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Dear Mr Willcock *Michael*

2017 UPDATE – ERRORS IN RELATIVITIES

Thank you for the pre-release copy of the 2017 Update report. I am writing to raise some concerns of a methodology nature I have with the relativities in that report.

Firstly, the distribution of the Students First funding from the Commonwealth's latest *Mid-Year Economic and Fiscal Outlook* (MYEFO) has been backcast to the assessment years, despite this distribution methodology still being negotiated and contingent upon formal agreement with the States.

As a result, Western Australia's relativity has been reduced for an increase in Students First funding that the State may never receive. Discussions between the Western Australian Department of Education and the Commonwealth Department of Education and Training have cast substantial doubt upon the likelihood of the State receiving this increase.

I believe that this backcasting should be removed from the relativities. Otherwise, once the Commonwealth Treasurer has approved the 2017-18 relativities, there is no mechanism under which Western Australia would be compensated for the GST grant shortfall if it does not receive the projected increase in Students First funding.

Secondly, I do not believe that the error "correction" to the community health non-State services factor is consistent with the 2015 Review methods. It appears to be a change in method.

The 2015 Review Report, Volume 2, refers to the discounting of the socio-demographic factor for assessed bulk billed GP benefits (a discount was also applied to the socio-demographic factor for community health), but makes no reference to discounting the actual benefits (the non-State services factor reflects the difference between actual and assessed GP benefits).

The CGC did not consult the States on this issue. It has given no justification in the 2017 Update report for whether discounting would move the relativities toward a better fiscal equalisation outcome (the criterion specified in paragraph 83 of page 17 of the 2015 Review report, volume 2). I note also that the actual GP and specialist benefits were not discounted when used in the non-State services factors for outpatients and emergency departments, so there is no reason to assume that the CGC intended to discount the actual GP benefits for community health.

As discussed in the 2015 Review and in detail last year with CGC staff, Western Australia considers the 2015 Review methodology for non-State services factors to be technically flawed, and significantly understating Western Australia's health needs. The proposed correction will result in Western Australia's health needs being even more severely understated. Hence it is important that the CGC not unilaterally re-open the methodology without a full consultation process.

On a final matter, not requiring action for the 2017 Update, the CGC has used revised data showing relatively lower remote hospital cost weighted activity data. I would be interested to know what confidence the CGC has in this result, particularly given that many remote hospitals are block funded, and whether the CGC intends to look more closely at this matter.

Thank you for the opportunity to raise these issues. I look forward to your response on these and an amended 2017 Update report in advance of the Council on Federal Financial Relations meeting on 24 March 2017.

Yours sincerely



Michael Barnes
UNDER TREASURER

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