



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

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

Tranche 2 Assessments

March 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



Contents

Executive Summary	1
1. Revenues	7
2. Welfare	11
3. Housing	21
4. Roads	27
5. Services to Industry	37
6. Other Expenses	43
7. Natural Disaster Relief	45
8. Investment and Net Borrowing	47
9. Administrative Scale	51
10. Geography	53
11. National Capital	67
12. Adjusted Budget	69
13. Pre-Tranche 2 Issues	71



Executive Summary

Introduction

This submission responds to the 'Tranche 2' consultation papers 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), within the framework of horizontal fiscal equalisation (HFE).

This Executive Summary outlines the key issues of concern to the Western Australian Department of Treasury. For a complete summary of our views, see the *Key Points* box at the start of each chapter.

Revenues

We continue to think that the CGC should assess **Revenues** with a global revenue base or broader assessments, measure revenue bases by economic incidence, and discount for unreliability arising from, for example, policy inconsistency.

Subject to this, we:

- support the CGC's **Payroll Tax** proposals to assess payroll tax surcharge revenue on the same basis as payroll tax; and retain current methods but continue to explore the feasibility of using new data sources in an annual update;
- agree that there is not a reliable method of assessing **Gambling Tax**, for all States, but suggest the CGC consider an option of using actual gambling activity for all States except Western Australia, which would continue to be assessed equal per capita due to its policy of restricting poker machines; and
- support the current **Other Revenue** assessment, subject to this suggestion for Gambling Tax.

Welfare

For **Welfare**:

- the CGC should assess an Indigenous cost weight for Child Protection and Family Services to reflect the additional costs of providing culturally appropriate care for Indigenous children;
- we do not consider socio-economic status to be an appropriate driver of homelessness service use, as it ignores State-specific characteristics such as rental prices; and
- we support combining the Other Welfare component with the non-National Disability Insurance Scheme, Aged Care and National Redress Scheme components, using the Other Welfare 2020 Review method.

Housing

For **Housing**:

- the CGC should scale the Australian Bureau of Statistics Census data on social housing with Australian Institute of Health and Welfare data, due to the known undercount of the number of households in social housing;
- we believe the CGC's calculation of the Indigenous cost weight for social housing severely understates the additional costs that Western Australia spends on providing housing for Indigenous households;
- Rawlinsons' indices provide a better alternative to using the general regional cost gradient to calculate regional costs;
- revenue data from the Productivity Commission is not classified consistently across the States, as rent from other sources has been included for some States;
- we do not disagree with separate assessments of public and community housing, but we are not confident that the data reported by States are comparable, and we would not currently be able to identify the required expense split; and
- we do not believe the Australian Bureau of Statistics Census data on households with members that have long-term health conditions is a suitable proxy for households with high service needs, as many of the listed long-term health conditions do not warrant the need to provide social housing households with additional services, and there are limits to the reliability of the data.

Roads

For **Roads**:

- we have concerns about the CGC using the National Transport Commission data incorrectly to provide an indication of 'road need';
- the CGC should assess culverts and floodways with bridges and tunnels;
- the CGC should use Rawlinsons' indices to assess regional costs;
- the CGC should assess declining per capita road length for the capital cities; and
- the 2025 Review methods should state that the synthetic road network will be updated, if and when necessary, in advance of the next review.

Services to Industry

For **Services to Industry**:

- the additional cost of supporting business in remote regions should be taken into account in the Business Development component;
- in principle, we support replacing factor income with chain volume measures to assess Regulation, but the base year has to be representative of the proportions of total output across the States. We do not support the use of business counts, but the CGC could consider use of employment; and
- there are likely to be a number of different drivers of State spending on the net-zero transition, depending on State circumstances with regards to their existing energy generation infrastructure, existing extractive fossil fuel industry, and natural features. We cannot confirm whether we will be able to provide the data prior to having details of the data required.

Other Expenses

We agree with the current assessment of **Other Expenses**.

Natural Disaster Relief

We support the CGC continuing its current actual per capita assessment of **Natural Disaster Relief**.

Investment and Net Borrowing

For **Investment**:

- the CGC should not smooth populations as that would involve an unnecessary loss of contemporaneity and not be consistent with the HFE principle of allowing each State to provide average standard of services; but
- we support freezing component shares of assets between method reviews, as it would have a far less than material impact on the assessments, and would reduce data requirements.

If the CGC smooths populations in Investment, it should be consistent for **Net Borrowing**.

Administrative Scale

We support the continuation of the **Administrative Scale** assessment in its current form.

Geography

For **Geography**:

- the General gradient is significantly understated and should be updated to include the calculated regional cost gradients from other assessments;
- it is often unclear when service delivery scale is applied to the assessments, and it is likely that service delivery scale is occurring in assessments to which it is not applied;
- as an interim approach for this Review, reintroduce the assessment of interstate non-wage costs from the 2015 Review; and
- the CGC's use of the Accessibility/Remoteness Index of Australia Plus (ARIA+) remoteness regions substantially dilutes Western Australia's regional costs, so we propose the following alternatives.
 - Regression against continuous ARIA+ scores.
 - Removal of truncation in ARIA+.
 - A measurement of amenity.
 - Using Rawlinsons' indices for assessments that include construction or maintenance costs, or in place of the General gradient.
 - As an interim approach for this Review, blending the current assessment with a factor based on distance to nearest capital city or urban centre.

National Capital

We support discontinuation of the **National Capital** assessment if it is immaterial.

Adjusted Budget

For the **Adjusted Budget**, we support the CGC's proposal to:

- use Australian Bureau of Statistics preliminary Government Finance Statistics data for the latest data year where available; and
- test materiality of adjustments when first implemented and then at each method review, except that obvious errors in adjusted budget data should be corrected regardless of materiality.

Pre-Tranche 2 Issues

Health

For **Health**:

- waiting times are part of State service standards, so the CGC should give each State the capacity to achieve national average unmet need. This requires the HFE to fully address differences in non-State services from the national average;
- private bed days would be a better than private separations as the non-State service indicator for Admitted Patients, provided the data can be cross-classified by socio-demographic composition; and
- the entire Admitted Patients adjusted budget should be included in the calculation of public cost per separation for the non-State services adjustment.

Suggestions for the 2025 Review Report

We would find it helpful in the **2025 Review Report**, if the CGC were to:

- explain why it rejects an undiscounted assessment in the face of unreliability;
- distinguish in its nomenclature between “policy consistency” (whether or not States have the same policies) and “policy neutrality” (whether or not States can affect their GST grant); and
- continue to define the concept of “assessed difference”.

1. Revenues

KEY POINTS – REVENUES

Issues of concern to Western Australia

Broader approach to Revenue assessments

As raised in our submission to the 2020 Methodology Review,¹ and reiterated in our Tranche 1 submission, we maintain the view that the CGC should:

- use a global revenue assessment, or use broader assessments, even for only a few assessments where data are available, to address policy neutrality and consistency issues;
- measure revenue bases according to economic incidence (capacity to pay) principles, rather than legal incidence; and
- adopt discounting for unreliability arising from, for example, policy inconsistency (while this is particularly clear for Gambling Tax, resulting in a 100% equal per capita (EPC) assessment, it is an issue for other revenue assessments).

CGC consultation papers

Subject to the above views, this submission directly responds to the issues raised in the CGC consultation papers regarding Payroll Tax, Gambling Tax, and Other Revenue.

Payroll Tax

Q1. Do States support assessing revenue from payroll tax surcharges on the same basis as payroll tax?

We support the CGC assessing payroll tax surcharge revenue on the same basis as payroll tax.

Q2. Do States support retaining the 2020 Review assessment method and data sources, noting that the Commission will continue to explore the feasibility of an assessment based on data from Business Longitudinal Analysis Data Environment (BLADE) and/or Person-Level Integrated Data Asset (PLIDA)?

We support the CGC retaining the current method of assessing payroll tax, noting that the CGC will continue to explore the feasibility of using BLADE and/or PLIDA data.

Q3. Do States support the assessment method including scope for the Commission to move to BLADE and/or PLIDA data in a future update, in consultation with States, if those data would improve the assessment?

We support the assessment method to use BLADE and PLIDA data in future annual updates if the data improve sufficiently to make a better assessment.

¹ Western Australia (2018), *Western Australia's Submission to the Commonwealth Grants Commission's 2020 Methodology Review – Draft Assessment Papers*, pages 29-36, 48-50.

Gambling Tax

Q1. Do States agree there is no reliable method of differentially assessing gambling taxes? If not, what do States consider to be a reliable method of assessing State gambling taxes?

Yes, given the substantial influence of Western Australia's policy to restrict poker machines, there is not a reliable method to assess gambling taxes for all States. However, an option would be to assess Western Australia EPC, while other States could have the standard rate applied to their gambling activity.

Q2. Do States agree that State gambling taxes should be assessed EPC in the other revenue category?

Yes, including gambling taxes in the Other Revenue assessment and treating it EPC is appropriate.

Other Revenue

Q1. Do States agree with the revenues classified to the other revenue category?

Yes, the inclusions are appropriate.

Q2. Do States agree that other revenue should be assessed EPC?

Yes, it is an appropriate treatment in general. We have discussed our views on gambling revenue in more detail below.

Assessing gambling tax equal per capita

Due to the policy inconsistency in the observed revenue bases and a lack of an identifiable underlying driver of gambling activity, the CGC treats gambling tax EPC. Gambling tax is the only revenue where the CGC looks for a driver, and as it cannot find one, the resulting EPC treatment is effectively a 100% discount due to policy inconsistency.

The CGC does not look for a driver for land tax, transfer duty on sale of State assets and non-real transfer duty, but discounts each of these for policy inconsistency. We think that policy inconsistency is a broader issue, and the CGC should look for drivers for all revenue assessments, and discount at least partially if it cannot find the drivers.

An option for the CGC in the Gambling Tax assessment could be to assess Western Australia EPC, while other States without restrictions on poker machines could have the standard rate applied to their gambling activity. An analogous case is the land tax base that the CGC 'constructs' for the Northern Territory.

Relationship between household income and gambling activity

The Australian Gambling Research Centre published a research report in 2017 that used Household, Income and Labour Dynamics in Australia (HILDA) survey data to determine the demographic characteristics of people who gamble in Australia.²

One of the key findings of this paper was that mean expenditure on gambling was similar between gamblers despite having different socio-economic characteristics. This included those with low and high incomes, and those whose main source of income was either a wage or welfare payment. Another key finding was that gambling participation was higher amongst males with low levels of educational attainment, who drew on welfare as their main source of income.

This paper supports the findings outlined by the CGC in the Gambling Tax consultation paper, which states that regression analysis confirms that the relationship between household income levels and gambling revenue is statistically insignificant.

We agree with the decision to not use household income as a driver of a State's capacity to raise gambling tax.

² Australian Gambling Research Centre (2017), *Gambling Activity in Australia, Findings from wave 15 of the Household, Income and Labour Dynamics in Australia (HILDA) Survey*.

2. Welfare

KEY POINTS – WELFARE

Issues of concern to Western Australia

Child protection and family services

Culturally appropriate care for Indigenous children is more costly to provide. In areas with a high Indigenous population, Western Australia employs additional staff to ensure that appropriate care is provided. The Child Protection and Family Services component should reflect these additional costs with an Indigenous cost weight.

CGC consultation paper

Q1. Do States agree that the State National Disability Insurance Scheme (NDIS) contributions can be collected from the Commonwealth Budget papers rather than from the States?

If the appropriate data are available, it should be collected from Commonwealth Budget papers rather than from States.

Q2. Do States agree that the current NDIS assessment is fit for purpose?

The current NDIS assessment is fit for purpose.

Q3. Do States support the development of a homelessness services assessment?

We would only accept the development of a Homelessness Services assessment if the socio-economic status (SES) driver is not included. SES is not a valid driver of homelessness service use.

Q4. Will States be able to identify spending on homelessness services and identify where that spending is reported in the Government Finance Statistics classifications?

Due to the complex nature of homelessness services, it would be difficult to identify where all spending is reported. There are multiple agencies within Western Australia that administer these services, which would make consistent classification difficult.

Q5. Do States support the proposed drivers to assess homelessness spending, noting further work is to be undertaken on mental health conditions as a potential driver?

We do not support SES as a driver of homelessness service use. Using income support as a measure for SES ignores the impact of State-specific characteristics such as rental prices.

Q6. Do States support combining the other welfare, non-NDIS, aged care and National Redress Scheme components and assessing spending using the 2020 Review method for other welfare (equal per capita assessment method with regional and wage cost factors)?

We support combining the Other Welfare component with the non-NDIS, aged care and National Redress Scheme components. The 2020 Review method for Other Welfare is appropriate.

Q7. Do States support the Commission ceasing to collect state spending on the National Redress Scheme?

The National Redress Scheme spend is small and does not warrant an individual assessment. If the application of regional costs and wage costs is immaterial, it should be combined with Other Welfare for simplicity.

Child protection and family services

Indigenous cost weight

The current assessment method for child protection and family services reflects that Indigenous status affects service *use* rates. However, it does not reflect the additional *cost* to provide services to Indigenous children and families. The Northern Territory argued for an Indigenous cost weight in the 2020 Review process. We agree that this group is more costly to provide child protection and family services as there are additional considerations needed to provide a culturally appropriate service.

Western Australia's Department of Communities has confirmed that the funding model for the Child Protection Earlier Intervention program has differential cost profiles for locations with a high density of Indigenous children. For areas with a high Indigenous population, additional staff are deployed to allow for a cultural lead/support role for the service.

Given the strong national focus to improve the outcomes of Indigenous children, new data may have become available to the CGC. Alternatively, the CGC could use the cost weights from Western Australia, the Northern Territory and any other State using cost weights as a guide. In the absence of appropriate data, the CGC should use the Indigenous cost weight from the government schools regression as there would be similarities to provide a culturally appropriate education to Indigenous school children.

NDIS

The current assessment method for the NDIS component is equal per capita (EPC) based on 2021 Census population shares. This is to align with expected State contributions once all States are transitioned to full scheme NDIS. We accept this approach.

The CGC's proposed changes to data collection is predicated on Western Australia's complete transition to NDIS. Once this occurs, if the appropriate data are available from Commonwealth Budget papers, we consider this would be a better method of data collection.

