



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

Western Australia's Submission to the Commonwealth Grants Commission's 2025 Methodology Review

Draft Report – Transport

August 2024

Acknowledgement of Country

This report was prepared by the Department of Treasury (WA Treasury) on the traditional Country of the Wadjuk people of the Noongar Nation.

WA Treasury respectfully acknowledges the Traditional Custodians of Country throughout Western Australia and their continuing connection to Country, Culture and Community.

We pay our respects to all members of Western Australia's Aboriginal communities and their cultures and to Elders past and present.

We acknowledge and pay tribute to the strength and stewardship of Aboriginal people in sustaining the world's oldest living culture and value the contribution Aboriginal people make to Western Australia's communities and economy.

We recognise our responsibility as an organisation to work with Aboriginal people, families, communities, and organisations to make a difference and to deliver improved economic, social and cultural outcomes for Aboriginal people.

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

Transport

KEY POINTS – TRANSPORT

Recurrent Urban Transport Assessment

We are comfortable with the CGC's proposal to replace the current Statistical Area Level 1 based measure of population-weighted density with a measure based on the square kilometre grid.

Remoteness

We seek further clarification to understand why the remoteness variables are not included in the model.

- To increase transparency and understanding, we would like to see the regression results of the remoteness variables.

Student transport costs

We still consider the CGC should assess student transport costs separately.

- We would like this to form part of the CGC's forward work program, to determine if data can be made more reliable.
- It could also investigate how best to capture increased costs from the use of dedicated student buses in more remote locations.

Capital Assessment

Blending the recurrent regression with a population-squared model in the investment component does not mitigate the impact of the regression model, as it purports to do.

- To compensate for the unreliability of the data and the use of proxy variables, we remain convinced that the CGC should blend the regression model 50:50 with a model that assumes that per-capita asset quantity required is constant with regard to urban centre population, as it did in the 2015 Review.

Non-Urban transport

We are pleased that the CGC acknowledges that an equal per capita assessment of non-urban transport expenditure remains appropriate.

Forward work program

- We support the CGC's proposal to seek external advice on the Transport assessment prior to the next review.
- As noted above, we would like a separate assessment of student transport costs to be added to the CGC's forward work plan.

This submission responds to the *Transport* chapter of the Draft Report and the later *Transport addendum*, released by the Commonwealth Grants Commission (CGC) as part of its 2025 Review of the methods it uses to recommend GST grant distributions among the States and Territories (referred to as States hereafter).

Recurrent urban transport assessment

We are comfortable with the CGC's proposal to measure population-weighted density based on the square kilometre grid rather than Statistical Area Level 1 (SA1).

We note the reduced volatility from this change in geographical unit.

Remoteness

In our Tranche 2 submission, we asserted that many of the urban centres in the urban transport assessment are in remote and very remote regions. Despite the higher costs to run transport services in these areas, the assessment does not include a remoteness allowance.

The CGC addressed this in their draft report by stating:¹

“For the remoteness categories, although the signs are positive as expected, they are not significant. This indicates that the differences between spending in regional or remote areas are not sufficiently large to warrant separate variables”

Whilst we appreciate the CGC's acknowledgement that the variables have a strong conceptual link,² we seek further clarification to determine why some insignificant variables are removed from the model and some remain. For example, the variables for remoteness are removed due to significance but the ferry variable is also not significant. Yet the latter remains in the model.

We understand that the CGC wants to include the ferry dummy to ensure the assessment captures all relevant forms of transport.³ However, we see a similar benefit to capture all geographies.

To increase transparency and understanding, we would like to see the regression results of the remoteness variables.

¹ Commonwealth Grants Commission, *2025 Methodology Review Draft Report, Appendix B*, page 353, paragraph 305.

² *ibid.*, *Transport*, page 322, paragraph 139.

³ *ibid.*, page 349, paragraph 291.

Student transport costs

We are pleased the CGC agrees that student numbers have a strong conceptual link to transport spending. However, we are surprised that inclusion in the regression leads to non-intuitive results.⁴

The current model does not assess Student transport costs separately, based on data unreliability and the consultants' rejection of student numbers as a variable. The latter is because it did not improve the explanatory power of the model,⁵ which could also be due to poor data.

We agree with the CGC that further data and analysis of the school transport spending is needed to capture these costs.⁶ We continue to believe that student transport would be better assessed as a separate component within the Transport assessment. We believe this issue needs further consideration and suggest the CGC incorporates it into its forward work program, to determine if data can be made more reliable.

In addition, State governments provide school buses for students in remote areas. States' average policy is to provide bus transportation for rural students, and subsidised general transport for urban students. Even if the current regression were improved it still would not adequately capture the additional cost of providing student transportation in the rural areas. This should also be considered in the forward work program.

Capital assessment

To compensate for data unreliability and the use of proxy variables in the investment component, the CGC uses a blended model – 75% based on the recurrent regression and 25% using a population-squared model.

Essentially, the CGC blends the assessment to lessen the impact of the regression model through a form of 'discount'. However, the population-squared model is just an older, simpler version of the regression model. So, blending the two is in essence blending the regression model with itself.

Whilst we appreciate that the CGC sought additional data from States and tested the model again, we are apprehensive of the CGC's conclusion that blending with a population-squared model will lessen the impact of the regression. Indeed, we consider it will increase the model's impact further, by scaling away from equal per capita.

⁴ *ibid.*, page 322, paragraph 138-39; and *Appendix B*, page 352, Table A-6.

⁵ Jacobs (2018), *Urban Transport Consultancy Stage 2 Final Report*, Stage 2 Report to the Commonwealth Grants Commission, IA174500.

⁶ Commonwealth Grants Commission, *2025 Methodology Review Draft Report*, page 341, paragraph 271.

To better understand the CGC's thinking, we would appreciate for the CGC to provide States with the results from the additional testing. This should include the comparisons of not blending; blending to population-squared (the CGC's current proposal); and blending to urban populations.

Despite the additional advice from the CGC in its *Transport Addendum* paper, we remain convinced the CGC should blend the regression model 50:50 with a model that assumes that the required asset quantity per-capita is constant with regard to urban centre population, as it did in the 2015 Review.

Non-Urban transport

We are pleased that the CGC acknowledges that actual passenger numbers are not sufficiently policy neutral to be included in the Non-Urban Transport assessment.

We feel strongly that non-urban transport is primarily influenced by the population scattered across States, and equal per capita remains an appropriate assessment.

Forward work program

We support the CGC's proposal to seek external advice on the Transport assessment prior to the next review.

However, we remain concerned that the model has fundamental problems. Given the complexity of the model, and the degree to which the proposed method changes impact States, external advice is warranted.

External advice will be beneficial if it can extend beyond just retesting the urban centre characteristics regression model. This will allow for alternative approaches to be explored, as initially provided by the consultants in the 2020 Review.

As mentioned above, we would like a separate student transport assessment to form part of the CGC's forward work program. This would determine if data can be made more reliable, and investigate how best to capture increased costs from the use of dedicated student buses in more remote locations.