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

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

Draft Report

August 2024

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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

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Executive Summary

Introduction

This submission responds to the Draft Report 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.

Revenue assessments

We are pleased that the CGC recognises that observed revenue bases can have policy inconsistencies that, in principle, should be removed. We suggest that this should be examined as part of the CGC's forward work program.

Given the CGC's use of a legal incidence approach to revenue bases, we generally support the CGC's proposals for the tax assessments and retaining a mineral-by-mineral assessment of mining revenues.

We support further consideration of the dominant State problem in the Mining Revenue assessment.

We support the CGC's proposal to defer considering tax rate elasticities. However, when the issue is considered, it should include all policy influences.

Schools

The extreme reduction of the Indigenous cost weight in the Government Schools regression seems to be a result of newly-identified Indigenous students, and is inconsistent with the costs associated with educating Indigenous students in Western Australia.

We appreciate that the CGC has considered Indigenous concentration as a variable in the Schools regression model, which would better align the CGC's regression with the Schooling Resource Standard model.

We remain concerned that the current method for calculating remoteness disadvantages large States. Western Australia's Department of Education has implemented a model that combines ARIA+ (Accessibility/Remoteness Index of Australia Plus) with distance to Perth. We believe this better captures State experiences in all expense categories that receive regional cost loadings.

COVID-19

The CGC should not assess COVID-19 expenses on an actual per capita basis as they are heavily policy influenced.

We disagree that State responses to COVID-19 were driven by circumstances outside their control. Clear variations in State policy choices led to significant differences in case numbers and lockdown lengths, and therefore, the amount of spending.

Health

Admitted Patients non-State activity

The CGC should not replace private separations with private health insurance benefits paid as the non-State service indicator, because the evidence we present shows that benefits paid vary among States for reasons not related to length of stay nor complexity of treatment.

It appears that Western Australian private hospitals charge more than the national average for treatments of the same complexity, reflecting the market dynamics of a fairly concentrated group of private hospital operators, the majority insurance provider being not for profit, and possibly higher costs faced by private hospitals.

These higher charges could reflect an unrecognised cost driver that also affects public hospitals in Western Australia.

Understanding variations in private health insurance benefits could be an issue for the CGC's forward work program.

Other Health issues

The CGC should explicitly include separate substitutability levels by remoteness region for Emergency Departments in the forward work program.

The CGC should cease using its 'affordable services' method for the non-admitted patients substitutability level, as it is a poor measure, and the CGC's 'comparable State services' method already reflects affordability.

The CGC should not discount the general regional cost gradient for its mental health ambulatory services assessment, as a significant portion of the gradient reflects health services.

Housing

We are pleased the CGC is assessing overcrowded social housing with an individuals-based assessment.

Rawlinsons' indices are a better alternative to capture the additional costs of supplying and maintaining social housing in regional areas than the general regional cost gradient. At a minimum, Rawlinsons' indices should be applied to all maintenance expenses and a portion of 'other social housing' expenses.

As the differential costs between States can be measured in a way that is consistent with CGC principles, it would better reflect HFE to apply Rawlinsons' indices to individual State gradients.

We are disappointed the CGC proposes to retain an Indigenous cost weight based on State-owned and Managed Indigenous Housing data, which only covers three States, with Indigenous groups that vastly differ from those in Western Australia.

We are pleased the CGC is addressing the inaccuracy of the Census data by adjusting with the Australian Institute of Health and Welfare data.

Services to Communities

We maintain that water quality and water availability issues significantly impact the cost of water subsidies.

For water and electricity subsidies, we appreciate the CGC including communities with populations of fewer than 50 persons and removing the community population density requirement. To remain contemporaneous, the cost gradient should be updated annually to include new data (such as the data for the 141 remote Aboriginal communities in Western Australia that will soon become available), and any other changes, between methodology reviews. To account for both the fixed and variable costs, when weighting the regional cost gradient, the CGC should take the average of the population-weighted subsidy and the number of locations.

We are disappointed the CGC has proposed to continue assessing environmental protection expenses on an equal per capita basis. The CGC should blend the current assessment with land area and length of coastline.

The CGC should separate the expenses relating to flood mitigation in urban areas and apply a regional costs adjustment to the remaining expenses of environmental protection. The CGC should blend the general gradient weighted by the land area and length of affected beaches, and the general gradient weighted by the populations of these areas.

Justice

We accept the CGC's proposed process and timing for finalising the Justice assessment in the 2026 Update.

However, as data to assign non-stated Indigenous status based on stated defendant responses is currently available, this should be applied to 2020 Review method and implemented in the 2025 Review, instead of waiting for the 2026 Update.

Other than that, we will provide comment in response to the supplementary Justice paper in the 2026 Update.

Roads

We are disappointed that the CGC proposes to retain population as the driver for urban road lengths for all towns over 40,000 people. The capital cities should have a differential assessment.

The CGC should not remove routes to mines, national parks, gas wells and ports from the synthetic road network, just because an unknown proportion is privately owned.

We are disappointed the CGC has not addressed our concerns that it uses National Transport Commission (NTC) data for purposes other than they were intended. It is unclear if the CGC has attempted to contact the NTC to ask if these data are being used correctly, or if changes can be made to the cost allocation matrix.

Since culvert expenses are currently included in the bridges and tunnels component, the CGC should separately assess culverts and floodways for those States that can provide the data.

We are pleased the CGC proposes to use Rawlinsons' indices to capture the additional costs to supply and maintain roads. However, it would better reflect HFE to apply individual States' Rawlinsons' gradients.

We strongly disagree that the Roads assessment should be discounted. Introducing the discount in the Roads assessment, due to some minor concerns, contradicts the approach in other assessments.

Services to Industry

The CGC should assess regional cost adjustments for business development expenses. Most grants and subsidies are based on the specific costs of a project, which are higher when the project is delivered in regional areas.

We support the CGC's proposals for measuring industry output and not including business counts as a driver of business regulation.

Wage costs

We remain concerned about the complexity of the current wages model.

The CGC should remove the 12.5% discount as there are no compelling concerns about the strength of using private sector wages as a proxy for public sector wages.

We agree with the CGC that it is appropriate to impute the unattributed spending in all categories based on the ratio of total known wage and non-wage spending.

Geography

Including more data in the general gradient has increased its robustness, so the CGC should decrease the discount it applies.

As the differential costs between States can be measured in a way that is consistent with CGC principles, the CGC should apply individual States' Rawlinsons' gradients.

The CGC should add to its forward work program:

- the inadequacies of ARIA+ and possible alternatives; and
- additional costs faced by Western Australia due to the isolation of Perth that are not currently captured in assessments.

Other Assessments

For other assessments not addressed in this executive summary, we have either only a brief comment, or no further comment. These are covered in the *Other Assessments* chapter.

Post 2025 Review

Flexibility to consider method changes between reviews

We propose that the CGC includes in its 2025 Review Final Report its statements that it will consider alternative methods in the same way as it does in a method review, involving extensive consultation with States, and that this may take more than one annual update.

CGC's forward work program

We consider the CGC's forward work program to be important, although consultation with the States will have to work around deadlines for submissions to the Productivity Commission 2026 review of the GST distribution reforms.

The *Post 2025 Review* chapter lists our proposed additions to the CGC's forward work program.

1. Revenue Assessments

KEY POINTS – REVENUE ASSESSMENTS

We are pleased that the CGC recognises that observed revenue bases can have policy inconsistencies that, in principle, should be removed. We suggest that this should be examined as part of the CGC's forward work program.

Given the CGC's use of a legal-incidence approach to revenue bases, we generally support the CGC's proposals for the tax assessments and retaining a mineral-by-mineral assessment of mining revenues.

We support further consideration of the dominant State problem in the Mining Revenue assessment.

We support the CGC's proposal to defer considering tax rate elasticities. However, when the issue is considered, it should include all policy influences.

We maintain our position that revenue bases should be assessed on capacity to pay, and should be discounted, as observed revenue bases do not reliably reflect same effort.

However, given the CGC's legal-incidence approach, we have the following comments on the CGC's proposals.

Payroll Tax

We support the CGC's proposals to:

- not change the assessment; and
- monitor other data sources, but only adopt these in a method review.

Land Tax

The CGC's proposals to modify its estimation of the Northern Territory and ACT revenue bases appear reasonable.

We note that the foreign owner surcharges and the New South Wales property tax have a different revenue base than other land taxes, so the CGC should assess them separately if the impact were material.

We support the CGC's proposal to not change this assessment, apart from the adjustments for the Territories.

Stamp Duty on Conveyances

We support the CGC's proposal to not change this assessment.

Insurance Tax

We support the CGC's proposal to not change this assessment.

Motor Taxes

We support the CGC's proposal to not change this assessment, including not assessing stamp duty on motor vehicle transfers (due to immateriality).

However, we remain of the view that, if stamp duty on motor vehicle transfers become material, the CGC should net all electric vehicle incentives off Motor Taxes revenues.