Homelessness

The CGC proposes the socio-demographic drivers for the use of homelessness services are:

- Indigenous status
- Socio-economic status
- Age
- Location

The CGC's rationale for the separate assessment of homelessness is based on improved data from an Australian Institute of Health and Welfare's Report (AIHW Report).¹ However, socio-economic status (SES) is not a driver for homelessness services.

The AIHW Report notes that for clients presenting at risk of homelessness the most common main reason for seeking assistance were:

- Family and domestic violence (28%)
- Housing crisis (18%)
- Financial difficulties (14%)

For clients presenting as experiencing homelessness, the most common main reasons for seeking assistance were:

- Housing crisis (25%)
- Inadequate or inappropriate dwelling conditions (18%)
- Family and domestic violence (17%)

Family and domestic violence and the housing crisis are the leading drivers for people accessing specialist homelessness services (SHS) in the AIHW Report.

¹ Australian Institute of Health and Welfare (2022), *Specialist Homelessness Services Collection, 2021–22*.

In the 2020 Review the CGC stated that, in relation to homelessness, the research consistently identifies the following four factors as most closely linked to becoming homeless:²

- Domestic violence/family breakdown
- Drug and alcohol abuse
- Mental health issues
- Being Indigenous

This does not include low-SES. Nothing has changed since. There is still no adequate evidence provided by the CGC that SES is a driver of homelessness services use.

However, since the 2020 Review, the unaffordability of housing has become a significant national policy priority. The homelessness landscape has evolved in response to the emergence of a lack of housing.

If SES is included as a driver, it should not have influence without consideration of comparative rent costs between States, and the fact that income support payments do not increase relative to living costs in an individual's State of residence, as discussed below.

Family and domestic violence

The AIHW Report states that the most common reason for seeking specialist homelessness assistance is family and domestic violence (see above) with 39% of all clients having experienced family and domestic violence at some stage.

As reported elsewhere by the AIHW, family and domestic violence occurs across all socio-economic and demographic groups.³ However, the differing rates within these groups are difficult to quantify as the factors that influence these rates are vast. Victims of domestic violence are predominantly women and children.

In the context of homelessness services, the CGC states that 60% of clients receiving SHS were women. There is unlikely to be a material difference in the number of women between States. As the drivers of family and domestic violence are likely not material (for GST distribution) or too hard to quantify, we understand why the CGC has not captured it as a driver in this component.

² Commonwealth Grants Commission (2020), *Report on GST Revenue Sharing Relativities 2020 Review*, Volume 2, Part B, page 192, paragraph 65.

³ AIHW, *Family, domestic and sexual violence*. Available online at: <https://www.aihw.gov.au/reports/domestic-violence/family-domestic-and-sexual-violence#influences>.

Housing crisis

The effects of the current housing crisis have been ignored by the CGC. Western Australia has seen significant changes in rental affordability over the past two years with the vacancy rate reaching a low of less than 1%.⁴ This has led to increased spending on homelessness services, including on people who have never had to access these services in the past. As a result, 24% of new clients experiencing homelessness report the housing crisis as the key reason nationally.

Whilst rental affordability can affect people who are of a low SES, the availability of housing can affect any SES group. This can be due to a household's inability to find alternative affordable housing and being required to absorb rent increases which may push them into rental stress.

Western Australia is generally considered a high SES State, in part due to the high wages received by employees in the resource sector. But this has contributed to the high rent prices in Western Australia. This is particularly seen in areas with a high volume of resource-based jobs, such as Karratha and Port Headland, where median rent prices in December 2023 were approximately \$1,200 per week. This is higher than some of the most affluent metropolitan suburbs of Perth.⁵

In areas that are dominated by the resource industry, housing-related costs for individuals are much higher. This is because companies purchase housing to provide to employees, which creates upwards demand pressure due to a budget that is less constrained than the average individual purchaser. Rents are pushed up due to a high number of people on higher incomes and companies taking up leases. Essentially, this creates a situation for renters that significantly disadvantages households that are not necessarily low income but are being priced out by the resource sector.

In November 2023, SGS Economics & Planning published annual data which calculates a Rental Affordability Index (RAI) for various areas across Australia. Table 2-1 compares the RAI for a single person on Jobseeker.

We are aware that there are limitations to the comparability of Western Australia's data with other States in Table 2-1. However, it does highlight that Greater Perth and the Rest of Western Australia are more aligned than other capital cities and their remaining areas. It also highlights that Perth and the Rest of Western Australia are among the least-affordable rental markets in Australia. In addition, it highlights the availability of data that can be used for the comparison of rental affordability.

⁴ PropTrack (2024), *Rental Report December 2023 Quarter, 2024*. Available online at: <https://www.proptack.com.au/wp-content/uploads/2024/01/PropTrackRentalReportDecember2023.pdf>.

⁵ WAToday (2024), *The WA regional town where rent costs the same as Cottesloe*. Available online at: <https://www.watoday.com.au/property/news/the-wa-regional-town-where-rent-costs-the-same-as-cottesloe-20240108-p5evud.html>.

Table 2-1

RAI for Single Person on JobSeeker		
	RAI score	Rent as a share of income
Greater Sydney	22	137%
Rest of NSW	43	71%
Greater Melbourne	30	100%
Rest of VIC	47	64%
Greater Brisbane	30	106%
Rest of QLD	28	98%
Greater Perth^(a)	24	126%
Rest of WA^(a)	25	122%
Greater Adelaide	38	80%
Rest of SA	57	53%
Greater Hobart	39	78%
Rest of TAS	54	55%
ACT	27	112%

(a) RAI has been calculated using median rents for all dwelling types rather than one bedroom due to data unavailability.

Note: The higher the score, the more affordable the rent.

Source: SGS Economics and Planning, 2023.

Whilst rents have been increasing, the cost to purchase a house has also been trending upwards in Western Australia. This is exacerbated by people purchasing housing to avoid the current high rental prices. This has caused excess demand in the market, further pushing up house prices from already historic highs.

This issue does not only effect people who are low SES. Therefore, using SES as a driver for homelessness spending does not accurately reflect groups that are simply not able to participate in the housing market in the area they wish, or need, to live.

Rental price adjustment

If homelessness is assessed as a separate component there should be an adjustment made to represent differential rent prices in States to reflect higher rental prices. If data allow, the smallest possible statistical area should be used. This should be calculated for, at the very least, each SA4 area. If this is unachievable, there should at least be a factor applied for remote and non-remote areas. This would reflect the different levels of affordability between States and the higher needs of people requiring homelessness services if rents are unaffordable.

The AIHW Report provides justification for this granular data stating:

“The rate at which people access SHS can vary geographically due to service availability and region specific housing factors such as housing availability and affordability.”

As a result, it is inappropriate to use the general measure of location used by the CGC (from Accessibility/Remoteness Index of Australia Plus (ARIA+)). In Western Australia, there are vastly different outcomes between areas assessed as having the same remoteness level. As discussed in relation to the housing crisis, the high cost of housing in resource-dominated areas is making housing more unattainable. The requirement for SHS in areas such as Karratha is likely different to somewhere like Esperance (both classified as remote under ARIA+). There is also likely to be a variance in the key drivers of homelessness, meaning that smaller statistical areas need to be used.

Income support

The CGC has proposed using the number of income support recipients to reflect higher use of SHS by people who are low-SES.

The AIHW Report states that 79% of clients accessing SHS were receiving income support payments. However, the AIHW does not identify this as a key reason for people accessing SHS.

Whilst people receiving income support are disproportionally represented, there should be consideration made for affordability of housing. The value of income support payments, such as JobSeeker,⁶ are not influenced by which State a person lives in. This means an individual in the same circumstances would receive the same payment whether they live in an area with a low or high RAI score. However, an individual that is faced with high rental prices will need to spend a much higher proportion of their income support payment than an individual who faces lower rents. In a State like Western Australia where the rents are unaffordable, someone receiving income support is more likely to experience rental stress than States that have more affordable options.

Mental health

It is difficult to capture the aspects of mental health that lead to homelessness, and the number of people who experience mental health concerns is similar across the nation. So, it may be difficult to assess this driver, but if possible, it may not be material.

Furthermore, if the CGC is unable to receive reliable, fit-for-purpose data from the AIHW, mental health cannot be reliably assessed. Given that the AIHW Report states that 31% of people who access SHS were experiencing a mental health issue, an inability to assess mental health use rates would lead to a significant driver of homelessness not being assessed.

We have concerns that even if mental health data can be collected, it may not accurately represent the psychological distress rates in regional and remote areas. Therefore, even with appropriate data, it is likely the need for homelessness services in remote areas is inaccurately reflected in those data.

⁶ The AIHW Report specifies JobSeeker as the most common income support received by people accessing SHS.

Other welfare

We support combining non-NDIS, aged care, and National Redress Scheme expenses with Other Welfare. As noted in the Welfare consultation paper, Western Australia has previously advocated for these components to be assessed together. In the past, the CGC's reasoning has been that non-NDIS, aged care and National Redress do not attract additional costs for providing services in regional areas or for wage differences between States. However, we believe the majority of these components incur additional costs.

Residual non-NDIS State expenses target the gaps between the implementation of the NDIS and current services, including in regions where there are no market providers of NDIS services. It also services non-Australian citizens and persons over 65 years, who are not currently eligible under Commonwealth funding. The over-65 cohort will be supported through financial assistance with equipment and aids.

Aged care and non-NDIS disability support face many of the same cost pressures as other assessments that receive regional cost gradients and wage costs. That is, there are additional costs associated with attracting and retaining staff in regional and remote areas, and additional cost of freight and travel. These services are also subject to State-specific wage pressures. The additional costs have been well documented by the recent Aged Care Royal Commission. It stated that it costs more to provide aged care services to a person living in a regional, rural, or remote area than it does in a major city.⁷

The additional cost of providing services in regional and remote areas is captured in the NDIS pricing model which is a good proxy for additional costs these areas may face. In general, price limits are 40% higher in remote areas and 50% higher in very remote areas.⁸ The Other Welfare component receives less than half of these regional loadings under the current methods (the General gradient). However, given the difficulties in collecting location-based data for non-NDIS services, as well as the vast range of services encompassed by Other Welfare, the General gradient is used as a proxy (noting our concerns suggested improvements in the Geography chapter of this submission).

Whilst the National Redress Scheme is likely not affected by regional or wage costs, these factors represent a very small redistribution. Hence, for simplicity, and reduction of reporting burden, we believe it is appropriate to combine the National Redress Scheme, non-NDIS and aged care with Other Welfare.

⁷ Royal Commission into Aged Care Quality and Safety (2021), *A summary of the Final Report*, page 112.

⁸ The NDIS uses the Modified Monash Model (MMM) for their remoteness regions. However, remote and very remote areas are the same in both ARIA+ and MMM.

QUESTIONS FOR THE CGC – WELFARE

NDIS

If NDIS contributions are being collected from Commonwealth Budget papers, how does the CGC intend to collect non-NDIS contributions?

Homelessness

If appropriate mental health data can be obtained, what metric will the CGC use (e.g., mental disorder at some time in the client's lifetime, mental disorder in the previous 12 months)?

3. Housing

KEY POINTS – HOUSING

Issues of concern to Western Australia

Social housing

We continue to have concerns about the CGC using the Australian Bureau of Statistics (ABS) Census data to calculate the number of households in social housing. The most recent data confirm that the CGC should scale the ABS Census 2021 data with Australian Institute of Health and Welfare (AIHW) data, due to the known undercount of the number of households in social housing.

Indigenous cost weight

We believe the CGC's calculation of the Indigenous cost weight for social housing severely understates the additional costs that Western Australia spends on providing housing for Indigenous households.

Regional costs

Although the CGC captures remoteness costs through the General gradient in the Housing assessment, it falls short of capturing the true costs in the remote regions. Rawlinsons indices provide a better alternative to using the General gradient.

Revenue

We consider the revenue data from the Productivity Commission (PC) is not classified consistently across the States, and that rent from other sources has been included for some States. We encourage the CGC to liaise further with States to address this.

CGC consultation paper

Q1. Do States agree that the housing assessment remains fit for purpose notwithstanding recent developments in the housing market?

We agree. Any changes for assessed expenses and revenues will be reflected in the data and we do not believe warrants a change in the method for the housing assessment.

Q2. Do States agree that there should be separate assessments for public and community housing if it results in a material change in GST distribution?

We do not disagree, but we are not confident that the data currently reported by States is comparable.

In addition, separately identifying the total gross recurrent expenses for public and community housing in Western Australia will require considerable work and will not be possible in the desired time frame. Further, as the agency data and processes do not automatically allow for an accurate split, it's not clear we could provide the data as requested.

Q3. *Is the ABS Census data on households with members that have long-term health conditions a suitable proxy for households with high service needs?*

No. We do not believe that the data collected in the ABS 2021 Census on long-term health conditions is a reasonable proxy for disability. Many of the listed long-term health conditions do not warrant the need to provide social housing households with additional services.

Given the complex nature of long-term health conditions, there are also limits to the reliability of the data. The ABS stated that¹

“The use of a single question in the Census to collect information on the complex and sensitive topic of long-term health conditions likely results in some underestimation of the number and proportion of people with long-term health conditions.”

Q4. *Do States have data on the costs of servicing different household types that would enable the calculation of a cost gradient?*

No. We are unable to separately identify the costs associated with high need dwellings from other dwellings. Our line agency does not separate the costs to provide social housing services to people with a disability.

Social housing expenses

Aligning census data with the AIHW data

The number of Social housing dwellings are derived using data from the ABS 2021 Census. However, the Census data undercount the number of households in social housing, as many social housing tenants incorrectly identify their type of landlord (i.e., as public, community or private).

Western Australia is disappointed that the CGC continues to base social housing use solely on Census numbers rather than scaling with the Australian Institute of Health and Welfare (AIHW) data, despite acknowledging this undercount.

The CGC acknowledges that AIHW data on the number of households in social housing are considered more accurate than the Census data because they are collected directly from the service providers. AIHW data are taken from the National Social Housing Survey (NSHS). The NSHS is the largest social housing study conducted in Australia and complements other data on social housing in Australia.

