policy decisions, rather it should always use the policies that apply in the data years.

Treatment of Duty on Transfer of Publicly Listed Entities

Under the CGC's established approach, standard tax policy for the 2014 Update is to apply duty to transfers of 'land rich' listed companies, albeit at a concessional rate (reflecting the average policy).

However, in practice, assessing the revenue base for States that do not apply duty to transfers of 'land rich' listed companies would be impractical, as:

- the transactions occur irregularly; and
- two States did not have such provisions in any of the data years of the 2014 Update, and three States did not have such provisions in the earlier two data years.

It is important that each State's revenue base be assessed on the same policy basis. Therefore, we support excluding 'land rich' listed company transfers from every State's assessed revenue base, and assessing the associated revenues equal per capita.

Changing the Analysis in the Update Report

We support the CGC's intention to align all its analyses and calculate grant impacts using the application year pool and population data throughout its report. Not only will this result in a better presentation of the results, but it will value the relativity in terms of the pool to which the relativity actually applies.

This will greatly improve transparency and will assist in explaining variations in the GST grants to people unfamiliar with the detailed workings of the CGC calculation.