Mining Revenue

While we have advocated for a global revenue assessment, we support the CGC's proposal to continue employing a mineral-by-mineral approach, given its intention to continue assessing revenue bases according to the activity that is legally taxable (legal incidence).

We are pleased that the CGC recognises in principle that policy influences should be removed from revenue bases, such as for banned and restricted minerals. We are pleased that the CGC considers Western Australia's tiered approach proposal to be a useful guide for making such adjustments.

We note that the Draft Report lists examples of where the CGC removes policy influences from revenue bases. They are the adjustments made for the ACT choosing not to aggregate taxable land holdings, and the Northern Territory policy of not imposing land tax. During the CGC visit to Western Australia, the CGC Chair quoted that the Land Tax assessment discount was a response to policy influences. We would like to know if the CGC still considers that this is the reason for that discount.

We also note that the Draft Report stated that:

> *"In the Commission's judgement, the remaining influences are not so large as to require it to move away from using observed revenue bases".*[1]

As this is a judgement, we believe the identification of policy inconsistencies in observed revenue bases, and how they could be addressed, should be included in the CGC's forward work program.

While the CGC acknowledges that a State can face a disincentive to increase the royalty rates on minerals in which they are dominant, it does not propose to introduce an adjustment. This longstanding issue should remain a priority, and we support further consultation with States before the next method review. However, the Draft Report *Forward Work Program* chapter does not mention this issue.

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[1] Commonwealth Grants Commission, *2025 Methodology Review Draft Report*, *Mining Revenue*, page 59, paragraph 17.

We support the CGC position that its methods should be independent of any consideration of the 2018 GST reforms.

Other Revenue

We support the CGC's proposal to not change this assessment.

We agree with the CGC's reasoning that it should not assess lottery tax revenue by activity (with other gambling taxes remaining equal per capita), due to substitution between types of gambling, particularly in Western Australia.

Tax rate elasticities

The Draft Report had discussion of assessing tax rate elasticities.

We believe there is a conceptual case for the CGC to adjust revenue bases for policy differences among States, including tax rates. Indeed, to adjust for elasticity effects is an example of adjusting for policy differences.

We agree with the CGC's practical concerns with introducing elasticity adjustments that it listed in the Draft Report.[2] However, we are disappointed that the list did not include our concern that tax rates are only one of many policy influences, as we have put forward in many previous submissions.[3]

We support the CGC's proposal to not assess tax rate elasticities, but to further consider them after the 2025 Review. However, when the issue is considered, it should include all policy influences.

Question for the CGC – policy influences on revenue bases

Would the CGC still describe the discount of the Land Tax assessment as a response to policy inconsistency in the observed revenue bases?

[2] *ibid*., *Stamp Duty on Conveyances*, page 41, paragraph 41.

[3] For example, see *Western Australia's Comments on the Australian National University (Tax and Transfer Policy Institute) Scoping Study on State Tax Elasticities and Revenue Bases*, February 2018.

2. Schools

KEY POINTS – SCHOOLS

Indigenous cost weight – Government Schools

The extreme reduction of the Indigenous cost weight in the Government Schools regression seems to be a result of newly-identified Indigenous students.

- This is inconsistent with the costs associated with educating Indigenous students in Western Australia.

Indigenous proportion

We appreciate that the CGC has considered Indigenous concentration as a variable in the Schools regression model.

- The inclusion of Indigenous proportion would better align the CGC's regression with the Schooling Resource Standard model.

Regional costs

We remain concerned that the current method for calculating remoteness disadvantages large States.

- Western Australia's Department of Education has implemented a model that combines ARIA+ with distance to Perth. We believe this better captures State experiences in all expense categories that receive regional cost loadings.

Indigenous cost weight – Government Schools

As noted in the Draft Report, between calendar years 2019 and 2021, the coefficient for Indigenous students fell from a 46% cost weight to a 24% cost weight. This is a significant decrease. The CGC stated that newly-identified Indigenous students may be impacting this result, with a much higher growth in Indigenous student numbers compared with non-Indigenous students.[1] This is an example of the issues raised in Western Australia's *Assessing Indigenous Disadvantage in Commonwealth Grants Commission Assessments* discussion paper.[2]

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1 Commonwealth Grants Commission, *2025 Methodology Review Draft Report, Schools*, page 95, paragraph 69.

2 Western Australian Treasury, *Assessing Indigenous Disadvantage in Commonwealth Grants Commission Assessments*, *Discussion Paper*.

The additional costs of educating Indigenous students in Western Australia have not decreased. The CGC outlined that the costs associated with Indigenous students may be attributed to correlated variables in the regression result.[3] In this instance it is most likely to be remoteness or socio-educational disadvantage, leading to the observed increase in these cost weights.

Whilst there is correlation between the Indigenous status, socio-educational disadvantage and remoteness variables, this does not necessarily translate in the assessment. If the rate of students in each State for each of these variables is not uniform, it will incorrectly lead to differences in assessed expenses.

Western Australia has a comparatively low share of students in the most disadvantaged socio-educational decile compared to other States. However, Western Australia has high numbers of Indigenous students. If the costs of Indigenous students are attributed to students that face socio-educational disadvantage, this would unfairly disadvantage Western Australia. This is particularly untenable if the changes are due to factors in other States. Hence, whilst the additional cost may be redistributed to other variables in the regression, due to the averaging methods of the CGC, cost may not be reflected accurately in each State.

In addition, the Indigenous cost weight is allocated to newly-identified Indigenous students who are not necessarily a cost burden on States.

We acknowledge that the CGC will continue to monitor the situation, but in the meantime, GST is inappropriately diverted away from some States. Whilst we also acknowledge the complexity of measuring the Indigenous cost weight for Government Schools, the variation in the results further emphasises the need to address the issues raised in our *Assessing Indigenous Disadvantage in Commonwealth Grants Commission Assessments* discussion paper.

Indigenous concentration

We appreciate that the CGC has considered Indigenous concentration as a variable in the Schools regression model. We agree that the inclusion of an Indigenous proportion variable would better align the CGC's regression with the Schooling Resource Standard model.

The current result for Indigenous concentration in the CGC's regression appears to provide a negative coefficient. This is likely due to the decreasing per student costs in the Northern Territory as Indigenous proportion increases.[4] The current funding model for schools used by the Northern Territory is based on effective enrolment. This means that schools are funded based on attendance, rather than enrolment.[5]

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3 Commonwealth Grants Commission, *2025 Methodology Review Draft Report, Schools*, page 95, paragraph 69.

4 *ibid.*, paragraph 66.

5 Submission 11 - Attachment 5: Effective Enrolment and Other Problems in NT Schools - Australian Council of TESOL Associations (ACTA) - Closing the Gap Review - Commissioned study (pc.gov.au)

The funding model in the Northern Territory is in the process of being changed.[6] Schools will be funded based on enrolments, which will then align with other States. The previous model disadvantaged schools in remote and very remote areas, schools with socio-educational disadvantage and schools with a high proportion of Indigenous schools, as these schools faced lower attendance. We believe this will significantly change the data from the Northern Territory in the coming years. For this reason, we welcome the CGC's intention to annually retest the regression variables. This will ensure the assessment remains contemporary.

Regional costs

The CGC responded to our concerns about regional costs in the Draft Report *Geography* chapter. However, we consider that the arguments we put forward about the regional costs faced by schools in Western Australia were not adequately addressed.

Our argument that the distance from a capital city should have a greater impact on geographical classification was not adequately addressed, beyond that through ARIA+ (Accessibility/Remoteness Index of Australia Plus) the distance to a capital city contributes 20% to remoteness and the claim that there is insufficient evidence to support the proposition that such a distance should contribute more.[7]

We are unsure how much more evidence we can provide, further than that our Department of Education already considers the distance to Perth in its funding model for education.

Of course, this may not be true for other States that dominate the data due to large populations and a more constrained geography. If remoteness (in any assessment, not just Schools) were calculated using a blended approach with ARIA+ and distance to capital city, it would benefit larger States. However, this benefit would appropriately compensate large States for the high costs they face.

Most of the land mass in Western Australia is beyond the national average distance from a major city that is used in the ARIA+ calculation (approximately 412 kilometres). If we take the example used in Western Australia's Tranche 1 submission of freight and apply it to specific school locations, the issue becomes more apparent.[8]

6 Review of effective enrolment | Department of Education

7 Commonwealth Grants Commission, *2025 Methodology Review Draft Report*, *Geography*, page 421, paragraph 69.

8 Western Australian Treasury, *Western Australia's Submission to the Commonwealth Grants Commission's 2025 Methodology Review, Tranche 1 Assessments,* page 24.