¹ ABS (2022) *Long-term health conditions*. Available online at: <https://www.abs.gov.au/articles/long-term-health-conditions>.

The release of the 2021 ABS Census data show that the total number of social housing households (which includes both public housing and community housing) was 344,886 households in 2016 and 348,018 households in 2021. However, the AIHW data recorded 432,800 households in 2016 and 436,300 social housing households in 2021. This difference in social housing households highlights the undercount in the Census data.

The CGC rejects scaling the Census data with AIHW data as it questions:

- the lack of materiality from the change;² and
- if the resulting changes would improve the assessment of States' social housing needs.³

The CGC is also concerned about comparability of the counts between States. However, we consider the extensive AIHW quality assurance should lessen those concerns, and they would be less of a concern than the Census data, with little quality assurance.

While the use of materiality thresholds is reasonable when deciding on the inclusion of disabilities, we believe that materiality should not be a consideration when making straightforward error corrections (which includes issues with accuracy or consistency).

We understand the importance of using the detailed Census data, due to its provision of socio-demographic information required for the assessment. But to counter the known inaccuracy of the number of social housing households, we consider scaling with a more reliable and accurate data source necessary, regardless of materiality. The CGC should pro-rata the socio-demographics from the Census data to the AIHW totals.

Indigenous cost weight

The CGC includes an Indigenous cost weight to recognise the higher costs of providing social housing to Indigenous households compared to non-Indigenous households.

The elevated costs in Western Australia for Indigenous social housing reflects the tenant profile (including household size and support needs), and very high repair and maintenance costs for Indigenous households. As an example, mobility in the Indigenous community is common. This means that, for half of the year (mainly during wet seasons), properties can be left vacant and unmaintained. When they are occupied, extended family and other persons tend to visit and temporarily stay in already overcrowded dwellings. So, dwellings can suffer from both overuse and underuse, which increases costs.

This stresses the importance of the Indigenous cost weight. However, the current Indigenous cost weight of 1.2 severely underestimates the additional costs faced by Western Australia to provide housing for Indigenous households.

² Commonwealth Grants Commission (2020), *Report on GST Revenue Sharing Relativities, 2020 Review, Draft Main Report*, Attachment 14 – Housing, page 14, paragraph 62.

³ Commonwealth Grants Commission (2020), *Report on GST Revenue Sharing Relativities, 2020 Review*, Volume 2, Part B, page 206, paragraph 22.

Currently, the Indigenous cost weight is derived by comparing State-owned and Managed Indigenous Housing (SOMIH) data with public housing data from the States and the Productivity Commission (PC). The CGC calculated a cost weight of 1.3, but then reduced it to 1.2 using judgement, as they concluded the difference between Indigenous and non-Indigenous households had decreased.

We disagree with this judgement from the CGC. The fact that the assessment deems the use of housing is household-based rather than individual-based is already a conservative approach for overcrowded Indigenous households.

In addition, the Indigenous cost weight is calculated using limited data from only five of the States. Western Australia previously segregated SOMIH houses but they were re-classified as public housing over 15 years ago. Those States' data do not represent Western Australia. Hence, the exclusion of these expenses reduces the calculation of the Indigenous cost weight further.

In addition, the Indigenous cost weight is only applied to Indigenous households living in Indigenous specific-dwellings. Our concerns are that Indigenous community housing expenses for Western Australia only include some of our remote Indigenous communities. It includes dwellings in these communities to which the agency provides property and tenancy management services, including maintenance. It does not include houses or discrete remote Indigenous communities where the agency does not provide a property or tenancy management service, as no information is collected on these. These are a potential additional cost to the State.

It also does not include any other specific Indigenous community housing such as urban community housing organisations. Therefore, it further reduces the total number of assessed Indigenous households. This is possibly the same for other States.

Given the strong national focus to improve the outcomes of Indigenous Australians, we believe the CGC should investigate other data sources to calculate the Indigenous cost weight.

Regional costs

Because the CGC applies the General cost gradient, it falls far short of capturing the extra costs in Western Australia's regions. Western Australia has locations that take hours, or even days, to reach from the closest major population centre. If something, or someone, needs to travel from Perth, it requires a significant amount of travel time and is costly.

To recognise the maintenance costs associated with providing housing services, the CGC weights Rawlinsons' based capital costs by 50% and the General regional cost gradient by 50%, to derive a factor that is applied to these expenses. This results in the Rawlinsons' cost factor being applied to 12.5% of all social housing expenses and the General gradient factor to 87.5%.

We consider that the General gradient greatly underestimates the costs to supply and maintain social housing in the regional areas. The very remote allowance of 1.20 under the General gradient is significantly lower than the additional weighting Western Australia would use to estimate State spending to supply social housing services in the northern regions.

Most of our Indigenous communities are in the remote and very remote categories with some of these locations being the most isolated in the country. We can pay up to \$10,000 in travel costs alone, to send tradespersons to provide basic services.

Rawlinsons' indices

An alternative application of regional costs is to utilise Rawlinsons indices. Rawlinsons' indices are widely used nationally and are prepared specifically to provide data on construction costs and variations. The indices are calculated for each capital city and for each region within States. Therefore, nationally consistent data are readily available.

Rawlinsons' indices would better reflect costs faced in regional areas for the Housing assessment, particularly as housing requires construction and maintenance. Table 3-1 shows the Rawlinsons' capital cost gradient for 2021-22.

Table 3-1

Rawlinsons' capital cost gradient 2021-22

	Major cities	Inner regional	Outer regional	Remote	Very Remote
NSW	1.008	1.062	1.149	1.275	1.345
Vic	0.947	0.954	0.972	0.972	-
Qld	0.947	1.028	1.057	1.379	1.524
WA	0.991	1.074	1.187	1.485	1.574
SA	0.970	1.047	1.105	1.192	1.295
Tas	0.950	0.950	0.973	1.180	1.255
ACT	0.950	1.059	-	-	-
NT	-	-	1.065	1.113	1.545

Source: Rawlinsons 2022 Commission calculations.

Although Rawlinsons' indices are specifically prepared in relation to construction costs and variations, we consider it is a better guide to the relative differences between States. We do not believe that using the General gradient, which is calculated from the average of government schools and admitted patients, better represents the current cost weights for the Social Housing component than using Rawlinsons' indices.

In the limited time frame of the 2025 Review, and to increase the transparency, we believe Rawlinsons' indices provide a better alternative to using the General cost gradient.

Revenue

Revenues raised from rent partly offsets State expenses. The CGC believes that States with a greater proportion of households that use social housing services have a greater capacity to generate revenue, which is partly offset by the lower rents paid by low-income households and households living in remote and very remote regions.

However, in the 2020 Review final report⁴ the amount of housing rent revenue for Western Australia is strangely high in comparison to other States and does not correlate with the number of social housing dwellings⁵ in Western Australia. This implies that Western Australia provides less social housing than other States but collects more rent. For example, the data show that Western Australia receives more housing rent revenue than Victoria and Queensland but we have significantly fewer social housing dwellings.

We consider the data are not classified consistently across the States, as rent from other sources has been included for some States. The 2019 PC Report on Government Services repeatedly states that the data may not be comparable across jurisdictions and over time and comparisons could be misleading. In addition, it stated that it has not been possible to split rent collected by type in its finance system, and that the figure includes rent data from sources other than public housing.⁶

Given the unreliability of the revenue data, we encourage the CGC to liaise further with the States to analyse if the States are including comparable data for the assessment.

⁴ Commonwealth Grants Commission (2020), *Report on GST Revenue Sharing Relativities, 2020 Review*, Volume 2, Part B, page 202, Table 17-3.

⁵ Commonwealth Grants Commission (2020), *Report on GST Revenue Sharing Relativities, 2020 Review*, Volume 2, Part B, page 203, Table 17-5.

⁶ Productivity Commission (2019), *Report on Government Services 2019*, Available at: <https://www.pc.gov.au/ongoing/report-on-government-services/2019/housing-and-homelessness/housing>

4. Roads

KEY POINTS – ROADS

Issues of concern to Western Australia

Rural and Urban Roads

We have concerns that the CGC uses the National Transport Commission (NTC) data incorrectly in its attempt to provide an indication of 'road need'. The NTC data do not adequately or accurately reflect the primary drivers impacting the costs in the Roads category and component expenses.

Bridges and Tunnels

The CGC only partially assesses the bridges and tunnels component by not including culverts and floodways. This creates bias. All additional road structure costs should be assessed within the Roads assessment.

Regional costs

Because the CGC applies the General cost gradient in the Roads assessment, it falls far short of capturing the true costs in remote regions. Rawlinsons' indices provide a better alternative to the General cost gradient.

Relationship to Urban Transport

The relationship of capital cities' road length per capita to their population is essentially the same driver as Urban Transport, just in the opposite direction. Given the relationship, the CGC should assess declining per-capita road length for capital cities.

CGC consultation paper

Q1. Do States support retaining the 2020 Review method of assessing urban road length, using population as the driver for large towns?

We do not support this. The CGC's data suggest that the same drivers that increase urban transport costs as urban centre populations grow, also reduces per-capita urban road length for larger capital cities.

The urban road length assessment should reflect this offset.

- The CGC should assess capital city per-capita road lengths according to a fitted line, and assess non-capital city urban centre road lengths according to the average of those urban centres.
- Alternatively, the CGC could just use actual urban road lengths for all urban centres (capital and non-capital).

Q2. Do States agree that the 2020 Review synthetic rural road network should not be updated?

We are comfortable with not updating the synthetic rural network, given there is little time, and the effect would be minimal.

However, it could be built into the 2025 Review methods to update the synthetic road network, if and when necessary, in advance of the next review.

Q3. Do States agree that traffic volume should continue to be assessed using data from the Bureau of Infrastructure and Transport Research Economic (BITRE) and the NTC?

We agree that data from BITRE and NTC should be used for this data year. However, we consider the CGC will need to investigate alternative data sources early in the next review.

Rural and Urban Roads – conceptual framework issues

The main sources of expenses for the Rural and Urban Roads components are data from the Australian Bureau of Statistics (ABS) and State budgets.

To derive the component weights of the Roads category, and for the urban and rural roads investment assessments, the CGC uses the annual road expenditure returns submitted by each State road authority to the National Transport Commission (NTC). The component weights from the NTC data are then applied to ABS Government Financial Statistics (GFS) expenses (as the NTC data do not exactly align with GFS data).

The purpose of the NTC data is to collate all road expenditure to recommend national heavy vehicle charges. The NTC pools the data into a cost allocation matrix.¹ This allows it to dissect total road expenditure between light vehicle users and heavy vehicle users. That is their main goal.

However, the CGC uses these data for a different purpose, one that the NTC does not take into account.

For example, the NTC allocates 'Service and Operating costs' (Category A) 100% to road traffic volume. This suits their purpose as they do not regard the expenditure as driven by heavy vehicles. However, this category includes items such as road surveillance, the monitoring of road pavement condition, drain and vegetation clearing, signage repair, and off-road repairs and maintenance.

¹ The recurrent assessment cost allocation for the relevant NTC categories is reproduced by the CGC in Commonwealth Grants Commission (2020), *Report on GST Revenue Sharing Relativities 2020 Review*, Volume 2, Part B, page 295, Table 20-7.

It is clear that such activities are mainly driven by road length, not traffic volume. In Western Australia's remote regions, Main Roads WA sends out maintenance crews for several days and the costs include overnight accommodation, meals and travelling allowance. Hence, traffic volume (or lack of it) is not the only factor relevant to the cost of Category A service delivery.

Another example is expenditure Category E (low-cost safety and traffic improvements, such as signage, traffic lights and worker protection requirements during maintenance work)² where the NTC also allocates expenses 100% to traffic volume (i.e., not heavy vehicles). Hence, the CGC interprets that high traffic volumes require a higher level of traffic control and safety measures. However, such expenses are also related to road length. This is clear when considering safety measures such as installing audible edge lines, sealing road shoulders and repairing barrier fencing on higher risk rural roads.

Therefore, the CGC should adjust the NTC data to allocate a proportion of Category A and Category E expenses to road length.

Bridges and Tunnels component

The CGC separates Bridges and Tunnels from the Rural and Urban road components as it considers there are higher costs for States with longer bridge and tunnel lengths. Whilst we agree with this, we believe that all additional road structure costs should be assessed.

The CGC considers that the number and length of bridges and tunnels are mostly driven by topological features such as waterways and changes in elevation, and believes they are not significantly affected by policy influences.³

This is also the case for culverts and floodways. These are built, rather than bridges, in areas of flatter terrain that is susceptible to flooding, which is also not influenced by policy.

To include bridges and tunnels but not culverts and floodways creates bias.

Further, in Western Australia, Main Roads WA is actively replacing older timber bridges with culverts, for economical reasons and for longevity. This practice achieves better outcomes for the same crossing length but is typically less expensive than replacing with another bridge. However, the topography needs to accommodate a culvert. That is, it cannot span a deep gully. The rationale to use culverts as a replacement is primarily an economic decision as concrete culverts for lengths of less than 12 meters are less expensive than a conventional concrete or steel bridge.

Over the last five years, Western Australia has replaced 10 timber bridges with culverts. There are around 55 timber bridges that are less than 12 meters long that will be candidates to be replaced with culverts in the coming years.

² *ibid.*, Table 20-7.

³ *ibid.*, page 308, paragraph 108.

