WESTERN AUSTRALIAN COMMENTS ON STAFF DISCUSSION PAPER CGC 2013-01 REMOTENESS CLASSIFICATION

For the 2010 Review, the Commonwealth Grants Commission (CGC) classified State populations into degrees of remoteness by using the SARIA classification, which is a tailor made (for the CGC) variant of the ARIA classification.[1] The SARIA was applied using 2006 Census data.

Following the release of the 2011 Census results, the CGC is considering whether to:

- continue using the 2006 Census based SARIA;

- switch to the 2011 Census based ARIA; or

- commission and switch to a 2011 Census based SARIA – with the option of removing some of the differences from the ARIA.

The Discussion Paper phrases this choice in terms of the 2015 Review, but in practice the decision also relates to the 2014 Update.

In our view, retaining the 2006 Census based SARIA is not an appropriate option. Not only are the data outdated, but they would not be consistent with the population data used in the other parts of the CGC's assessments. The SARIA classification would therefore need to be updated for the 2011 Census.

Our comments on the relative suitability of the ARIA and SARIA classifications for the CGC's purposes are as follows:

- **Permeable borders** (SARIA does not include distances to regional centres that are across State borders).

    We agree with the Discussion Paper that (while a relatively minor issue) the SARIA classification is sometimes appropriate (e.g. for costs of communicating with head offices) and sometimes not (e.g. in relation to sourcing of local tradespersons).

- **Capital city based** (SARIA uses distance from capital city, whereas ARIA uses distance from urban centre of 250,000+ population).

    We believe that distance from capital city (i.e. the SARIA classification) is appropriate, as fiscal equalisation allows each State to provide the same standard of services in its capital city. We also find the analysis on this issue in the Discussion Paper unconvincing, as discussed further below.

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[1] ARIA stands for *Accessibility and Remoteness Index of Australia*. SARIA stands for *State-based Accessibility and Remoteness Index of Australia*.

- **_Distance truncating_** (ARIA truncates distances over three times the national average).

  We believe that larger distances continue to add to remoteness-related costs of locations, so we support not truncating distances, as in the SARIA classification.

  The Discussion Paper indicates that the CGC agrees that "the impact of distance does not cease at three times the national average distance". However, it could also be interpreted as implying that the CGC may be prepared to consider truncation on the basis that towns like Broome (of over 12,000 people), which would be reclassified from 'very remote' to 'remote' if truncation applied, are considered by the CGC to be fundamentally less isolated than other 'very remote' locations. We would not agree that this is a reason to support truncation, and consider that the two issues need to be examined separately.

- **_Enumerated versus usual residence census counts_** (ARIA uses 'enumerated' census counts, while SARIA uses 'usual residence' census counts).

  In the case of fly-in-fly-out workers, it is unlikely that the boost they give to the population of an urban centre will result in that centre acting more like a regional centre, or make that centre a more attractive location for hiring staff (suggesting that the SARIA classification is more suitable).

Additional comments and concerns about the analysis in the Discussion Paper with regard to the treatment of capital cities are as follows.

- **_Use of ARIA dispersion indices to measure demand differences_** – In general, we have concerns about the use of ARIA dispersion indexes to pick up differences in demand between capital cities.

  – ARIA is not well suited to pick up these differences, as it is too blunt an instrument (six capital cities have the same rank) and does not pick up the array of factors that may contribute, for example, to the demand for services (e.g. SES, cultural background, economic conditions), or the availability and attractiveness of private services that can substitute for public services.

  – Where the CGC considers these differences to be most material, such as with public health and education (which are the two examples presented in the Discussion Paper), it makes separate assessments.

- *Figures 1 and 2* – These figures are used to support the argument that the size of a city, rather than its status as a capital city, should be a key driver in demand for, and use of, services. We have considerable concerns with these figures.

  – Apart from Darwin and Hobart, Figure 1 does not show the location of other capital cities' electorates (they are shown collectively, but not attributable to individual States), so it is not possible to tell where a particular capital lies overall in relation to Hobart and Darwin, or other capitals;[2] and

  – Figure 2 is not standardised for known factors that affect post compulsory enrolments. These influences are important. The CGC's 2010 Review Report (Volume 2, page 151) notes that "[It's] consultant's work suggests that post-compulsory enrolments should be modified to take account of differences between States in Indigeneity, socio-economic status, English fluency, remoteness and unemployment rate." The Report also notes (ibid) that "The Northern Territory said the consultant's conclusions would lead to an estimate of post-compulsory enrolments 20 per cent below its actual enrolments."

Conclusions

On balance, we support the continued use of SARIA (updated for the 2011 Census), defined as previously. We particularly support:

- continuing a capital city based measure (noting that differences between capital cities, or for that matter between other equally dispersed areas in Australia, can be assessed separately); and

- no truncating of distances.

We also note that it would be inappropriate to switch to ARIA for the 2014 Update, as that would involve a change of methods in the Update.

Western Australian Treasury

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[2] It is also not clear in Figure 1 whether the scale of advantage increases or decreases from left to right.