For example, there is a Western Australian school located in Kununurra. If we drive the national average distance from Perth on the way to Kununurra, you reach Paynes Find. To reach Kununurra, you would have to drive an additional 2,600 kilometres. This school is more than 7 times the national average away from Perth. Due to the truncation of ARIA+ to three times the average distance, for this school, the distance to Perth would only contribute less than 9% to its remoteness classification, not 20%.[9]

Whilst there are population centres of various sizes on the way to Kununurra, most freight will initially come from Perth. Even if something is transported from larger population centres such as Broome, it likely was transported to Broome at some stage from Perth.

Kununurra provides an extreme example of distance. However, there are many schools in Western Australia significantly further from Perth than the national average. As noted in the *Geography* chapter, you do not stop paying for petrol when you exceed three times the national average distance.

9 Three sevenths of 20 percent.

3. COVID-19

KEY POINTS – COVID-19

The CGC should not assess COVID-19 expenses actual per capita as they are heavily policy influenced.

We disagree that State responses to COVID-19 were driven by circumstances outside their control. Clear variations in State policy choices led to significant differences in case numbers and lockdown lengths, and therefore, the amount of spending.

The CGC proposes an actual per capita (APC) assessment of State health and business development spending on COVID-19.

We remain of the view that this spending is heavily policy influenced, so should not be assessed APC.

We strongly disagree with the CGC's view that State responses to COVID-19 were driven by circumstances outside their control rather than policy choices, and believe the CGC should treat spending on COVID-19 equal per capita (EPC).

While we acknowledge that all States maintained the same policy goal to eliminate COVID-19 throughout 2019-20 and 2020-21, we believe there were substantial differences in how States attempted to achieve this policy goal that led to different health and economic outcomes. The same occurs in many areas of State service delivery, and is addressed in CGC assessments. For example, in the Schools assessment all States maintain the same policy goal to provide education in line with the national curriculum. However, there are differences to how States attempt to achieve this policy goal. The CGC would never consider an APC assessment to account for these differences.

In addition, there are assessments where the CGC chooses to treat revenues or expenses equal per capita due to the variability in State policy choices. For example, the CGC considers the transfer duty on sale of State assets to be based on different State policy decisions and priorities, even though each State would have the same broad policy goals of effective budget management when deciding to sell assets. When responding to COVID-19, States also based their policy decisions on different priorities. These decisions led to vastly different health and economic outcomes.

While Victoria and New South Wales saw the most significant number of COVID-19 cases, there are clear differences in policy decisions made to mitigate and eliminate outbreaks. The decisions of these States led to high case numbers and extended lockdown periods that increased the requirements for business support spending.

Border closures were inconsistent across different States, with some States choosing to enact strict border closures to all States, and some enacting more flexible border closures to people who were from COVID-19 hotspots.[1] While many States were implementing border closures in March 2020, New South Wales did not close the border to Victoria until July 2020. Again, these decisions led to vastly different health and economic outcomes.

Lockdowns were also deployed differently among States, with New South Wales and Victoria often deploying postcode or local government area-specific lockdowns. For example, in June 2020, Victoria implemented a lockdown across 10 postcodes,[2] and a week later this lockdown was extended to the entirety of Victoria as the outbreak was not brought under control from the postcode lockdown.[3] These policy decisions led to extended lockdown periods that increased business support costs. Meanwhile, Western Australia was implementing shorter more stringent lockdowns, limiting its business support costs.

In 2022, all States except Western Australia reduced their containment policies, even as cases were at their peak, due to increased vaccine coverage, while Western Australia continued to maintain an elimination approach to COVID-19.[4]

We continue to firmly argue that different State policies contributed to most of the differential impact of COVID-19, as argued with evidence in Western Australia's 2021 Update and 2022 Update new issues submissions, some of which are summarised above.[5]

We do not dispute that some States spent more per capita on business support than others, and that the pattern of that spending was different to the pattern implied by CGC assessments. But we contend that the reason for this was policy related. The CGC should not reward poor State policies. That is what the proposed APC assessment for COVID-19 business support spending will do.

The CGC's APC proposal is despite evidence we provided that showed that the *National Partnership on COVID-19 Response* funding (for Health expenses) bore no relationship to the number of COVID-19 cases in each State, and State baselines on preparedness and equipment were different.

This proposal is despite the findings of international and national studies. It is despite comments from the Prime Minister and other prominent political leaders, and from Secretary of the Federal Treasury. These all supported Western Australia's position that policy differences between States were significant and led to different outcomes, and were provided in Western Australia's previous submissions.

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1 https://theconversation.com/australias-mishmash-of-covid-border-closures-is-confusing-inconsistent-and-counterproductive-152620

2 https://www.premier.vic.gov.au/statement-premier-72

3 https://www.theguardian.com/australia-news/2021/oct/22/melbourne-covid-lockdown-ends-lifts-today-friday-victoria-end-lift-change-what-are-the-new-restrictions-rules-freedoms-reopening-plan

4 https://www.bsg.ox.ac.uk/sites/default/files/2022-06/BSG-WP-2022-046_1.pdf

5 Western Australian Treasury, *2021 Update New Issues*, and *2022 Update New Issues*.

In response to this compelling evidence, the CGC stated that the economic effects of COVID-19 reflected:

> *"…issues over which States have little or no policy control (such as their level of exposure to overseas travellers) as well as issues over which they have significant policy control (such as the extent to which they have enforced a lockdown or closed borders)".*[6]

One only needs to compare Western Australia's containment policies for cruise ships and merchant vessels to *The Ruby Princess* to cast doubt on the inability for States to control their level of exposure to overseas travellers.

The CGC somehow jumped from there to say:

> *"While States did have significant policy control over the extent of their lockdown, this does not necessarily mean that there were significant policy differences between them"*

and that

> *"Staff have formed a tentative view that policy differences between States were relatively small"*[7]

and that

> *"Arguably this has been driven more by different circumstances between States than different risk appetite or policy intent of governments".*[8]

This judgement has been maintained by the CGC since, and could move around two billion dollars between States over a couple of years. Yet it was made without any compelling evidence; rather just being formed from a 'tentative view'.

Indeed, at the time, the CGC claimed that State health and business support spending did not align with its Health and Services to Industry assessments, but could not identify any drivers of COVID-19 State spending.[9] The CGC's Gambling Tax assessment also struggles with a lack of identifiable drivers and has immense policy differences. It is treated EPC, as should this assessment.

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6 Commonwealth Grants Commission, *New Issues for the 2021 Update*, page 1, paragraph 7.

7 *ibid*., page 2, paragraph 8.

8 *ibid*., paragraph 9.

9 Commonwealth Grants Commission, *Discussion Paper, 2023 Update: New Issues,* page 12, paragraph 55.

4. Health

KEY POINTS – HEALTH

COVID-19 assessment

The CGC should not assess COVID-19 expenses actual per capita as they are heavily policy influenced.

Admitted Patients non-State activity

The CGC should not replace private separations with private health insurance (PHI) benefits paid as the non-State service indicator, as benefits paid vary among States for reasons not related to complexity of treatment. Understanding this could be an issue for the CGC's forward work program.

- The ratios of each State's PHI benefit paid to the national average by diagnostic-related group (DRG) have unusual patterns that suggest either something complex is happening that the CGC has not identified, or that there is random volatility.
- Western Australia has high PHI benefits, but low private bed days per separation.
- Western Australia's private hospitals have the lowest proportion of their separations involving a stay in a level 3 intensive care unit.
- It appears that Western Australian private hospitals charge more than the national average for treatments of the same complexity, reflecting the market dynamics of a fairly concentrated group of private hospital operators, the majority insurance provider being not-for-profit, and possibly higher costs faced by private hospitals.
- Western Australia's high PHI benefits are not due to DRG mix. If the same DRG is more costly to treat in Western Australian private hospitals, then there may be an unrecognised cost driver that also affects Western Australian public hospitals.

Emergency Departments substitutability level

The CGC should explicitly include separate substitutability levels by remoteness region in the forward work program.

Non-admitted Patients substitutability level

The CGC should cease using its 'affordable services' method, as it is a poor measure, and the CGC's 'comparable State services' method already reflects affordability.

Mental health ambulatory services

The CGC should not discount the general regional cost gradient for this assessment, as a significant portion of the gradient reflects health services.

COVID-19 assessment

The CGC proposes an actual per capita assessment of State spending on COVID-19. However, as discussed in the *COVID-19* chapter of this submission, we strongly disagree with the CGC's view that State responses to COVID-19 were driven by circumstances outside their control rather than policy choices, and believe the CGC should treat spending on COVID-19 equal per capita.

Admitted Patients non-State activity

The CGC proposes using private health insurance (PHI) benefits paid, rather than separations, as the indicator of non-State activity for the Admitted Patients component.

We understand the concern that using separations does not take account of the differing costs of different treatments. The CGC suggests the PHI benefits paid may provide additional information on the associated level of complexity.

However, it appears to us that PHI benefits paid vary among States due to factors other than cost driven by complexity.