Figure 4-1

Replacement of a Timber Bridge with a Culvert in Western Australia

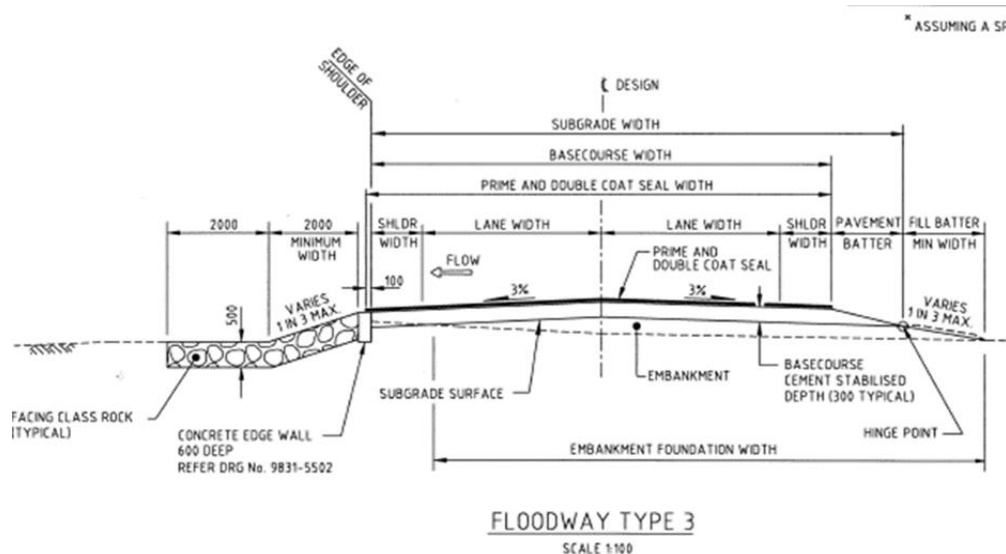


Floodways

Floodways are sections of roads that consist of a length of pavement, on a typically level grade, designed to allow floodwater to flow over the road during relatively frequent flooding events. The objective of the floodway is to provide for floodwater to be conveyed across the road under controlled conditions at designated places. The floodway is specifically designed and protected to minimise damage to the road asset and to the environment.

Figure 4-2

Floodway Geometric design



Floodways are commonly used on rural roads with relatively low traffic volume and where it is impractical or uneconomical to construct a bridge or culvert. Often floodways are used as a means of protecting large culverts or a bridge from being damaged when flood conditions occur upstream. They are usually found in areas that, even if only partially blocked, would cause a significant redistribution of flood flow, or a significant increase in flood height.

Floodways typically result from a decision that a culvert or a bridge is not an appropriate or affordable drainage solution at a specific site.

Floodways require frequent monitoring for damage. If a floodway develops cracks and weak sections, damage from floodwaters can be significant.

Figure 4-3

Examples of Floodways in rural Western Australia



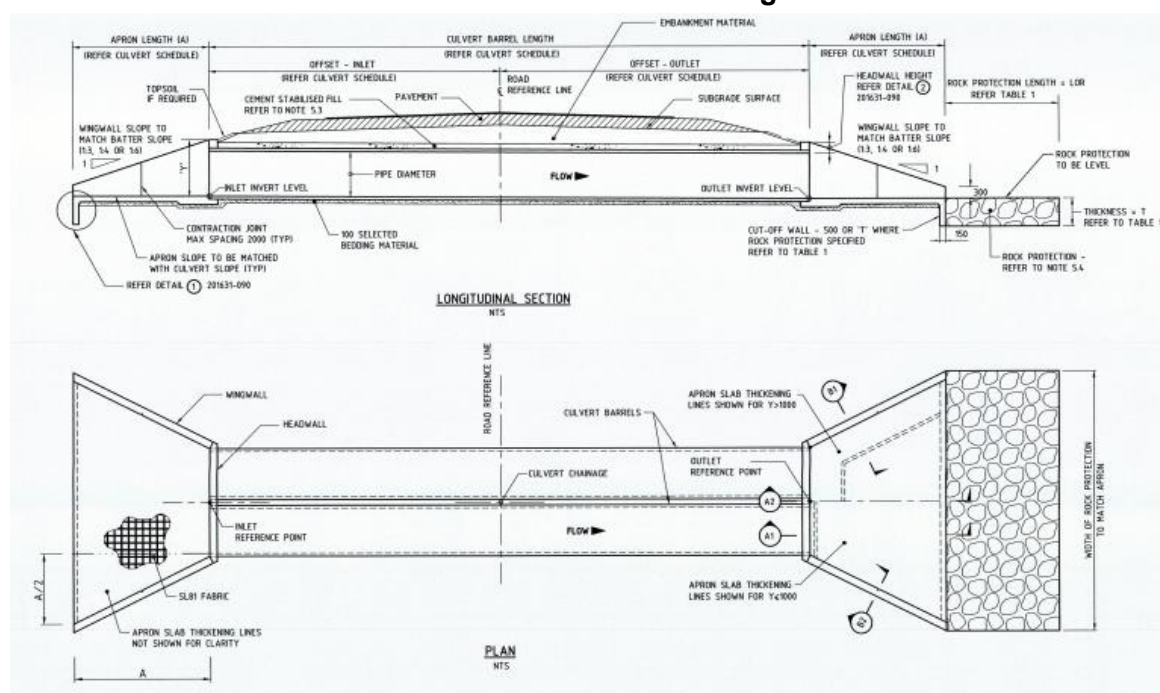
Culverts

A culvert is a structure that channels water past an obstacle or to a subterranean waterway. They are built under the road to allow water to flow from one side to the other and include a headwall and protection at the inlet and outlet to prevent scouring of the sloped road edges.

Typically, culverts are formed in either round or boxed sections and are constructed of concrete, although steel culverts are common in the northern regions.

Figure 4-4

Culvert Geometric design



Culverts cost less than bridges to construct, but unlike bridges, they can be blocked with debris. Regular monitoring and maintenance are essential to keep them clear. If a culvert is blocked, it can cause upstream or downstream flooding.

Figure 4-5

Examples of Culverts in rural Western Australia



Cost comparison of floodways, culverts and bridges

Culvert and floodway infrastructure is significantly more expensive to build and maintain compared to standard road formation. There are many variables involved in valuing culverts and bridges. Table 4-1 provides conservative and indicative rates to provide a sense of the relative costs per linear metre for floodways, culverts and bridges. The rates provided below for floodways are the additional costs (or extra over) the cost of constructing a typical road.

There are approximately 30,000 culverts sites on the Main Roads WA network. Many of these sites will include a single barrel culvert and will not meet the CGC criteria of a crossing greater than four metres. The data in Table 4-1 captures the costs of those culverts where the crossing is greater than four metres.

Table 4-1

Comparative cost to construct Floodways, Culverts and Bridges

	Floodways	Culverts (round)	Culverts (box)	Bridges (avg)
Indicative linear metre rate	\$807 - \$13,030	\$53,000	\$55,000	\$130,000

Note: These rates are for indicative and comparative purposes only. Bridge unit rates have many variables depending on height/headroom, water or rail crossing, location and specifics.

Source: Main Roads WA.

As shown, although the costs of constructing a bridge are substantially greater than constructing a culvert or floodway, the costs of constructing a culvert or floodway are still substantially greater than constructing a typical road.

Culvert and floodway data

The Bridges and Tunnels component is measured using actual lengths of bridges and tunnels managed by State governments. In the 2020 Review, the CGC stated⁴

“Culverts have not been incorporated into the measure of bridge and tunnel needs because the culvert data are not consistently recorded by the States or in the NTC data.”

⁴ *ibid.*, page 308, paragraph 107.

During the Western Australian State visit in November 2023, the Commissioners said some States do not have such data. However, we cannot understand how this could be the case. Although NTC may not record the data, States do. Main Roads WA has a detailed inventory of bridges, culverts and floodways on the Western Australian network. The number of assets is very high (approximately 30,000 culvert sites on the Western Australian State network and 650 kilometres of floodways).

Culverts and floodways require more frequent maintenance than roads to ensure they are kept clear to continue to serve their purpose (as noted above). If culverts and floodways are not maintained regularly, there is a risk of them being blocked and causing flooding. As a result, State road authorities must maintain registers of culverts and floodways to allow for asset management.

Currently States are asked to provide data on all bridge and tunnel lengths as a part of the data requests in each methodology review. In the same way, States should be asked to provide data on their culverts and floodways. If a State has no register of culverts or floodways then there would be no record of maintenance. Hence, this would imply that the State does not have these structures.

Regional costs

Because the CGC applies the General cost gradient in the Roads assessment, it falls far short of capturing the extra costs in Western Australia's regions. Western Australia has locations that take hours, or even days, to reach from the closest major population centre. If something, or someone, needs to travel from Perth via road, it requires a significant amount of travel time and is costly.

Regional costs are calculated for the Rural Roads and Bridges and Tunnels components based on the length of rural roads and bridges and tunnels and the regional costs General gradient. We can understand conceptually why the CGC would consider that regional costs are related to road lengths. However, the structure of the Roads assessment makes the application of regional costs to only road length expenditure incorrect.

For example, for Rural Roads, the CGC allocates national expenditure to either road length, traffic volume or heavy vehicle use drivers, according to NTC allocations (as noted above). Hence, only a portion of rural road expenditure is allocated to the road length driver. However, all expenditure on rural roads, regardless of what drives that expenditure, faces regional costs. This is no different to wage costs, which the CGC applies to all rural roads expenditure. Accordingly, regional costs should be applied to all rural roads expenditure.

Rawlinsons' indices

An alternative application of regional costs is to utilise Rawlinsons' indices. Rawlinsons' indices are widely used nationally and are prepared specifically to provide data on construction costs and variations. The indices are calculated for each capital city and for each region within States. Therefore, nationally consistent data are readily available.

Main Roads WA uses Rawlinsons' indices in part to value their infrastructure assets. The valuation approach has been audited and accepted by the Office of the Auditor General. We believe Rawlinsons' indices would better reflect costs faced in regional areas for the Roads assessment, particularly as roads require construction and maintenance. Table 4-2 shows the Rawlinsons' capital cost gradient for 2021-22.

Table 4-2

Rawlinsons' capital cost gradient 2021-22					
	Major cities	Inner regional	Outer regional	Remote	Very Remote
NSW	1.008	1.062	1.149	1.275	1.345
Vic	0.947	0.954	0.972	0.972	-
Qld	0.947	1.028	1.057	1.379	1.524
WA	0.991	1.074	1.187	1.485	1.574
SA	0.970	1.047	1.105	1.192	1.295
Tas	0.950	0.950	0.973	1.180	1.255
ACT	0.950	1.059	-	-	-
NT	-	-	1.065	1.113	1.545

Source: Rawlinsons 2022. Commission calculations

The CGC applies the General gradient as it considers a regional cost gradient for roads cannot be readily measured. It is immediately clear that the very remote allowance of 1.20 under the General gradient is significantly lower than the additional weighting Western Australia would use, and experience in its northern regions (i.e., for all areas north of Carnarvon an index of 1.5 or over is applied). The General gradient's outer regional allowance of 1.04 is also very low. This area covers much of the Western Australian Wheatbelt and South West where an index of 1.2 is commonly applicable.

Clearly, the General gradient used by the CGC does not adequately consider the costs of quarrying, plant and transport in remote and very remote areas. Surely the General gradient, which is calculated from the average of Government Schools and Admitted Patients, cannot better represent current cost weights for the Rural Roads or Bridges and Tunnels components than using Rawlinsons' indices.

In the limited time frame of the 2025 Review, we consider Rawlinsons indices would provide a better alternative to using the General regional cost gradient for Roads.

Regional costs – Fitzroy River Bridge

In January 2023, days of heavy rain dumped by ex-tropical cyclone Ellie caused the Fitzroy River to peak. Fast-moving floodwaters damaged hundreds of homes and caused irreparable damage to the only bridge connecting the East and West Kimberley.

The absence of a bridge over the Fitzroy River has been a logistical nightmare for businesses in East Kimberley who were cut off from the most direct land route to Broome and on to Perth. Without the bridge, some freight had been forced to travel through the Northern Territory and South Australia, adding thousands of kilometres and vast expense to the trip.

To progress replacing the bridge as quickly as possible, a project team of over 100 workers worked seven days a week. As part of delivering this in such a remote location the project established:

- a dedicated temporary concrete batch plant to provide concrete for the project;
- a temporary 100-bed construction camp 9 kilometres west of the town, to house the project team;
- a project site office in the laydown area; and
- low level crossings for use during the dry season to cross the river, with barges to operate during the wet season.

The bridge piers involved precast shell segments, prefabricated in Perth and transported to Fitzroy Crossing by truck. Once in place, the precast shell segments were filled with steel reinforcement and concrete.

Although this is one example of a remote area project, it is common practice required to build roads and road structures in remote areas. All aspects of the project contribute to the substantial costs, which relate to materials and plant and labour costs, to source and produce road building materials.

Relationship to Urban Transport assessment

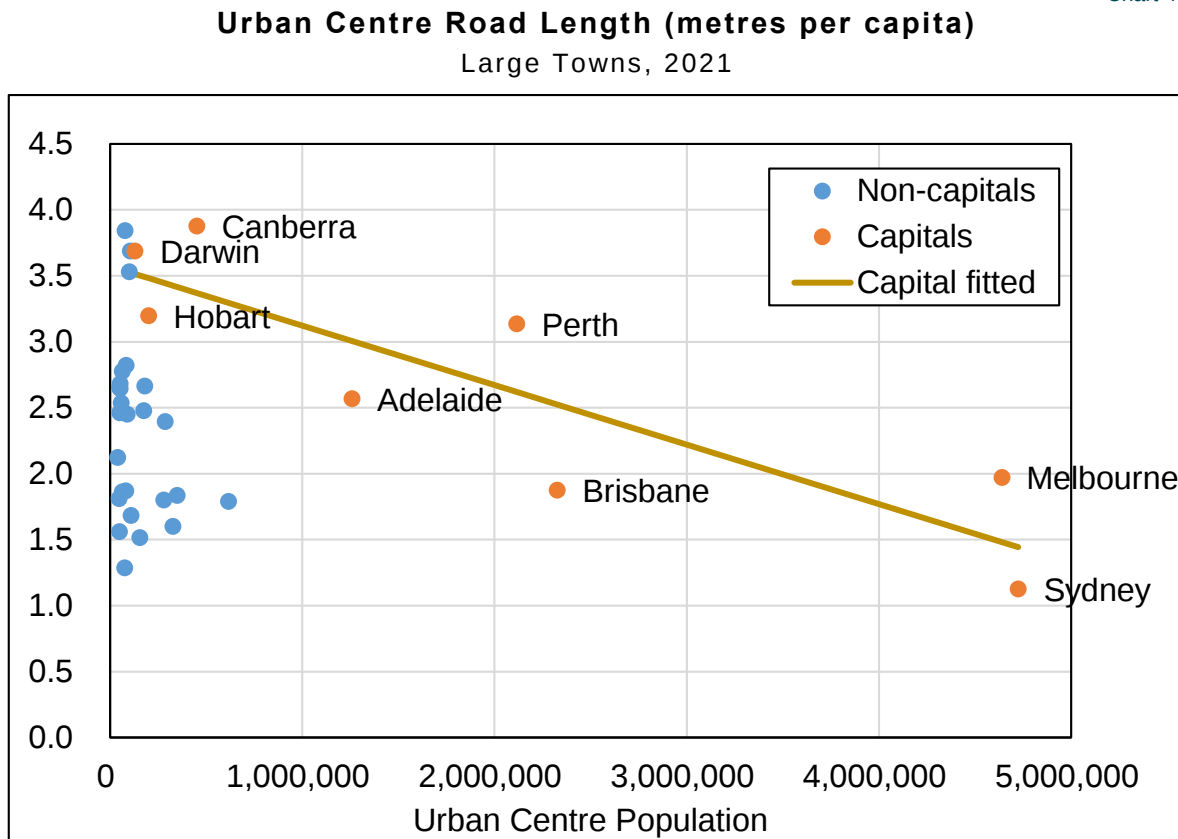
We found Figure 3 in the CGC's Roads consultation paper very interesting.⁵ We have reproduced it as Chart 4-1, with the capital-city data points coloured differently, and a straight line fitted through those data points.

We conclude that capital cities follow a pattern, reflecting their similar nature of very centric-orientated travel patterns.

Non-capital urban centres on the other hand have rather ad hoc structures, and hence ad hoc per-capita road lengths.

⁵ Commonwealth Grants Commission (2023), *2025 Methodology Review, Roads consultation paper*, page 11, Figure 3.

Chart 4-1



Source: Derived from CGC data.

If the capital city portion of the above chart were turned upside-down, it would look like Urban Transport charts that the CGC has been presenting for decades. The relationship is essentially the same driver as Urban Transport, just in the opposite direction. Therefore, the CGC should calculate this offset.

- The CGC should assess capital city road lengths according to the fitted line, and assess non-capital urban centre road lengths according to the average of the non-capital urban centres.
- Alternatively, the CGC could just use actual urban road lengths for all urban centres (capital and non-capital).
- This would be material for a data adjustment. (Note, it is not a separate driver, so does not have to meet the \$40 per capita materiality threshold.)
 - The CGC could render it immaterial by sufficiently increasing the blending for the Urban Transport recurrent and capital assessments, as we argued in our Tranche 1 submission (as the same discount should apply to this urban road length adjustment).

5. Services to Industry

KEY POINTS – SERVICES TO INDUSTRY

Issues of concern to Western Australia

Remoteness increases business development costs

The Business Development component does not acknowledge the additional cost of supporting industry in remote areas.

Previously the CGC has stated that, as many business development activities are funded through grants administered from department staff in major cities, there is no requirement for regional costs to be taken into account. But in Western Australia, organisations apply for funding based on the cost of delivering the required outcome, and this will cost will be different for remote areas.

CGC consultation paper

Q1. Do States support replacing total factor income as measure of industry size with the chain volume measure of industry value-add to assess the need for spending on industry regulation?

We support this proposal in concept. We believe it captures the drivers of spending while reducing the impact of commodity price volatility.

Q2. Do States support the development of an average or representative base year to index changes in the chain volume of production?

Without more detail on the way an average base year would be derived, we cannot support either method. Our support is contingent on the proportions of total output across the States for the base year being representative of actual output figures, as it is when using total factor income.

Q3. Do States support the reintroduction of the number of businesses as a driver of need for regulatory spending if it is material?

We do not support this. Business counts do not reflect either business activity, or the regulatory burden on the State.

The proposed change from total factor income to chain volume of production with a base year that reflects a three- to five-year average would achieve the stated goal of reducing volatility from changes to commodity prices in the assessment.

If this change is considered inadequate, the CGC could look instead at using employment in industries as a driver.

Q4. Will States be able to identify spending on the net-zero transition and provide it to the Commission to develop an assessment?

It is likely we would be able to identify these expenses through a data request, though it would be complex.

Q5. Can States identify and provide data on potential drivers of state spending on the net-zero transition?

There are likely to be a number of different drivers of State spending on different aspects of the net-zero transition, depending on State circumstances with regards to their existing energy generation infrastructure, existing extractive fossil fuel industry, and natural features. We cannot confirm whether we will be able to provide the data prior to having details of the data required.

Q6. Do States expect there to be a sufficient increase in state net-zero transition spending to warrant a separate assessment, within or outside of the business development assessment?

We expect there to be significant costs related to the net-zero transition, across a variety of different areas. Some of these costs will not fall within the COFOG-A codes used for the Business development component, so a separate data return may be required.

Remoteness and Business Development

The Business Development component of the Services to Industry assessment is deemed to be driven by the population of each State, with a wages factor applied. The assessment does not acknowledge the additional cost of supporting business in remote areas.

The CGC's reasoning is that business development activities are funded through grants administered from departmental staff in major cities, and because of this, there is no impact from regional costs.

In Western Australia, many business development activities occur in regional areas, particularly programs administered by the Western Australian Department of Primary Industries and Regional Development (DPIRD), such as the Regional Economic Development (RED) program. The RED program selects projects to fund through a grant application process, where an organisation will apply for a grant for an amount required to achieve a specific outcome. It will provide cost estimates to the grant approval body that take the local prices in the region into account. These costs will be greater than a grant required to achieve the same outcome in a major city.

Western Australia also engages heavily in business development for tourism. This includes funding training activities for local government tourism and economic development officers, delivering agritourism workshops outside of the Perth region and subsidising airfares for remote aviation operators to make regional routes economically viable. These activities encounter regional prices that are built into their funding allocation.

In addition, the State employs Tourism Experience Development Managers. These managers are based in different regions around the State and work directly with local tourism providers to improve tourism experiences. Depending on the region, these employees receive additional leave allowances, cost of living subsidies, and travel concessions as incentives for working in regional areas, particularly in the very remote areas in northern Western Australia.

So, although many grants may be processed by staff in Perth, their funding quantum reflects the costs in the regions where they are applied. Other costs are directly attributable to activities in regional areas. Hence, it would be appropriate to include a remoteness factor in the Business Development component of the Services to Industry assessment.

Reintroduction of business counts

In the 2020 Review, in order to simplify the assessment, the CGC removed the business counts driver from the Agriculture component. It was not used for the Other Industries Regulation component because reliable data could not be produced, and mining regulation had not been separated from other industries regulation at the time. There was no material difference from the inclusion of business counts as a driver, which supported its removal.

Hence, the CGC has measured States' regulation spending need solely by the level of economic activity, by sector, through a measure of total factor income. However, the recent strong increase in commodity prices has increased this measure of economic activity for the Agriculture and Mining components, without a commensurate increase in the need for State regulation spending. Therefore, the CGC proposes to replace the total factor income driver with a volume-based measure such as the chain volume of industry value added.

We have some concerns with the method to derive a base year for the chain volume approach, as the choice of the base year highly impacts the results of the assessment. We believe that the total factor income method accurately defines the composition of industry output across the States, and the fact that the base year will need to be derived by CGC methods may mean that the chain volume approach may not be as accurate in this regard.¹ We acknowledge that price volatility when using total factor income as a driver is a significant issue, but we would only be able to support the change if we believe that it accurately measured the composition of output across the States in the base year.

In addition, the CGC proposes to reintroduce business counts when assessing State spending needs on regulation. We do not understand why this is needed when the use of a volume-based measure solves the commodity price volatility problem, and given the reasons it was discontinued in the 2020 Review.

Regardless, we consider business counts to be an inappropriate driver of regulatory spending, as business counts do not reflect either business activity or the regulatory burden on the State.

¹ The total factor income method uses published data directly from the ABS, while the proposed chain volume method will involve the CGC deriving a base year figure.

The size and nature of a business has a significant influence on the volume and complexity of regulations that are enforced on it, particularly in the mining industry. Simply counting the number of businesses implies that all businesses cost the same to regulate. It does not capture the complexity of reality.

A mining company will be subject to different regulations depending on whether it controls active mining projects, or exploratory projects. It will also experience an increasing amount of regulation if the project features a high degree of complexity.

An example of this complexity is where a large-scale iron ore mine with a rail and port component will require approvals from several government departments, and will cover a much broader area, which will increase the burden of enforcing mine rehabilitation requirements. A small gold mining operation on the other hand will involve a single department, and less compliance activity. Both projects would be counted as a single entity in the Australian Bureau of Statistics business counts, when the cost to the State to regulate them is significantly different.

Furthermore, additional drivers need to be weighted based on importance and, in the absence of regression analysis, would largely require CGC judgement. Reducing the number of contentious drivers in this assessment, as was done in the 2020 Review, should be a priority.

If the CGC was not satisfied that the change from total factor income to chain volume of production adequately addressed commodity price volatility in the assessment, there are other measures that would more accurately reflect the regulatory burden on the State.

For example, comparing the number of people employed in particular industries would reflect the regulatory burden to enforce workplace safety policies, and would also take into account the scale of an industry more effectively than business registration counts.

Assessing State spending on the net-zero transition

States will need to increase expenses to make the transition towards net-zero carbon emissions. These expenses are likely to impact many government departments, both directly and indirectly.

While we do not know the quantum of State spending on the transition to net-zero, it is likely that some direct expenditure will be in the form of equity injections and concessional loans to energy providers so that they can utilise renewable generation and storage while continuing to provide coverage to customers. It is likely that some of this spending will be recovered from the providers in the form of revenue, but these mechanisms are still being considered.

There is also likely to be direct support for the transition to net zero for certain high emission industries. For example, Western Australia's Collie Transition Package aims to support alternative industry in the town as coal production reduces.

Assistance to industry for investment in renewable energy and hydrogen is likely going to become more substantial in the future. This may be in the form of grants, or investment in enabling infrastructure.

There will be rebates and incentives for transitioning away from fossil fuel powered vehicles to electric vehicles. Western Australia currently has a conveyance duty rebate in place for the purchase of an electric vehicle, in addition to grants being available to businesses and local governments to install charging infrastructure.

We have considered possible expense drivers for the transition to net zero. Some aspects to consider are as follows.

- The type of existing electricity generation infrastructure in a State would have an impact on how much a State needs to spend on renewable energy generation to replace it.
- The proportion of existing high-emission-producing industry would influence how much a State needs to spend to develop alternative industry.
- The climate and natural features of a State will influence the composition of renewable energy generation in a State, and these energy generation methods may have different development and maintenance costs that a State will need to support.
- States with a larger land area may have to install a higher volume of energy transmission infrastructure to service renewable energy generating investments in discrete locations.

We are unable to confirm what data can be provided until any data requests are finalised, but we will endeavour to provide appropriate data.

6. Other Expenses

KEY POINTS – OTHER EXPENSES

CGC consultation paper

Q1. Do States agree with the expenses classified to the other expenses category?

We agree with the current expenses classified in the Other Expenses assessment.

Q2. Do States agree that other expenses should be assessed equal per capita (EPC)?

Population is likely the driver for a large proportion of the expenses in this assessment. It is unlikely that a better driver can be found for the remaining expenses. As such, an EPC approach remains appropriate.

The Other Expenses assessment captures residual expenses not captured within other expense assessments. We are comfortable with the expenses categorised within this assessment.

EPC is the appropriate assessment method as population is likely the main driver for the majority of State spending on general public services, public safety and communications. These comprise most of the spending in this assessment.

We support the current method to apply wage costs and regional costs to Other Expenses.

7. Natural Disaster Relief

KEY POINTS – NATURAL DISASTER RELIEF

CGC consultation paper

Q1. Do States support the continuation of the Natural Disaster Relief assessment in its current form?

We support the continuation of the Natural Disaster Relief assessment in its current form. Given there is no clear driver for natural disaster relief until an event occurs, actual per capita (APC) remains the most appropriate option.

As natural disasters increase in frequency and intensity, the expenses associated with these events will continue to increase. When these events occur in Western Australia there has been an increasing requirement to build critical infrastructure to a level that will withstand the possibility of future events. This is supported by the 'build back better' principle in the Disaster Recovery Funding Arrangements.

An example of infrastructure restoration to a stronger level is the Fitzroy River Bridge. Significant flooding events in December 2022 and January 2023 caused substantial damage, cutting access to Aboriginal communities, the East Kimberley and Northern Territory. During the repair process there was an emphasis placed on ensuring the bridge would withstand future flooding events.

We support the CGC's intention to restrict assessing expenses on natural disaster relief to expenses covered by the Disaster Recovery Funding Arrangements. These events are unpredictable, and no clear driver can be identified.

APC remains the most appropriate method for this assessment, as the Disaster Recovery Funding Arrangements are uniform across States. We support expenses outside the Disaster Recovery Funding Arrangements being assessed in other categories.

8. Investment and Net Borrowing

KEY POINTS – INVESTMENT AND NET BORROWING

Issues of concern to Western Australia

As discussed in the Transport chapter of our Tranche 1 submission, the CGC should blend the urban transport regression model with constant assets per capita, instead of with the population-squared model.

CGC consultation papers

Responses to the questions in the Investment and Net Borrowing consultation papers are featured below.

Investment

Q1. Do States support smoothing user population growth to reduce volatility, with an associated reduction in contemporaneity?

We do not support smoothing population growth in the Investment assessment, for various reasons, as discussed below, including the reduction in contemporaneity.

Q2. If user population growth were to be smoothed, do States support a 3-year moving average of growth rates?

We do not support smoothing population growth, but if it were to be done, we would prefer shorter rather than longer averaging periods.

Q3. Do States support freezing the component shares of the value of assets for the life of the 2025 Review?

As the impact of this change on assessment outcomes is likely to be very minor, we support the freezing of component shares to reduce the data collection burden on States.

Net Borrowing

Q1. Do States agree that the conceptual basis for the Net Borrowing assessment remains unchanged?

We agree.

Q2. Do States support smoothing population growth to reduce volatility in the net borrowing category if a change is made to smooth population growth in the Investment assessment?