As part of the CGC's analysis on this issue, we have been advised that Table 7 of the Draft Report *Health* chapter seeks to show that, when comparing State's PHI benefits per separation to the national benefits per separation for the same diagnostic-related group (DRG), States are "different, but not too different".

The data in Table 7 can be seen more clearly in graphical form. Chart 4-1 shows the centre range of these data, in order to more easily see the pattern where the majority of variation occurs between States.[1]

As the chart shows, the shape of the frequency distribution varies across the States. New South Wales and Queensland have a central peak at the State/national PHI benefits ratio of one, as would be expected, whereas Victoria, Western Australia and South Australia have two peaks, neither at where the ratio of State/national PHI benefits is one. The Western Australian frequency distribution is the most extreme in this regard.

These patterns suggest something complex is happening, that the CGC has not identified, or that there is random volatility.

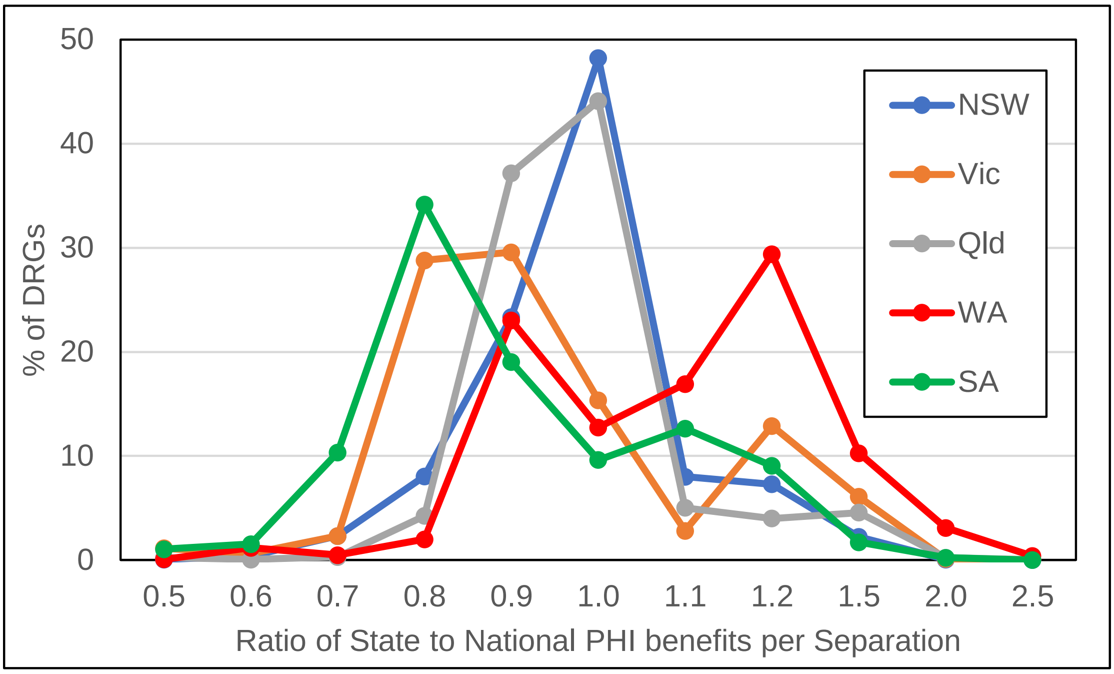
Notably, the CGC's table and the chart show that there are significant variations in PHI benefits paid across States for the same DRG. Hence, the aggregate high PHI benefits paid in Western Australia reflects something other than a more complex DRG mix than the national average.

[1] Not surprisingly, only a very small proportion of DRGs have a State's PHI benefit per separation being less than 0.5 or more than 2.5 times the national benefit per separation.

Chart 4-1

Central Part of Frequency Distribution of Ratio of State [(a)] to National PHI Benefits Paid by DRG

2022-23



(a) Excludes Tasmania, ACT and the Northern Territory as data are not available due to confidentiality.

Source: CGC Draft Report, Health chapter, Table 7.

It is true that, within a DRG, a State may have patients that require more care (i.e. longer stays and/or more costly treatments).

However, there are two reasons that longer lengths of stay are not the reason that PHI benefits paid in Western Australia are relatively high.

- Our Health Department has examined health care provider data captured by private health insurers, which suggests that insurers consistently pay higher than average benefits per bed day in Western Australia, for the majority of the DRGs captured in the dataset.
- Table 4-1 shows that PHI-funded bed days per separation in Western Australia are lower than average.

Table 4-1

PHI-funded Separations and Bed Days by State

	NSW	Vic	Qld	WA	SA	Tas/ACT/NT	*Total*
Separations							
2021-22	1,117,278	904,538	967,554	384,223	297,277	151,536	*3,822,406*
2022-23	1,233,878	955,321	994,250	386,783	309,012	156,856	*4,036,100*
Bed days							
2021-22	2,388,815	2,101,855	2,129,264	789,436	536,768	298,478	*8,244,616*
2022-23	2,573,316	2,215,855	2,161,496	772,416	551,597	305,976	*8,580,656*
Bed days per separation							
2021-22	2.14	2.32	2.20	2.05	1.81	1.97	*2.16*
2022-23	2.09	2.32	2.17	2.00	1.79	1.95	*2.13*

Source: Australian Institute of Health and Welfare. Data spit for Tasmania, ACT and the Northern Territory is not available.

As well as the higher PHI benefits in Western Australia not being due to longer stays, it also does not appear to be due to higher complexity. The Australian Institute of Health and Welfare (AIHW) reports Western Australia's private hospitals as having the lowest proportion of their separations involving a stay in the highest level 3 intensive care unit.[2]

- While this could be influenced by a number of factors,[3] it seems to suggest that private hospitals in other States more frequently treat patients requiring a higher level of care.

Hence, it appears that across different complexity of care levels, insurers in Western Australia are paying more per bed day. Why would this be?

It appears to reflect Western Australian private hospitals charging more for equivalent treatments.[4]

It is difficult to ascertain for certain why this is, but our Health Department posited a few theories, mostly related to market dynamics. That is, Western Australia has a concentrated group of private hospital operators, a generous majority private health insurer, and higher private hospital costs, discussed below.

- Western Australia has a fairly concentrated group of private hospital operators, which may impact the ability of insurers to negotiate varying pricing across hospitals. Many of the larger private hospitals are operated by large organisations such as St John of God, Bethesda, and Ramsay, with only smaller or more specialised facilities tending to be independent or operated by small healthcare organisations.

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2 As per AIHW definitions, found here: https://meteor.aihw.gov.au/content/327234

3 For example, better safety and quality outcomes in Western Australia's private hospitals, and private hospitals transferring patients requiring this care to the public system because they do not have large numbers of intensive care unit beds.

4 The health care provider data also captures the average "gap" payment for in-hospital services paid by private patients in each State, at a DRG level. There are no obvious trends that indicate that gap payments are an influencing factor on the higher-than-average benefits paid to private hospitals in Western Australia.

- The larger operators, who tend to run the larger hospitals and multiple facilities, likely have increased bargaining power which may result in an ability to secure a better price from health insurers.
- Smaller hospitals who are unable to successfully bargain on price may still benefit from this market concentration through access to second-tier benefits, which provide a minimum price that must be paid by insurers at 85% of the average contractual price in the State for hospitals of the same category.[5]

- Western Australia is in the unique situation of having a private health insurer with a majority market share. HBF reportedly holds over 50% of the market share for health insurance products in Western Australia, with over 85% of the fund's overall membership residing in Western Australia. HBF is a not-for-profit fund which often returns the highest percentage of premiums to its members in the form of benefits each year of any fund.
  - Notably, HBF has reported a deficit position in some years, including 2022-23, due largely to the high rate of benefits paid out to members (85% of total revenue returned to members).
  - It is possible that HBF has more generous contractual arrangements with private hospitals in Western Australia than other health insurers, and may be less inclined to bargain hard to reduce costs, as a result of its non-profit status.
- Cost of service delivery may simply be higher for private hospitals in Western Australia, with the price negotiated between health insurers and private hospitals being reflective of this. A possible reason is the isolation of Western Australia from the eastern seaboard, where medical professionals prefer to operate both for training purposes and to 'rub shoulders' with the leaders in their field. Private hospital operators in Western Australia would also suffer diseconomies of scale.

We conclude that the higher PHI benefits paid in Western Australia do not reflect a reduction in pressure on public hospitals.

Indeed, if the higher PHI benefits paid in Western Australia reflect higher costs faced by private hospitals in Western Australia, then the CGC should consider whether those higher costs are also faced by public hospitals in Western Australia. If so, then there is an unidentified driver that the CGC is not assessing.

In light of all of the above discussion, we recommend that the CGC continue to use separations as the non-State indicator, at least for the 2025 Review. Understanding why PHI benefits paid vary among States could be placed in the CGC's forward work program.

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5 Second-tier benefits are regulated by the Commonwealth under Schedule 5 of the *Private Health Insurance (Benefit Requirements) Rules 2011*.