While we do not support the smoothing of population growth in the Investment assessment as discussed above, if the CGC makes this change, we would support it also being implemented in the Net Borrowing assessment, as the two assessments should be consistent.

Smoothing of population growth

The consultation paper proposes that the CGC replace annual population growth with a moving average of population growth, to smooth the assessment.

We do not support smoothing of population growth.

- This would reduce contemporaneity, with populations from six years earlier being used.
- A smoothing effect is already implemented in the assessment through the three-year averaging of relativities.
- Introducing smoothing would double count old population growth that had already been fully used by the CGC without smoothing.
- The recent population growth volatility discussed in the consultation paper reflected the extreme circumstances of the COVID-19 pandemic. There is no reason to expect such volatility to happen again soon or often.
- Investment decisions for new infrastructure are typically based on future population projections, rather than historical population growth. While historical growth will influence future population projections and the development of investment strategies, there are many other factors that influence these projections. Also, more recent historical growth trends will influence future projections more than older historical growth trends.
- The HFE principle requires giving States the same capacity to provide services, including the assets used in that service provision. If a State has volatile population growth relative to the national average, then its assets per capita will quickly vary from the national average. While in practice, a State may not undertake volatile asset purchases, it requires the capacity to do so if it is to have the capacity to have national average standard of service provision.
- If the CGC wishes to take into account the lumpiness of capital purchases, then it should take account of the opportunity cost of underutilised infrastructure, as discussed in our July 2013 submission to the 2015 Review.¹

Freezing the value of asset stocks

The consultation paper proposes that, between method reviews, the CGC freeze the proportion of total assets that is in each component (it would still update the total value of assets each year).

We appreciate the CGC's concern with regards to reducing the burden on States to complete the capital stock data request on an annual basis. While we do not find the data return to be overly difficult, it is time consuming for the Western Australian Treasury staff that complete it.

¹ Western Australia (2013), *Western Australia's Submission to the 2015 Review*, July 2013, pages 34-42.

Our analysis indicates that the change would have a very minor impact on the assessment outcomes, and would not disadvantage any particular State. As a result, we are comfortable with the CGC implementing this change and eliminating this portion of the data request.

9. Administrative Scale

KEY POINTS – ADMINISTRATIVE SCALE

CGC consultation paper

Q1. Do States support the continuation of the Administrative Scale expense assessment in its current form?

We support the continuation of the Administrative Scale assessment in its current form.

The Administrative Scale assessment methods were updated in the 2020 Review period.

We believe there have been no significant changes to the size or composition of Administrative Scale expenses facing governments. Hence, we support the continuation of the Administrative Scale assessment in the current form.

10. Geography

KEY POINTS – GEOGRAPHY

Issues of concern to Western Australia

ARIA+ disadvantages Western Australia

The CGC's current method for calculating the regional cost gradients using ARIA+ (Accessibility/Remoteness Index of Australia Plus) remoteness regions, substantially dilutes Western Australia's regional costs. The underlying calculations fail to adequately recognise Western Australia's costly remote regions and areas that face different drivers of regional costs than other States.

General gradient

The General gradient is not reflective of regional costs faced by many assessments to which it is applied. The gradient is significantly understated and should be updated to include calculated regional cost gradients from other assessments.

Service delivery scale

It is often unclear when service delivery scale is applied to the assessments. It is likely that service delivery scale occurs in other assessments, but to which it is not applied.

Alternatives to ARIA+

To better capture the regional costs faced by the States, we propose the following alternatives to the current ARIA+ method.

- Continuous ARIA+ scores
 - Regressing the ARIA+ scores for each location enables a policy neutral approach.
- Removal of truncation of ARIA+
 - The truncation is intended to remove 'anomalies'. However, doing this does not adequately capture what the CGC is intending to measure. It severely underestimates the significantly higher costs of providing services to Western Australia's remote areas.
- A measurement of amenity.
- Utilising the Rawlinsons' capital cost gradient for assessments that include construction or maintenance costs, or in place of the General gradient.
- A blended approach
 - Given the short timeframe of this review, applying an interim approach of blending the current method of regional costs with a distance-to-closest capital city or urban centre factor (weighted 50% each).

CGC consultation paper

Q1. Do States support continuing the current methodology for estimating regional costs and service delivery scale?

The current methods do not adequately compensate the costs of providing services to Western Australia's vast regional areas. We have provided proposed alternatives to the current ARIA+ method.

Q2. Can States identify any data to measure differences in non-wage costs between major cities?

We believe there is merit in including an isolation factor to measure the difference in non-wage costs between major cities. Given the limited timeframe for this review, an assessment of interstate non-wage costs should be retained, based on the adjustment applied in the 2015 Review.

ARIA+ Methodology

Western Australia's regional costs are diluted

Regional costs are calculated by the CGC based on the five Accessibility/Remoteness Index of Australia Plus (ARIA+) remoteness regions.

- Major cities of Australia
- Inner regional Australia
- Outer regional Australia
- Remote Australia
- Very remote Australia

Each location is allocated to a region based on its score, as produced by the Australian Centre for Housing Research. Each location's score relates to distances to five centres of progressively smaller populations (from major cities labelled Category A, down to small towns at Category E). A location's distance to each other category location is divided by the national average distance to that location, and summed.

The current method to apply ARIA+ scores to regional locations severely underestimates and misrepresents the high costs experienced in Western Australia's remote and very remote regions. This is primarily due to Western Australia's unique geographical disadvantage. Western Australia must provide services to regions that are significantly further from a major city in comparison to the distances faced by other States.

As acknowledged in the 2025 Review Geography consultation paper (CGC paper):¹

“In the 2020 Review, the Commission acknowledged that the 5 ABS remoteness categories do not cover the full range of circumstances experienced by states and territories and that, therefore, providing services to locations in the same remoteness area can have very different costs.”

ARIA+ was developed deliberately with a mechanism to remove ‘anomalies’, or very high scores, so that similar locations can be compared across States. This is achieved by capping each location category score to three times the national average distance to that location category (or 1,236 kilometres from a Category A location). Hence, a location’s score will range from zero to 15. However, removing these anomalies is inconsistent with the CGC’s intention to capture the additional costs faced in a location. It limits the capacity of the CGC to accurately capture the additional costs in locations that are significantly further than three times the average distance to larger service centres.

Table 10-1

Halls Creek ARIA+ Score Current Method

		Location	Distance	National Average	Distance/national average	ARIA+ methodology
Category A	250,000+	Perth	2,669	412	6	3
Category B	48,000-249,999	Darwin	1,186	214	6	3
Category C	18,000-47,999	Darwin	1,186	133	9	3
Category D	5,000-17,999	Broome	693	88	8	3
Category E	1,000-4,999	Halls Creek	0	46	0	0
Total					29	12

Only Western Australia locations

		Location	Distance	National Average	Distance/national average	ARIA+ methodology
Category A	250,000+	Perth	2,669	412	6	3
Category B	48,000-249,999	Perth	2,669	214	12	3
Category C	18,000-47,999	Kalgoorlie	2,498	133	19	3
Category D	5,000-17,999	Broome	693	88	8	3
Category E	1,000-4,999	Halls Creek	0	46	0	0
Total					46	12

Source: Western Australia Treasury calculations based on ARIA+ methodology.

Note: Distances are approximations.

¹ Commonwealth Grants Commission (2023), *2025 Methodology Review, Geography consultation paper, October 2023*, page 9, paragraph 20.

For example, an untruncated score for Halls Creek, in Western Australia's Kimberley region² is 29 (see Table 10-1). However, under the ARIA+ method, it attracts a score of just 12. Further, this calculation uses Darwin as the Category B and Category C location.

But Darwin is unlikely to be a service centre for Halls Creek or other Western Australian towns in areas near the Northern Territory border. In reality, and for practicality reasons, staff and services come from within Western Australia. Framed this way, the untruncated score for Halls Creek is 46.

Further to the averaging and capping method, the CGC also averages the costs across States for each remoteness region. Whilst this is done to achieve policy neutrality, the vast differences between States' locations in similarly-classified regions, especially for more remote areas, does not appropriately lend itself to averaging. Averaging across the States dilutes the regional costs allowance further.

Western Australia's remote areas

Western Australia is the only State that has multiple remote areas surrounded entirely by very remote areas.³ Many of these locations are significantly further away from a major city in comparison to other States, resulting in the service costs being considerably higher than other State's remote locations that are much closer to major cities. These regions are only classified as remote (rather than very remote) because the system is categorised by population size (and the towns are of a reasonable size), and through the truncation mechanism.

Queensland is another State with vast areas of greater remoteness. However, it also has large centres along its coastline. A town like Clermont, classified as a remote location due to its distance from Brisbane, is less than 300 kilometres from Mackay, with a population of over 120,000 people. It is only 500 kilometres from Townsville, with a population of around 200,000 people. Cairns has 160,000 people. Bundaberg has 100,000 people. Rockhampton has more than 80,000 people. These are sizeable cities with a range of goods and services that would be accessible to many of these 'remote' towns. This is in no way comparable to Western Australia's towns in remote pockets. For example, Karratha has around 22,000 people and is 1,100 kilometres from Geraldton, with less than 40,000 people, and 1,520 kilometres from Perth.

Therefore, averaging expenses across States by remoteness regions is not appropriate, unless those remoteness regions are made more comparable.

² Halls Creek is a Category E location, 2,660 kilometres from Perth, or a 29-hour drive.

³ For example, Broome (population of 15,000), Karratha (22,000) and Port Hedland (16,000).

Travel within Western Australia is expensive. Despite this, Western Australia has an obligation to provide services to these remote areas. Whilst there is the ability to fly to most of Western Australia's isolated remote areas, these flights are costly due to the vast distances, less airline competition in comparison to the east coast, and diseconomies of scale. As noted above, other States have large population centres much closer to remote areas. Often it is cheaper and easier to drive to these locations.

Flying is not always the most appropriate way to reach a location. If large objects are required to be moved (e.g., for the construction of a bridge) they must be moved by truck. It takes approximately 22 hours to drive from Perth to Broome (by car; for a truck it would take longer). In that time, you could drive from Adelaide to Melbourne, Melbourne to Sydney and more than halfway to Brisbane.

Agencies in Western Australia consistently tell us the costs they face are much higher than the cost gradients used by the CGC in its assessments. This is particularly true for the Kimberley and Pilbara area, which are much further away from the State's Category A and Category B locations than the average. The way ARIA+ is calculated does not translate to the actual cost to provide services in Western Australia's more remote locations, nor is it comparable to the costs in other State's remote locations. This is not due to State policy.

Comparative State analysis

The problems with ARIA+ are evident when you compare substantially different States, like Western Australia and Tasmania.

It is unjust that, for 2023-24, Tasmania receives \$1,109 per capita for regional costs whilst Western Australia only receives \$223 per capita.⁴ Even with a population of only a fifth that of Western Australia, Tasmania receives \$648 million for remoteness compared to \$633 million for Western Australia.

In the Health assessment, for 2023-24, Tasmania receives \$501 million for regional costs, where Western Australia receives just \$129 million (that is, \$880 per capita for Tasmania versus \$47 per capita for Western Australia). Royal Hobart Hospital is a tertiary hospital that provides services the same as a major city hospital in any other State, and is vastly different from other inner regional hospitals. The cost of travel required for complex cases in regional areas in Tasmania would be significantly lower than travel from Western Australia's regional areas. An extremely complex case may have to travel to Melbourne, but this is likely the case for a complex medical case in Perth also. Yet, Tasmania receives almost four times the allowance.

Further, Strahan is classified as a remote location and yet is only 300 kilometres from Hobart. It is difficult to comprehend that a location that can easily be reached by car in a few hours from the State's capital city would attract the same classification as Karratha or Port Headland.

⁴ Commonwealth Grants Commission (2023), *2025 Methodology Review, Geography consultation paper, October 2023*, page 8, Table 3.

These results are primarily due to Hobart's classification as a Category B centre (inner regional), based on the ARIA+ methodology that defines a Category A location to have more than 250,000 people. The population of Hobart that is used is based on a boundary that holds Hobart's population to below this level. The 2021 census records the Greater Hobart boundary population to be 247,086. This population is likely to have exceeded the limit of 250,000 by now.

Therefore, Hobart is borderline Category A. We believe that Hobart, particularly in the context of CGC assessments, is no more costly to provide services than any other capital city. It is only 600 kilometres (as the crow flies) to Melbourne, Australia's second largest city. Perth is 2,100 kilometres to Adelaide, a smaller city than itself, and 2,700 kilometres to Melbourne. The classification of Hobart as Category B creates illogical results (as noted above).

Drivers of remote cost

Towns face differential costs within the same ARIA+ remoteness regions due to a range of reasons, apart from the truncation effect. For example, if a town is on a major travel route, they likely have better amenity and access to better services. Towns that are not on major routes, even if they are the same size and remoteness category, may find it considerably harder to access services as providers need to travel further out of their way to reach these locations, often on unsealed roads. These locations experience difficulties accessing services, resulting in higher costs.

General gradient

The CGC uses the General gradient when it believes the direct regional costs of an assessment cannot be readily quantified. However, we are concerned with the overreliance of the General gradient, given that it is the average of only two assessments; government schools and admitted patients. Limiting its exposure in such a way does not accurately reflect 'general' regional costs. Indeed, it severely underestimates the costs faced to deliver services under other assessments. In addition, the gradient is discounted 25% because of a possible lesser relevance to other assessments, which perversely lowers the gradient further.

Consider that hospitals generally occur in bigger population centres to gain economies of scale. One will not find a hospital in small, hard to reach locations. Whilst one will likely find a school in such locations, the reasons for their higher costs will be different to most other assessments. Schools spending accounts for the individual characteristics of students, as well as the size and location of the school. It does not account for other costs that are higher in remotes areas, for example the travel required to provide services such as child protection or the maintenance of roads. Yet both these assessments utilise the General gradient to calculate regional costs.

We also have concerns with the results that inform the General gradient. For example, in very remote areas, we do not believe that schools attract a higher cost weight than hospitals (admitted patients). Conceptually the results do not make sense, casting doubt on the calculation of regional costs that are applied to many other assessments.