Emergency Departments substitutability level

In Western Australia's Tranche 1 submission, we proposed that the CGC use separate substitutability levels by remoteness region.[6] The data used by the CGC shows increasing substitutability levels as remoteness increases.

We are pleased that the Draft Report *Health* chapter says that this should be considered between reviews. However, it is not listed in the Draft Report *Forward Work Program* chapter. We request that it be made explicit in the CGC's forward work program, as we are aware that important issues can be forgotten between reviews if not documented.

Non-admitted Patients substitutability level

The CGC averages two methods to calculate the non-admitted patients substitutability level.

Method 1: comparable State services

We are pleased that the CGC surveyed States to get better data on the proportion of State non-admitted patient episodes that are related to a previous State admitted patient separation.

In the Draft Report, the CGC noted that it was unable to get full alignment in how States measured this.[7] It also used a time period that was greater than what our Health Department recommended.

We propose that the CGC issue this data request again in the next method review, and that it consult over the specification of the request in advance of sending it, to best address the above issues.

Method 2: affordable services

In Western Australia's Tranche 1 submission, we argued that this method is meaningless, and should be dropped from the average.

Method 2 ignores the following.

- The 43% discount for episodes with a previous public admitted patient separation under Method 1 already factors in affordability.
  - Persons who cannot afford private services will be more heavily represented among the previous public admissions.
  - People on low incomes are also more likely to be bulk billed if they go to a private operator.
- Some non-admitted services, such as physiotherapy, can be covered by ancillaries PHI, which raises the substitutability.

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6 Western Australian Treasury, *Western Australia's Submission to the Commonwealth Grants Commission's 2025 Methodology Review, Tranche 1 Assessments,* page 47.

7 Commonwealth Grants Commission, *2025 Methodology Review Draft Report*, *Health*, page 153, paragraph 194.

We also question the CGC's argument that Method 2 is only intended to give a broad indication of the substitutability.[8] If this is the case, why is it given equal weight to Method 1, which is quite precise? If used at all, it should only be used as an indicator that Method 1 is in the ballpark.

Hence, we recommend that the CGC drop Method 2, and only use Method 1 for the non-admitted patients substitutability level.

Mental health ambulatory services

The CGC proposes using AIHW data for the assessment of mental health ambulatory services within the Community and Public Health component.

We support the CGC's proposed use of the general regional cost gradient for this assessment. However, we suggest that the CGC not discount this gradient, as a significant portion of the gradient reflects health services, so it is likely to be more relevant in this case.

[8] Commonwealth Grants Commission, *2025 Methodology Review Draft Report*, *Health*, page 154, paragraph 196.

5. Housing

KEY POINTS – HOUSING

Housing undercount due to overcrowding

We are pleased the CGC has acknowledged that States with overcrowded social housing are disadvantaged by the current approach and has proposed an individuals-based assessment to address this.

Regional costs

Rawlinsons' indices are a better alternative to capture the additional costs of supplying and maintaining social housing in regional areas than the general regional cost gradient.

- The impact of remoteness on the cost of supplying and maintaining houses is more likely correlated to the costs of constructing a building than it is to the service delivery costs of the assessments included in the general regional cost gradient.

We consider that the assessment would be improved if the CGC:

- calculates the proportion of housing recurrent expenses that relate to maintenance;
- applies all regional costs for housing maintenance using Rawlinsons' indices only;
- analyses the types of expenses under 'other social housing' and portion them into those that would attract regional costs similar to maintenance, and administrative-type expenses; and
- applies Rawlinsons' indices to the former, and the general cost gradient to the latter.

As the differential costs between States can be measured in a way that is consistent with CGC principles, it would better reflect HFE to apply individual States' Rawlinsons' gradients.

Indigenous cost weight

We are disappointed the CGC proposes to retain an Indigenous cost weight based on State-owned and Managed Indigenous Housing data and would like the CGC to investigate an alternative way to calculate an Indigenous cost weight as part of its forward work program.

- An Indigenous cost weight based on the response from only three States, with Indigenous groups that vastly differ from those in Western Australia, is not representative. It does not accurately capture the higher costs of providing social housing to Indigenous households compared to non-Indigenous households.

Adjusting ABS data with the Australian Institute of Health and Welfare data

We appreciate the CGC addressing our concerns with the inaccuracy of the Census data.

Housing undercount due to overcrowding

We are pleased that the CGC has developed an individuals-based assessment to acknowledge that States with overcrowded social housing are disadvantaged by the household-based approach.

We agree with the Northern Territory that many Indigenous households are overcrowded. The 2020 Review Housing assessment did not adjust for the average number of persons per dwelling, which failed to capture the additional costs associated with this. Indigenous people will often share their dwellings with relatives or friends, with consequent effects on the level of overcrowding. This in turn increases the level and frequency of maintenance required, thus impacting State spending.

Regional costs

As States are not able to provide data to support an estimation of a housing-specific regional cost gradient, we strongly assert that Rawlinsons' indices are a better alternative than retaining the general regional cost gradient in the Housing assessment.

Rawlinsons' indices capture the increased costs of building in regional and remote areas of a State compared to the State's capital city. The indices are calculated by comparing the cost of a building in the capital city with the cost of the same building in regional and remote towns. Similar methods are used to prepare the indices for each capital city and for each region within States. Hence, Rawlinsons' indices are independent and reliable. They are also widely used.

The general regional cost gradient is based on the costs of service delivery for schools, hospitals, water and electricity subsidies, prisons, criminal courts, post-secondary education and investment. The impact of remoteness on the cost to supply and maintain houses is likely to be more correlated to the costs to construct a building than it is to these service delivery costs.

For example, Western Australia's Department of Communities carries out both day-to-day and vacated maintenance on its rental properties. Such maintenance refers to repairs carried out on an as-required basis (e.g. clearing blocked drains, electrical repairs, roof repairs, plumbing, and fixing damaged fixtures). Therefore, it makes sense to use Rawlinsons' indices to capture the additional costs to supply and maintain social housing in regional areas. It is the same argument as the CGC's proposal to use Rawlinsons' to estimate regional costs in the Roads assessment.

The housing maintenance expenses are stated to be 25% of recurrent State expenses on social housing. However, this proportion is arbitrary. To recognise regional costs, the CGC applies Rawlinsons' costs to 50% of these expenses and the general regional cost gradient to the other 50%. Again, these CGC weightings are arbitrary.

We consider the assessment would be improved if the CGC:

- undertakes transparent analysis to accurately determine the proportion of all housing recurrent expenses that relate to maintenance (currently 25%);
- applies all regional costs for these expenses using Rawlinsons' indices only;
- undertakes transparent analysis to determine the proportion of 'other social housing expenses' that are for services that would attract regional costs similar to maintenance services, and for administration-type services; and
- applies Rawlinsons' indices to the former, and the general gradient factor to the latter.

Further, the CGC applies averages to mitigate policy influences. In the case of Rawlinsons', we consider this unnecessary. The gradient is calculated using a range of data sources that are dominated by the private sector. Like the Wages regression, Rawlinsons' acts as a proxy to allow for a policy-neutral approach to calculating the experience in the public sector. Hence, individual State Rawlinsons' indices act in the same manner as the Wages factors, and should be applied as stated. There is no reason to apply the average of States' Rawlinsons' gradients.

Furthermore, as this calculation is also based on State-specific data by remoteness region, it is consistent with the CGC's *policy neutrality* and *what States do* principles.

Given the differential costs between States can be measured in a way that is consistent with CGC principles and reliable data is readily available, it would be more consistent with HFE to apply individual State gradients.

Indigenous cost weight

It is disappointing that the CGC proposes to retain an Indigenous cost weight based on State-owned and Managed Indigenous Housing (SOMIH) data. This is despite five States not being able to supply these data. It ignores that Western Australia reclassified SOMIH houses as public housing over 15 years ago, which prevents our input to the dataset.

If States are adamant that it is not more costly to provide services to their Indigenous population, then those States should not receive an Indigeneity loading. As outlined in our recent Discussion Paper,[1] the degree of disadvantage between Indigenous populations varies substantially between States. While Indigenous people are correlated with higher use rates, and being Indigenous is correlated with disadvantage, their disadvantage is driven by factors other than their identity. These factors include, for example: exposure to trauma through family separation policies; a higher prevalence of certain illnesses; and socio-economic characteristics. Therefore, the influence of these factors is not uniform across States, but has a direct influence on housing costs.

[1] Western Australian Treasury, *Assessing Indigenous Disadvantage in Commonwealth Grants Commission Assessments,* Discussion Paper, page 4.

We believe that an Indigenous cost weight based upon the response from only three States,[2] with Indigenous groups that vastly differ from those in Western Australia, is not representative. It does not accurately capture the higher costs of providing social housing to Indigenous households compared to non-Indigenous households. We consider, at the very least, that an alternative way to calculate an Indigenous cost weight would form part of the CGC's forward work program.

Adjusting the Census data with Australian Institute of Health and Welfare data

We support the CGC addressing our concerns with the inaccuracy with which tenants categorise their landlord type in the Census. We are pleased the CGC will rebalance the census data using data from the Australian Institute of Health and Welfare.

2 Queensland, South Australia and Tasmania.

6. Services to Communities

KEY POINTS – SERVICES TO COMMUNITIES

Drivers of water supply subsidies

We maintain that water quality and water availability issues significantly impact the cost of water subsidies.

Remote communities water and electricity subsidies

We appreciate the CGC including communities with populations of fewer than 50 persons and removing the community population density requirement.

- However, the cost gradient should be updated annually to include any changes that are made between methodology reviews, such as new data that will become available for 141 remote Aboriginal communities in Western Australia.
- To account for both fixed and variable costs, the CGC should take the average of the population-weighted subsidy and the number of locations.

Drivers of spending in environmental protection

We are disappointed the CGC has proposed to continue assessing environmental expenses on an equal per capita basis.

- We continue to believe that national parks and wildlife services should be assessed by park land area, and the erosion of beaches should be assessed by the length of the beach in affected areas.
- The CGC should blend the current assessment with land area and length of coastline.

Regional cost weights for expenses to protect biodiversity and landscape

The CGC should separate the expenses relating to flood mitigation in urban areas and apply a regional costs adjustment to the remaining expenses of Environmental Protection.

We disagree with the CGC that the regional costs adjustment should be assessed by multiplying the general gradient by the populations.

- The CGC should blend the general gradient weighted by the land area and length of affected beaches, and the general gradient weighted by population.

Drivers of water supply subsidies

We maintain that water quality and water availability issues significantly impact the cost of water subsidies.

We understand the difficulty of obtaining data and agree that the data from the Bureau of Meteorology's report, referenced in the CGC's Draft Report, is "insufficiently reliable" to use in this assessment.[1]

We look forward to working with the CGC to identify the additional costs to States due to water quality and water availability.

Remote communities electricity and water subsidies

We appreciate the CGC including communities with populations of fewer than 50 persons, and removing the community population density requirement.

However, we are concerned that the subsidies and assessed communities data used to calculate the population-weighted electricity subsidy per capita, for remote and very remote communities, will only be derived during a methodology review (every five years).

As noted in our Tranche 1 submission,[2] since April 2023, the Western Australian Department of Communities are transferring the responsibility for water and electricity services in 141 remote Aboriginal communities to Horizon Power and the Water Corporation.[3,4] The services will be upgraded to levels comparable with other communities in Western Australia. Currently the subsidies for these communities are not included. To remain contemporaneous, the cost gradient should be updated annually to include the uptake of these communities, and any other changes, between methodology reviews.

The costs of providing water and electricity services to communities are made up of fixed and variable costs. Whilst the variable costs are dependent on the populations of the communities, the fixed costs are dependent on the number of communities, regardless of their population size. To account for both the fixed and variable costs, the CGC should take the average of the population-weighted subsidy and the number of locations.

1 Commonwealth Grants Commission, *2025 Methodology Review Draft Report*, *Services to communities,* page 233, paragraph 32.

2 Western Australian Treasury, *Western Australia's Submission to the Commonwealth Grants Commission's 2025 Methodology Review, Tranche 1 Assessments,* page 57.

3 This was due to the Commonwealth withdrawal of its responsibility to these communities.

4 Transfer of remote power and water a licence for success | Western Australian Government (www.wa.gov.au)

Drivers of spending in Environmental Protection

We are disappointed the CGC has proposed to continue to assess environmental expenses on an equal per capita basis.

We disagree with the CGC that assessing the national parks on land area is policy influenced. As mentioned in our Tranche 1 submission, every State is obligated to meet global and federal targets. We continue to believe that national parks and wildlife services should be assessed by park land area, and the erosion of beaches should be assessed by the length of the beach in affected areas.

Whilst we understand that population has an influence on the service expenses in the environmental protection component, it is not the only influence. Spending is still incurred for areas with small populations. For example:

- the cost of national parks and wildlife services, including fire control activities carried out in national parks, are also influenced by the land area and the need for additional engagement with local Indigenous communities.
  - For example, northern Australia is impacted by very high rainfall in summer, and very dry winters, which leads to a requirement for increased fire management. This year to date, 37,000 square kilometres have already been subject to prescribed burns across Western Australia's Kimberley region.[5] These costs are escalated due to the need for helicopters, increased negotiation with Indigenous groups, and the sheer size of the area.
- the cost of maintaining a coastline is also influenced by the length of the affected beach. The *Assessment of Coastal Erosion Hotspots in Western Australia* report identified that 40 of the 55 identified coastal erosion hotspots (73% of sites in Western Australia) that require high-cost management, are in areas of Western Australia with low populations.[6] Hence, population is not the only driver of maintaining the coastline.

Also, it makes no sense that a State with no coastline (ACT) is benefits from the inclusion of its non-existent coastal beaches.

Therefore, to overcome this, we propose that the CGC blend the current assessment with land area and length of coastline.

5 https://www.abc.net.au/news/2024-06-16/kimberley-indigenous-fire-management-awards-controlled-burning/103972752

6 *Assessment of Coastal Erosion Hotspots in Western Australia Report* and Appendix A-C (transport.wa.gov.au)

Regional cost weights for expenses to protect biodiversity and landscape

Currently the CGC only applies regional costs to the control and prevention of erosion on beaches and foreshores, and the national parks and wildlife services sub-components of the Environmental Protection component. However, we believe the costs associated with the sub-components of developing and monitoring pollution and air quality standards, and the pollution abatement control and research, also increase with remoteness.

The Department of Water and Environmental Regulation leads efforts to maintain air quality for the Western Australian government. It protects the State's air quality through research, monitoring, and collaboration with various organisations, and operating 16 monitoring sites. Six of these sites are located in regions other than metropolitan areas.[7] There are additional costs to monitor the pollution and air quality standards in these remote areas, as some of these locations can take hours, or even days, to reach from the closest major population centre. Road travel to these areas incurs huge costs in travel time and transportation costs.

We strongly believe that the costs associated with developing and monitoring pollution and air quality standards, pollution abatement control and research, national parks and wildlife and the control and prevention of erosion on beaches in remote areas, will increase with remoteness.

To capture this, the CGC should separate the expenses relating to flood mitigation in urban areas and apply the regional costs gradient to the remaining expenses of environmental protection.

We disagree with the CGC that the regional costs adjustment for the environmental protection sub-components should be assessed by weighting the general gradient by the populations in each remoteness area.

We acknowledge that national parks in more populated areas are more frequently visited. However, as stated in our Tranche 1 submission, larger national parks have greater maintenance needs. Those needs extend beyond tourism, to the maintenance of roads and bridges (critical to access for weed and pest control, fire control, and other national disaster mitigation). These costs will increase with remoteness, and as the size of the national parks increase.

Similarly, we acknowledge the coastlines closer to populous areas will be more regularly controlled. However, as noted above, the *Assessment of Coastal Erosion Hotspots in Western Australia* report shows that 73% of the identified coastal erosion hotspots are in regional areas, where Western Australia's extensive coastline demands significant management resources. Figure 6-1 shows the coastal erosion hotspots in Western Australia.

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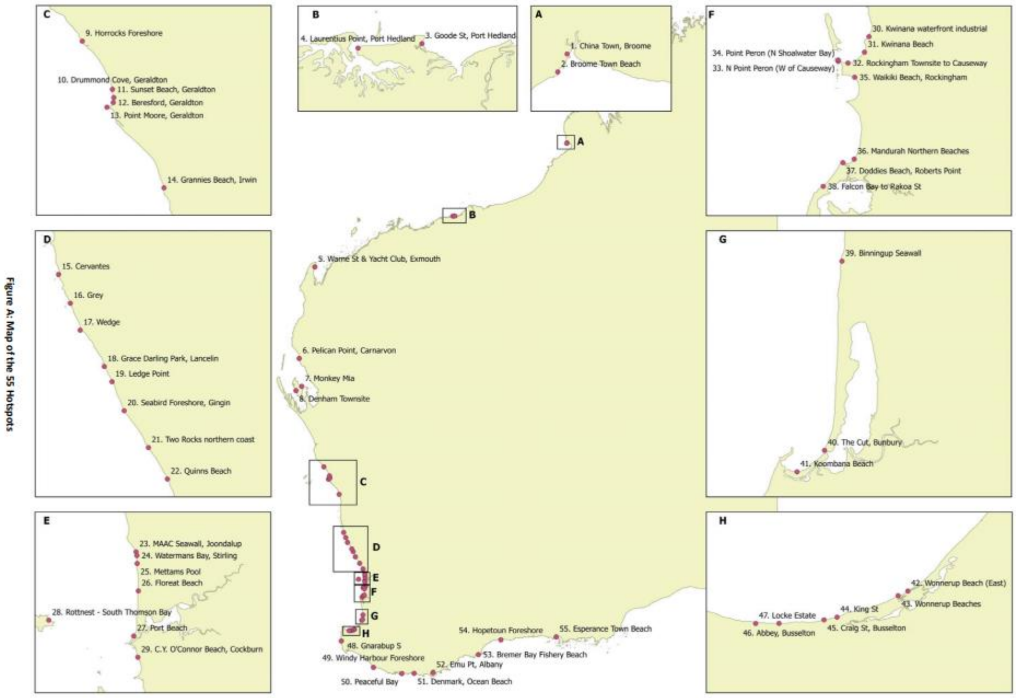
7 Air quality data search - Department of Water and Environmental Regulation (der.wa.gov.au)

Figure 6-1

Map of the coastal erosion hotspots in Western Australia



High-cost management dominates these regions, and they require longer funding lead times and emphasise proactive design to reduce future costs. Despite low population density, these areas are popular tourist destinations that contributes significantly to local and State economies.