Hence, the additional costs faced by schools and hospitals can vary substantially to other assessments. A better representation of regional costs across a range of assessments would be the average of all available regional cost gradients.⁵ In addition, efforts should be made to develop category-specific cost gradients for more assessments, to add to this list.

Table 10-2 is from the CGC's 2023 Update. It outlines the regional cost and service delivery scale (SDS) gradients for each assessment that has its own category-specific gradient.

Table 10-2

Regional cost and SDS cost gradients
2023 Update

	Gradient	Major City	Inner regional	Outer regional	Remote	Very Remote
General	Regional costs	1.00	1.00	1.04	1.18	1.20
Schools	Regional costs	1.00	1.00	1.10	1.40	1.40
	SDS	1.05	1.11	1.15	1.21	1.27
	Combined	1.05	1.11	1.25	1.60	1.67
Post-secondary education	Regional costs	1.00	1.10	1.17	1.53	1.91
Admitted patients	Regional costs	1.00	1.00	1.00	1.07	1.14
	SDS	1.00	1.03	1.08	1.11	1.46
	Combined	1.00	1.03	1.08	1.18	1.67
Emergency departments	Regional costs	1.00	1.00	1.00	1.22	1.22
	SDS	1.00	1.04	1.13	1.16	1.54
	Combined	1.00	1.04	1.13	1.42	1.88
Prisons ^(a)	Regional costs	1.00	1.00	1.00	1.14	1.14
	SDS	1.00	1.00	1.00	1.04	1.04
	Combined	1.00	1.00	1.00	1.17	1.17
Courts	Combined	1.00	1.00	1.00	1.21	1.21
Electricity subsidies	Regional costs	0.00	0.00	0.00	1.00	3.45
Water subsidies	Regional costs	0.11	1.00	2.17	4.45	4.45
Construction costs ^(b)	Regional costs	1.00	1.06	1.14	1.27	1.34

(a) Adjusted from place of prison.

(b) This represents the national average construction cost gradient. State specific gradients are used in the Investment assessment.

Note: Regional costs and SDS are multiplicative factors in all categories except Schools, where the factors were calculated from a regression equation which is additive in nature.

Source: CGC calculation

⁵ That is, Post-secondary Education, Housing, Services to Communities, Justice and remaining Health and Schools components.

We are concerned at the stark variation of regional costs and SDS across the assessments. In some cases, it does not make sense conceptually. For example, the regional costs associated with post-secondary education, which in remote areas is primarily provided by State-run organisations, should not be significantly higher than the cost to provide prison services or courts. Yet Post-secondary is provided 53% and 91% higher costs in remote and very remote locations, respectively, where Prisons is 14%, and Courts 21%, for both.

Regarding prisons, Western Australia's Department of Justice reports that the daily cost per prisoner in the Pilbara and Kimberley (in remote and very remote ARIA+ regions) is around double the cost in Perth metro. That is, 100% higher costs rather than 14% as allowed by the CGC. Daily costs per prisoner in the Eastern Goldfields Regional Prison, in Kalgoorlie are 130% higher than the cost in Perth metropolitan area. Kalgoorlie is classified outer regional, yet is surrounded by a very remote classification, another anomaly.

The General gradient compares starkly with the more reasonable gradients for other assessments.

We understand that data requests can be onerous on States and agencies. We appreciate that the CGC attempts to collect up-to-date data whenever practical, but collecting data to accurately calculate regional costs for assessments should be a primary focus of the CGC. However, we are concerned that there is less effort from other States to collect data on the additional cost of providing services in regional areas when such areas are smaller and make up a smaller portion of their costs.

Service delivery scale

It is not clear when SDS is being applied in an assessment. For example, in the 2020 Review, there was a category-specific regional cost gradient calculated for Post-secondary education (this can be seen in Table 10-2). The Commission stated that the data gave a direct measure of both regional costs and SDS. However, no evidence is provided to support this notion and many tables in the CGC paper refer only to regional costs with no inclusion of SDS. This lack of transparency reduces the clarity of the assessment. Further, for some assessments, the CGC conflates additional costs from SDS to regional costs without separately categorising it as such.

States that have small, disperse population centres are likely to experience diseconomies of scale in a range of services. This is likely not as prevalent for smaller States that have a closer proximity to major centres despite having the same remoteness category. As a result, large, dispersed States are disadvantaged.

Current expense drivers

In order to capture the higher costs of delivering comparable services, due to increasing remoteness, the CGC calculates regional costs by multiplying a regional cost gradient by an expense driver that is specific to the particular assessments.

Table 10-3 details the assessments affected by regional costs. In some cases, we have concerns with their application.

In the Services to Communities assessment, the General gradient is applied to the population for the particular components. However, this is not valid.

Table 10-3

Expense Drivers of Regional Costs by component

Category	Component	Service usage
Schools	State funded government schools	Student Population
	State funded non-government schools	Student Population
Post-secondary education	Post-secondary education	Working age population
Health	Admitted patients	Usage by age, Indigeneity and SES
	Emergency departments	Usage by age, Indigeneity and SES
	Non-admitted patients	Usage by age, Indigeneity and SES
	Community health	Usage by age, Indigeneity and SES
Housing	Social housing	Usage by income and Indigeneity
Welfare	Child protection and family services	Population (0-14 years)
	Other welfare	Population
Services to communities	Water subsidies	Populations in areas with fewer than 3,000 people but greater than 50 people, and a population density of at least 60 people per km ²
	Electricity subsidies	Populations in remote and very remote areas with fewer than 3,000 people but greater than 50 people, and population density of at least 60 people per km ²
	First Nations community development	Population of Indigenous people in remote Indigenous communities
	Other community development	Population
	Environmental protection	Population
Justice	Police	Offender numbers
	Criminal courts	Defendant numbers
	Other legal services	Defendant numbers
	Prisons	Defendant numbers
Roads	Rural roads	Rural road length
Transport	Non-urban transport	Population
Services to Industry	Agriculture regulation	Place of work count
	Mining regulation	Place of work count
	Other industries regulation	Place of work count
Other expenses	Service expenses	Population

In the Water Subsidies and Electricity Subsidies components, regional costs are applied to all areas with a population fewer than 3,000 people, but greater than 50, and with a density of at least 60 people per square kilometre. Our Tranche 1 submission on this assessment argued that the range should be broader than this.⁶

In the Environmental Protection component for national parks and wildlife expenses, this should be calculated using their land area. For the control and erosion of beaches subcomponent, regional costs should be related to the length of the affected beach. The populations of the regions in which these parks and beaches exist are irrelevant (indeed, the parks have no population).

Alternatives

Alterations to ARIA+

The data collected to develop ARIA+ can potentially be applied in a range of ways. The current application is a selected mathematical construct that does not accurately account for differential costs. However, utilising the data in different ways such as a continuous ARIA+ score, the removal of the truncation method, or using more remoteness region bands could make better use of the data.

We understand that the CGC is working in a compressed time frame. If changes such as these are unachievable in this review period, effort should be taken to explore other options to account for remoteness costs.

Continuous ARIA+ score

During the 2020 Review, Western Australia argued that the CGC could use the ARIA+ scores for each location, rather than just the five categories of remoteness.⁷ We continue to believe that this would be an appropriate method.

The CGC responded that this “would preclude the Commission from building an assessment based on observations of what States do in a policy neutral way...”.⁸ We believe this misinterpreted our suggestion and that policy neutrality can be achieved.

We envisage that the CGC could regress the costs for each location against the ARIA+ score for each location, instead of grouping them into the five remoteness regions. This would develop a relationship between cost per user and ARIA+ score. The result would be policy neutral as long as the relationship was not overly driven by individual States.

⁶ Western Australia, (2024), *Western Australia's Submission to the Commonwealth Grants Commission's 2025 Methodology Review, Tranche 1 Assessments*, pages 55-65.

⁷ Western Australia (2019), *Western Australia's Submission to the Commonwealth Grants Commission's 2020 Methodology Review – Draft Report*, pages 95-96.

⁸ Commonwealth Grants Commission (2019), *(Draft) Report on GST Revenue Sharing Relativities, 2020 Review*, Attachment 25, page 8, paragraph 21.

The CGC argued that cost per use data was only collected for a small number of services, such as schools, with the majority of data being collected in broader regions. However, we would like to see more effort put into collecting cost data for specific locations to enable an assessment that is more accurate than the current overly simplified method.

This would also overcome the problem of two States having towns/areas that are given the same remoteness classification, even though they have very different ARIA+ scores. For example, one State's area with an outer regional classification, but with a score that is just greater than inner regional, compared to another State's area with the same outer regional classification, but with a score that is almost remote.

Truncated ARIA+ scores

The CGC acknowledges that the 1,236 km truncation (or three times the national average distance from a Category A centre) "is a simplification of the real-world relationship between distance and cost" but considers "that there are diminishing effects of distance." It stated that the "difference in remoteness between a major city and a location 500 km from a major city is much more profound than the difference between two locations 2,000 km and 2,500 km from a major city".⁹

The CGC also stated that distance from a major city only contributes 20% of a location's ARIA+ score.¹⁰ That alone highlights there are issues with the current method. In Western Australia's case, the large distances travelled, whether that be freight or the movement of people or construction materials, is often originating in Perth. Hence, when we need to transport someone or something to Kalumburu (3,670 km from Perth), ARIA+ substantially understates the distance.

The extreme distances in Western Australia beyond 1,236 km have a substantial impact on costs for the State. The removal of the truncation would better reflect such distances, when providing services in these regions.

This improvement can be completed within the timeframes of the 2025 Review.

A measure of amenity

We argued above that a driver of remoteness costs is the amenity of a service location. That is, a town on a major travel route will likely have better amenity through better access, which will lead to better and less costly services. This would occur because towns on major travel routes would see reduced freight costs, more frequent access to tradesmen, and the people employed by the State would more willingly settle in such centres, requiring fewer incentives to do so.

⁹ *ibid.*, paragraph 20.

¹⁰ Commonwealth Grants Commission (2020), *Report on GST Revenue Sharing Relativities 2020 Review*, Volume 2 (Part B), page 434, paragraph 15.

A relative measure of this amenity and access would greatly improve the remoteness gradients. One such measure would be distance to a major road, using some national standard, and blended with ARIA+ or distance to the capital city, or one or more of our other suggestions in this section.

We acknowledge that this would require more consideration over a period of time that is not conducive to the 2025 Review timeframe.

Rawlinsons' indices

Western Australia has locations that take hours, or even days, to reach from the closest major population centre. If something, or someone, needs to travel from Perth via road, it requires a significant amount of travel time and is costly.

A possible alternative to calculating regional costs for some assessments is to utilise Rawlinsons' indices. Rawlinsons' indices are widely used nationally and are prepared specifically to provide data on construction costs and variations. The indices are calculated for each capital city and for each region within States. Therefore, nationally consistent data are readily available.

WA Main Roads utilises Rawlinsons' indices as part of their valuation of their constructed infrastructure assets. The valuation approach has been audited and accepted by the Office of the Auditor General. We believe Rawlinsons' indices would better reflect costs faced in regional areas for some assessments. It would be particularly relevant to those that require construction or maintenance (e.g., Roads and Housing). Table 10-4 shows the Rawlinsons' capital cost gradient for 2021-22.

Table 10-4

Rawlinsons' capital cost gradient 2021-22

	Major cities	Inner regional	Outer regional	Remote	Very Remote
NSW	1.008	1.062	1.149	1.275	1.345
Vic	0.947	0.954	0.972	0.972	-
Qld	0.947	1.028	1.057	1.379	1.524
WA	0.991	1.074	1.187	1.485	1.574
SA	0.970	1.047	1.105	1.192	1.295
Tas	0.950	0.950	0.973	1.180	1.255
ACT	0.950	1.059	-	-	-
NT	-	-	1.065	1.113	1.545

Source: Rawlinsons 2022. CGC calculations.

In the Roads assessment, the CGC applies the General gradient as it considers a regional cost gradient cannot be readily measured. It is immediately clear that the very remote allowance of 1.20 under the General gradient is significantly lower than the additional weighting Western Australia would use, and experience in its northern regions (i.e., for all areas north of Carnarvon an index of 1.49 or over is applied). The General gradient's outer regional allowance of 1.04 is also very low. This area covers much of the Western Australian Wheatbelt and South West where a Rawlinsons' index of 1.19 is commonly applicable.

Clearly, the General gradient used by the CGC does not adequately consider the costs of quarrying (for Roads), plant and transport in remote and very remote areas. In the limited time frame of the 2025 Review, we believe Rawlinsons' indices would provide a better alternative to using the General regional cost gradient for some assessments.

Blended approach

Given the short time frame of this review period we understand that the CGC's ability to update the remoteness calculations is limited. For the 2025 Review we welcome the opportunity to work with the CGC to improve the regional costs gradients.

A blended approach is a possible interim solution to these issues. It could attribute 50% of the cost weight to ARIA+ results and the remaining 50% to a cost weight representing the road distance to nearest capital city (or urban centre) within the State. In this case, Hobart and Darwin should be considered capital cities as they are already benefitting from their ARIA+ classification as Category B.

This blended approach could be a stop-gap measure while the CGC and States develop a more robust and enduring method that no longer disadvantages larger States.

Interstate non-wage costs / Isolation

Although Category A capital cities are all assessed as facing the same per-capita costs, Perth faces additional costs due to isolation.

In previous reviews the CGC has agreed that non-wage costs differ between the States due to isolation.

The ABS remoteness areas do not fully capture all differences between capital cities and the interstate non-wage costs they face. While the use of the ARIA+ classifications has compensated Tasmania and the Northern Territory, as it classifies Hobart and Darwin as inner and outer regional areas, respectively, it fails to adequately account for Western Australia's isolation. Although Perth is a capital city it is significantly more isolated than other capital cities. The use of the ARIA+ classification does not fully recognise the cost pressures it faces, including freight, air travel, office rents and electricity costs.

We understand the difficulty for the CGC to source data that accurately measure these additional costs in the limited time frame of the 2025 Review. In the interim, we believe the CGC should re-apply the adjustment to recognise the costs for the relevant States from the 2015 Review.

QUESTIONS FOR THE CGC – GEOGRAPHY

Service delivery scale

To improve the transparency of assessments, will the CGC provide the States a detailed list of assessments that include SDS and details on how it is included?

Regional costs

Has the CGC considered utilising Rawlinsons' capital cost gradient for assessments that include construction or maintenance costs, or in place of the General gradient?

Are there any additional drivers the CGC is considering that influence remoteness costs?

Interstate non-wage costs

Given the acknowledgement from the CGC that there is a conceptual case for an isolation factor, will the CGC source data to measure this? And in the interim consider re-applying the adjustment from the 2015 Review to capture an isolation factor?

11. National Capital

KEY POINTS – NATIONAL CAPITAL

CGC consultation paper

Q1. Do States support discontinuing the National Capital assessment if the assessment is immaterial?

We support discontinuation of the National Capital assessment if it is immaterial. This will simplify the distribution methods and ensures materiality is applied consistently.

We support discontinuation of the National Capital assessment if the assessment is immaterial. This will ensure that materiality is consistently applied to assessments.

According to the CGC, it is likely that the negative assessed expenses from the police allowance will more than offset expenses from the planning allowance in the 2024 Update. Therefore, the assessment will no longer achieve its objective. The data indicate the Australian Capital Territory no longer requires compensation for additional costs incurred due to Canberra being the national capital and, hence, the assessment should be discontinued.

12. Adjusted Budget

KEY POINTS – ADJUSTED BUDGET

CGC consultation paper

Q1. Do States agree with the Commission's preliminary view to use:

- *Australian Bureau of Statistics (ABS) preliminary Government Finance Statistics data for year 3*
- *a State's year 3 data if the ABS preliminary data are not available*
- *the final ABS Government Finance Statistics data for the first 4 assessment years (year minus 1 to year 2)?*

Yes, we support this approach.

Q2. Do States consider the proposed process for implementing adjustments in the 2025 Review adjusted budget is appropriate?

We consider the CGC's proposed process appropriate, except that we are of the view that obvious errors in adjusted budget data should be corrected regardless of materiality.

For example, in some past years, the CGC's adjusted budget included mining revenue for the ACT, despite the ACT being assessed as having zero revenue raising capacity for mining revenue.

Data sources

The CGC currently compiles its adjusted budget from State-provided data for the most recent data year, and Australian Bureau of Statistics (ABS) final data for the older data years. The consultation paper proposes using ABS preliminary data for the most recent data year, instead of State-provided data (except when only State-provided data are available).

This is because ABS preliminary data is now generally available in time for each CGC update, and should provide more consistency.

This seems reasonable to us, and we support the proposal.

Adjustments

The CGC makes adjustments to data provided by States and/or the ABS if it considers they give a better representation of States' financial transactions. These are subject to a materiality threshold, which the CGC proposes to be \$12 per capita for the 2025 Review.

The consultation paper proposes clarifying the materiality testing of adjustments, with the following process.

- All existing adjustments would be tested for materiality at each review.
- Any proposed new adjustments during updates would be tested for materiality before being implemented.
- The existing and new adjustments would not be retested for materiality until the following review.

We consider the proposed process appropriate, except that we are of the view that obvious errors in adjusted budget data should be corrected regardless of materiality. While the use of materiality thresholds is reasonable if detailed or complex adjustments would be required, we believe that materiality should not be a consideration when making straightforward error corrections (which includes issues with consistency).

For example, in the 2020 Review, the CGC's adjusted budget included mining revenue (a water extraction charge) for the ACT for the data years 2015-16 to 2017-18, despite the ACT being assessed as having zero revenue raising capacity for Mining Revenue. An error such as that has the potential to confuse stakeholders, and should be corrected regardless of materiality.

13. Pre-Tranche 2 Issues

KEY POINTS – PRE-TRANCHE 2 ISSUES

Issues of concern to Western Australia

Health

Waiting times are part of State service standards, so the CGC should give each State the capacity to achieve national average unmet need.

- This requires the HFE to fully address differences in non-State services from the national average.

Private bed days would be better than private separations as the non-State service indicator for Admitted Patients, provided the data can be cross-classified by socio-demographic composition.

The entire Admitted Patients adjusted budget should be included in the calculation of public cost per separation for the non-State services adjustment, because that is the cost to States that will be altered by variations in private sector activity. Expenses that do not belong in Admitted Patients should be reclassified appropriately, rather than be ignored.

Suggestions for 2025 Review Report

Our discussion with the Commissioners at our State visit helped us considerably to better understand the CGC's approach to discounting. We would find it helpful if the CGC were to reflect that discussion in its 2025 Review report. We suggest the following:

- The CGC should explain why it rejects an undiscounted assessment in the face of unreliability; and
- in its nomenclature, the CGC should distinguish between 'policy consistency' (whether or not States have the same policies) and 'policy neutrality' (whether or not States can affect their GST grant).

The CGC's 2023 Update and 2024 Update reports appear to have dropped the term 'assessed difference'. We consider this to be a valuable concept, and suggest the CGC continue to define this concept in its reporting (regardless of the term that it uses).

In this chapter, we address issues that have arisen since our Tranche 1 submission. It is not exhaustive, we have only dealt with issues on which we think additional comments would be most worthwhile at this stage.

Health

Non-State service substitutability

In its Tranche 1 submission, New South Wales argued that additional non-State provision may just address unmet demand, rather than reduce services provided by the State.¹ We understand that the CGC has also had thoughts along these lines.

Where unmet demand is average State policy, the CGC does not enable States to address unmet demand. However, the HFE principle requires the CGC to enable each State to provide the same standard of services, which would imply the same level of unmet demand. If a State has less than average non-State provision, which would result in greater than average unmet demand, this should be addressed by HFE.

The Western Australian Health Department has key effectiveness indicators for elective surgery waiting times, as follows.²

- Percentage of elective waiting list patients waiting over the following boundaries for reportable procedures:
 - Category 1 over 30 Days
 - Category 2 over 90 Days
 - Category 3 over 365 Days

Every State Health Department reports on a key performance indicator that measures elective waiting list patients waiting beyond a target or targets. Table 13-1 lists where we have found these reported.

Table 13-1

Elective Waiting List Performance Indicators	
State	Documentation
NSW	Health Annual Report 2022-23, pages 314-315
Vic	Department of Health Annual Report 2022-23, page 49
Qld	Department of Health Annual Report 2022-23, page 55
WA	2023-24 Budget Paper No.2, Volume 1, page 304
SA	Department for Health and Wellbeing Annual Report 2021-22, page 15
Tas	2023-24 Budget Paper No.2, Volume 1, page 79
ACT	Health Annual Report 2022-23. page 72
NT	Health Annual Report 2022-23, page 41

¹ NSW Treasury (2023), *2025 GST Methodology Review, Tranche 1 Consultation*, page 51.

² Government of Western Australia (2023), *Western Australia State Budget 2023-24, Budget Paper No.2, Volume 1*, page 304.

Hence, waiting times form a part of the standard of service. If States are to achieve the average standard, they must fully respond to differences from the average in non-State services.

Non-State service indicator for Admitted Patients

We agree with Queensland's reasoning that private bed days would be better than private separations as the non-State service indicator for Admitted Patients, as it would give a better measure of activity.³

We support the use of bed days provided the data can be cross-classified by socio-demographic composition.

Admitted Patients cost per separation

In discussing the non-State services adjustment for Admitted Patients with CGC staff, they identified that the national average public cost per separation that we had derived from the CGC adjusted budget is significantly higher than the Independent Health and Aged Care Pricing Authority (IHACPA) national average public cost per separation. This reflects different national total spending, rather than different national total separations. The CGC staff are inclined to use the IHACPA public cost per separation.

The CGC staff have identified three potential reasons that the CGC adjusted budget for Admitted Patients exceeds the IHACPA expense. These reasons, and comments that we provided back to the CGC staff in response to these are as follows.

- The adjusted budget may include overheads, such as the health department bureaucracy.
 - These overheads should vary with demand, as if they were fixed relative to demand they would have been reclassified to the Administrative Scale assessment. Hence, they should be included as part of the public cost per separation.
- States' Government Finance Statistics may by default classify some expenses from other Health components to Admitted Patients.
 - If this is the case, then the Western Australian assessment outcome is understated, as the Western Australian cost of service provision ratio⁴ (based just on socio-demographic composition) is 99% for Admitted Patients, 103% for Emergency Departments, 102% for Non-admitted Patients, and 106% for Community and Public Health.⁵

³ Queensland Treasury (2023), *Assessment consultation papers – Tranche 1 – 2025 Methodology Review, Queensland submission*, page 14.

⁴ For the 2022-23 assessment year of the 2024 Update. This indicates Western Australia's assessed difference for socio-demographic composition. For example, if these expenses belonged in Emergency Departments, Western Australia would receive a positive impact, compared to the negative impact in Admitted Patients.

⁵ It is also 116% for Health Administrative Scale (prior to the wages factor for comparability), which is what the assessment would be if additional overheads were found to be fixed.

- Either the misclassified costs should be correctly reclassified, or they should be fully reflected in Admitted Patients calculations. Excluding them because they are not in the IHACPA data (without reclassifying them to the appropriate Health component) effectively ignores the impact of the non-State sector on these expenses.
- The adjusted budget may include expenses that are out-of-scope for IHACPA.
 - These would be in the form of overheads (e.g., drug costs) which vary with demand, so should be included in the public cost per separation.
 - There are also separations that are out-of-scope for IHACPA, but States would receive revenues for these that the CGC would have netted off the expenses, so they should not contribute to the difference in national average cost per separation.

Our view is that the entire Admitted Patients adjusted budget should be included in the calculation of public cost per separation for the non-State services adjustment. This is because, although the adjustment starts with a calculated variation in non-State services, the impact of that variation on the State must be determined using the cost to the State per separation. That cost should be consistent with the CGC's adjusted budget, as that is the total cost that the CGC is assessing.

Expenses that do not belong in Admitted Patients should be reclassified appropriately, rather than be ignored.

We acknowledge that, at the time of drafting this submission, the CGC staff may have further thoughts on this matter, which may shed further light on the above issues, even by the time this submission is drafted. However, we thought it worth putting our current views on the record.

Suggestions for 2025 Review Report

Principles and assessment guidelines

We found the visit by the Commissioners to Western Australia very valuable.

Something we have struggled with since at least the 2010 Review, including during the 2025 Review prior to the State visit, is the CGC's rationale for discounting. Two frequent statements by the CGC have not made sense to us.

- The CGC has stated that when data and/or methods are unreliable, it has only two choices – a discounted assessment or no assessment. However, logically it has other choices, such as an undiscounted assessment, so why has it ruled these choices out?
- The CGC has stated that it does not discount for policy neutrality. However, if policy neutrality results in an unreliable assessment, why would the CGC's usual approach to discounting not apply?

During the State visit, we were able to have a robust discussion with the Commissioners, which left us feeling that we had a much better grasp on the CGC's thinking about the above matters.

In particular, the Commissioners advised the following:

- when faced with unreliability, they prefer to err on the side of under-equalising. This explains the rejection of undiscounted assessments;
- their discount to the Land Tax assessment is due to lack of policy consistency (we had thought of it just as data unreliability).
 - If we were able to demonstrate the impact on a specific revenue base of specific differences among State policies, they would be prepared to consider our argument for the revenue bases to be discounted; and
- their proposed 50% discount of royalty rate changes by dominant States is due to the extreme degree of policy non-neutrality, for which they would not usually discount.

We continue to think that there is a problem with the lack of policy consistency in observed revenue bases that warrants some level of discounting for each Revenue assessment. However, we acknowledge that this is an issue that may remain to be considered in the next method review.

Nevertheless, we would appreciate the CGC reflecting the points it made during the Western Australian State visit, so that we can be assured that we have correctly interpreted the Commissioners' comments (we acknowledge that our summary of those comments above may reflect our own interpretation) and so that potentially we spend less time debating principles with the CGC at the start of the next method review.

In particular, we suggest:

- the CGC explains why it rejects an undiscounted assessment in the face of unreliability; and
- in its nomenclature, the CGC distinguish between 'policy consistency' (whether or not States have the same policies) and 'policy neutrality' (whether or not States can affect their GST grant).
 - For example, the CGC Land Tax discount is due to policy inconsistency, rather than a concern that States might be able to affect their Land Tax assessment. Likewise, we presume that the CGC does not use the observed gambling tax revenue bases primarily because they would understate Western Australia's revenue raising capacity (policy inconsistency), rather than the concern that States would be able to alter their gambling tax assessments (policy neutrality).⁶
 - Our understanding of the Commissioners' statements in Western Australia above suggest to us that the CGC's opposition to discounting for policy neutrality relates specifically to policy neutrality (as in only discounting dominant State royalty rate increases as an exception) rather than policy consistency (as in discounting Land Tax).

⁶ Although policy inconsistency can lead to policy non-neutrality, the two are different concepts.

- The distinction between policy consistency and policy neutrality would be useful for avoiding confusion in all contexts, not just discounting.

We acknowledge that supporting principles and assessment guidelines are subsidiary to the HFE principle. However, it is important that the CGC and State have as clear a common understanding of these as possible.

Nomenclature – assessed differences

In its supporting data spreadsheets, the CGC provides an 'alternative presentation' of the calculation of relativities, which involves summing 'assessed differences' for each category. We find this alternative presentation valuable and use it as a basis for our relativity forecasting model, as it enables the contribution of each category to the assessment relativity to be calculated.⁷

The concept of an assessed difference is also useful when considering materiality thresholds, as an assessment is material if the assessed difference exceeds the materiality threshold.

The CGC traditionally used the term 'needs' for assessed differences, but presumably replaced it as the word 'needs' can be interpreted in many ways. However, we note that the 2023 Update report glossary no longer includes the term 'assessed difference', presumably as it sounds overly complex and non-intuitive.⁸ As far as we are aware, the CGC only used this term in the above-mentioned supporting data spreadsheet.

We consider the assessed difference concept to be valuable, and the CGC should have a term for it, whatever that term might be.

⁷ A State's assessment relativity can be calculated by dividing the State's assessed difference for each category by that State's population share of the GST grant pool to get a relativity contribution for the category, then summing across all categories and adding one.

⁸ We note that the 2024 Update also does not use the term. Indeed, it no longer has a glossary.