As such, coastal erosion costs should be derived using coastline length, considering that aspects such as tourism are not directly correlated with population density in these regional areas.

A more suitable application is to use an average of the general gradient weighted by land area and length of affected beaches and the general gradient, weighted by populations. Blending these will provide a more accurate alternative to calculating regional costs in the Environmental Protection component.

7. Justice

KEY POINTS – JUSTICE

Response to CGC draft positions

We accept the CGC's proposed process and timing for finalising the Justice assessment and will respond according to this timeframe.

Treatment of not-stated Indigenous status

We support the change to assign non-stated Indigenous status based on stated defendant responses. However, as this data is currently available, this should be applied to 2020 Review method and implemented in the 2025 Review, rather than delaying until the 2026 Update.

Response to CGC draft positions

The CGC will release a supplementary paper that discusses Justice issues in April 2025 to allow analysis of newly-requested State data. We understand the CGC's concerns and accept the timeframe as described.[1] We will respond to this supplementary paper within the allocated timeframe.

However, this chapter focuses on an issue that we believe can be resolved for the 2025 Review.

Treatment of not-stated Indigenous status

In the 2020 Review, the CGC assigned an Indigenous status to finalised defendants who did not report their Indigenous status. The CGC chose to assign Indigenous status based on the proportion of Indigenous people in the population, rather than the proportion of all finalised defendants who reported that they are Indigenous.

New finalised defendant data for 2022-23, which features a much smaller proportion of finalised defendants without a reported Indigenous status, shows that assigning Indigenous status based on the proportion of Indigenous people in the population underestimated the number of Indigenous finalised defendants for the 2020 Review.

The CGC has proposed to assign not-stated Indigenous status based on the stated defendant response for the 2026 Update. We support the decision to correct this issue, but we believe this adjustment could be applied to current data and implemented in the 2025 Review, as the data is available. It would be unnecessary to delay until the 2026 Update to implement this change.

[1] Commonwealth Grants Commission, *2025 Methodology Review Draft Report, Justice,* page 249 paragraph 33.

8. Roads

KEY POINTS – ROADS

Urban road length measurement

We are disappointed that the CGC proposes to retain population as the driver for urban road lengths for all towns over 40,000 people.

- We believe the CGC should assess the urban road lengths for the capital cities and non-capital cities separately. As shown in the CGC's data, the capital city road lengths should be assessed according to per-capita road length. The CGC can retain population as a driver for urban road lengths in non-capital towns.

Update to the 2020 Review synthetic rural road network

We do not agree with the CGC's removal of the routes to mines, national parks, gas wells and ports from the 2020 Review methods for the synthetic rural road network. The CGC should not remove these routes, just because an unknown proportion is privately owned.

Using National Transport Commission data to apportion the expenses data

We are disappointed the CGC has not addressed our concerns that it uses National Transport Commission (NTC) data for purposes other than they were intended.

- It is unclear if the CGC has attempted to contact the NTC to ask if these data are being used correctly, or if changes can be made to the cost allocation matrix.

Culverts and floodways

We are disappointed the CGC has proposed to retain the existing assessment of bridges and tunnels.

- Since the culvert expenses are currently included in the bridges and tunnels component, the CGC should separately assess culverts and floodways for those States that can provide the data.

Regional costs

We are pleased the CGC proposes to use Rawlinsons' indices to capture the additional costs to supply and maintain roads.

- As the differential costs between States can be measured in a way that is consistent with CGC principles, it would better reflect HFE to apply individual States' Rawlinsons' gradients.

Overall validity of the assessment and discounting

We strongly disagree that the Roads assessment should be discounted. Introducing the discount in the Roads assessment, due to some minor concerns, contradicts the approach in other assessments.

Urban road length measurement

It is disappointing that the CGC has dismissed what is shown in its data – that the same drivers that increase urban transport costs for urban centres also reduce per-capita urban road length for larger capital cities.

We do not dispute that there is no relationship for the full complement of urban centres with more than 40,000 people. However, the data shows there is an obvious relationship for the capital cities. Despite this relationship, the CGC did not provide an explanation why it cannot split the assessment of urban road length for large non-capital cities and capital cities, other than stating "it does not consider it necessary to treat Darwin differently to those other cities".[1]

We remain of the view that capital cities follow a pattern, reflecting their similar nature of very centric-orientated travel patterns. On the other hand, non-capital urban centres have rather ad-hoc structures, and hence, ad-hoc per-capita road lengths. Head offices and State government departments are usually based in capital cities, with the head offices generally being in the central business district. Therefore, the road structure in the capital cities is more likely to cater for a substantial amount of commuting.

Due to this strong relationship, we see no valid reason why the CGC should not assess capital city road lengths according to per-capita road length. The CGC can retain population as a driver for urban road lengths in non-capital towns.

Update of the 2020 Review synthetic rural road network to remove the routes to mines, national parks, gas wells and ports

We do not agree with the CGC's removal of the routes to mines, national parks, gas wells and ports from the 2020 Review methods for the synthetic rural road network.

In the Roads consultation paper, the CGC stated that

> *"The Commission investigated using this dataset to assess rural and urban road lengths, but its preliminary view is that the 2020 Review method remains the most policy neutral indicator of State needs".*[2]

We strongly agree with this. The removal of these routes requires unsubstantiated judgement from the CGC.

1 Commonwealth Grants Commission, *2025 Methodology Review Draft Report, Roads*, page 287, paragraph 9.

2 Commonwealth Grants Commission, *2025 Methodology Review, Roads consultation paper*, page 9, paragraph 20.

It is not clear why the CGC believes that:

> *'the current inclusion of routes to mines, gas wells, ports and national parks may overcomplicate the model and imply an unrealistic degree of precision'.*[3]

Although we agree that some mining roads are owned and maintained by the private sector, there is no clear data on which roads are privately owned, nor is there evidence that roads to national parks are maintained at a lower standard compared to the average State government-managed road. The CGC stated in the 2020 Review:

> *'…, there is no reliable information on the length of privately funded roads to mines, or the location of the mining tenement gate, to make an adjustment.'*[4]

We are not aware of any reliable information that has become available since the 2020 Review on the length of privately-funded roads to mines.

In the absence of this data, we believe the CGC have based their decision on unsubstantiated advice. We believe the CGC should wait and investigate the suitability of the National Service Level standards data when this becomes available.

Otherwise, the CGC will throw out a number of routes that include State owned and managed roads (that should be included), just because it includes some private roads, without knowing the proportion.

Advice from Western Australia's Department of Biodiversity, Conservation and Attractions is that roads leading to national parks need to be maintained regularly to ensure clearance for disaster mitigation and in case of catastrophic emergencies such as bushfires. This contradicts the CGC's reasoning.

Using National Transport Commission data to apportion expense categories

We continue to believe that the CGC uses National Transport Commission (NTC) data for purposes other than what they were intended. Hence, the NTC data should be adjusted to allocate a proportion of Category A and Category E expenses to road length.

We are disappointed the CGC has not addressed our concerns other than to state that:

> *'the Commission does not consider it has the data to make changes to the cost allocation matrix'.*[5]

It is unclear whether the CGC has attempted to consult the NTC to ask if the data is being used correctly or if changes can be made to the cost allocation matrix.

[3] Commonwealth Grants Commission, *2025 Methodology Review Draft Report, Roads*, page 289, paragraph 22.

[4] Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities 2020 Review, Volume 2 – Methodology for measuring State fiscal capacities (Part B)*, page 300, paragraph 68.

[5] Commonwealth Grants Commission, *2025 Methodology Review Draft Report, Roads*, page 293, paragraph 49.

Culverts and Floodways

The CGC requested data from States on the lengths of, and recurrent and capital costs for, culverts and floodways. Some of these data were not available for most States, and the CGC has concerns about the consistency of the available data.[6] Therefore, the CGC proposes to retain the existing assessment of bridges and tunnels.

It is unclear what concerns the CGC has regarding the consistency of the data. As stated in our Tranche 2 submission, culverts and floodways require more frequent maintenance than roads to ensure they are kept clear to continue to serve their purpose.[7] If culverts and floodways are not maintained regularly, there is a risk they will block and cause floods. As a result, State road authorities must maintain registers of culverts and floodways to allow for asset management.

We believe with adequate time, all States should be able to supply this data. If a State is unable to supply data, this implies that no maintenance is being performed. Therefore, it is highly unlikely that they would have any culverts or floodways. States with few culverts and floodways have an incentive to not provide the data, and it is undesirable that the CGC's methods are driven by those States.

The CGC states that culvert expenses are currently included in the bridges and tunnels component.[8] Hence, culverts should be assessed using the culvert lengths provided by the States that can supply data.

Regional Costs

We are pleased that the CGC acknowledges that the impact of remoteness on the cost of maintaining roads is likely to be more correlated to the costs of constructing a building than it is to these service delivery costs. Therefore, it makes sense to use Rawlinsons' indices to capture the additional costs to supply and maintain roads.

Further, the CGC applies averages to mitigate policy influences. In the case of Rawlinsons', we consider this unnecessary. The gradient is calculated using a range of data sources that are dominated by the private sector. Like the wages regression, Rawlinsons' acts as a proxy to allow for a policy-neutral approach to calculating the experience in the public sector. Hence, individual State Rawlinsons' indices act in the same manner as the Wages factors, and should be applied as stated.

Furthermore, as this calculation is based on State-specific data by remoteness region, it is consistent with the CGC's *policy neutrality* and *what States do* principles.

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6 *ibid.,* page 294, paragraph 54.

7 Western Australian Treasury, ***Western Australia's Submission to the Commonwealth Grants Commission's*** *2025 Methodology Review, Tranche 2 Assessments,* page 33.

8 Commonwealth Grants Commission, *2025 Methodology Review Draft Report, Roads*, page 294, paragraph 53.

Given the differential costs between States can be measured in a way that is consistent with CGC principles and reliable data is readily available, it would be more consistent with HFE to apply individual State gradients.

Overall validity of the assessment and discounting

The CGC proposes to introduce a discount of 12.5% to address concerns with some aspects of the Roads assessment. This is despite the CGC considering that the overall Roads assessment remains appropriate.

We strongly disagree that the Roads assessment should be discounted.

Introducing a discount in the Roads assessment, due to some minor concerns, contradicts the approach in other assessments. For example:

- in the Mining Revenue assessment, the observed revenue bases are not a reliable measure of revenue bases. Despite the CGC acknowledging the unreliability,[9] the CGC does not discount the mining revenue bases;
- in the Welfare assessment, there are concerns about capturing the total actual spending on Homelessness, and all the major drivers of Homelessness. Despite acknowledging the lack of comprehensiveness,[10] the CGC does not discount the Welfare assessment; and
- in the Housing assessment, there are data issues with Census and State-owned and Managed Indigenous Housing data, and concerns that not all drivers are included for the demand for social housing. Despite the CGC acknowledging these concerns,[11] the CGC does not discount the Housing assessment.

These are just some of the examples of the concerns in other CGC assessments, yet no discount is applied. It is unclear why the CGC proposes a discount for the Roads assessment, where it does not in others.

9 *ibid.*, *Mining Revenue*, page 59, paragraph 17.

10 *ibid., Welfare,* pages 207-14, paragraphs 44, 64 and 74.

11 *Ibid., Housing,* pages 186, paragraph 53.

9. Services to Industry

KEY POINTS – SERVICES TO INDUSTRY

COVID-19 business support

We disagree that State responses to COVID-19 were driven by circumstances outside their control. Clear variations in State policy choices led to significant differences in case numbers and lockdown lengths, and therefore, the amount of business support spending.

Remoteness-driven costs of business development

We believe regional cost adjustments are necessary for the assessment of business development expenses. Most grants and subsidies are based on the specific costs of a project, which are higher when the project is delivered in regional areas.

Other issues

We support the CGC's proposed method for measuring industry output.

We support the proposed decision to not include business counts as a driver of business regulation.

COVID-19 business support

The CGC proposes an actual per capita assessment of State spending on COVID-19 business support. However, as discussed in the *COVID-19* chapter of this submission, we strongly disagree with the CGC's view that State responses to COVID-19 were driven by circumstances outside their control rather than policy choices, and believe the CGC should treat spending on COVID-19 business support equal per capita (EPC).

Remoteness-driven costs of business development

The CGC has proposed to continue to assess business development expenses EPC, with a wage cost adjustment, but with no adjustment for regional costs.

The CGC has not departed from its view in the 2020 Review, but we believe this view is incorrect, as grants and subsidies are not set amounts awarded to any successful applicant. Most major grant programs award funding based on their analysis of the specific costs of the project, and the requested grant amount.

The Regional Economic Development grant program is administered by Western Australia's Department of Primary Industries and Regional Development (DPIRD) and offers up to $250,000 in grant funding to successful projects that look to diversify the local economy of an area, and support employment opportunities for local residents. The grant amount awarded to applicants is based on the cost of the project, and the amount of funding requested. DPIRD staff review grant funding applications that include quotes and cost estimates for the project using local contractors. These local contractors quote based on the cost of completing the project in regional areas. The awarded funding amount to successful applicants in the Pilbara ranged from $72,651 to $250,000 in the last two years, depending on the funding required for the project.[1]

If these projects were funded in major cities, the requested grant amounts for comparable projects would be smaller. That is, the quotes and costing information provided in the funding submission would not account for the increased cost of carrying out their work in a regional area.

Other major grant programs are structured similarly, with applicants awarded the amounts for which they apply based on their funding submission content, rather than the maximum grant amount. The X-TEND WA program, administered by Western Australia's Department of Jobs, Tourism and Innovation is another example of a major program with this type of funding system.[2] We see no reason that it would be different in other States.

Other issues

We support the CGC's proposed method for measuring industry output.

We support the proposed decision to not include business counts as a driver of business regulation.

[1] https://www.pdc.wa.gov.au/funding/regional-economic-development-grants/previous-successful-projects.aspx

[2] https://www.wa.gov.au/organisation/department-of-jobs-tourism-science-and-innovation/x-tend-wa-past-recipients-0

10. Wage Costs

KEY POINTS – WAGE COSTS

We remain concerned about the complexity of the current wages model.

Discounting

The CGC should remove the 12.5% discount as there are no compelling concerns about the strength of using private sector wages as a proxy for public sector wages.

Wage to non-wage costs

We agree with the CGC that it is appropriate to impute the unattributed spending in all categories based on the ratio of total known wage and non-wage spending.

Response to the CGC's draft positions

We support the assessment of wage differences across States. However, we continue to be disappointed that this review did not further consider other methods that may be more suitable for the Wages assessment.

We have raised concerns with the CGC on several occasions about its regression model. We regard the model as overly complicated. An excessive number of variables creates problems where they can potentially have explanatory significance due to random chance, rather than due to being valid explanatory variables.

We are concerned that the CGC's proposed changes add complexity to the already complex model, decreasing the transparency and reliability.

We believe the significant impact of the proposed method changes further justifies our concerns with the dependability of the CGC's wages regression model. It raises consequential questions on the model's statistical validity and whether the model's outcome is consistent with observations and understanding of State circumstances.

Discounting

The CGC proposes to maintain the 12.5% discount to the estimated State wage factors reflecting continuing general uncertainty about measurement issues and the use of private sector wages proxy.

We continue to believe the model should not be discounted. The strength in using the private sector as a proxy for the public sector is evident, as stated in various consultant reports, and therefore leaves little uncertainty and no evidence of systematic bias.

Maintaining the discount in the Wages assessment, due to the reliability of the proxy, contradicts the approach in other assessments. For example, in the Mining Revenue assessment, we argue that the mining revenue bases should be discounted as the observed revenue bases are not a reliable measure of revenue bases. Despite the CGC acknowledging the unreliability,[1] the CGC does not discount the mining revenue bases. However, the CGC uses judgment to discount due to uncertainty in the Wages assessment.

Wage to non-wage costs

We agree with the CGC that it is appropriate to impute the unattributed spending in all categories based on the ratio of total known wage and non-wage spending and for the CGC to treat all categories consistently.

[1] Commonwealth Grants Commission, *2025 Methodology Review Draft Report, Mining Revenue*, page 59, paragraph 17.

11. Geography

KEY POINTS – GEOGRAPHY

Remoteness

We continue to believe that the current methods for assessing remoteness do not adequately compensate Western Australia. We would like to see the inadequacies of ARIA+ (Accessibility/Remoteness Index of Australia Plus) and possible alternatives form part of the CGC's forward work program.

General gradient

We appreciate the improvements made to the general gradient by including more data. As the robustness of the gradient has increased, the discount applied should decrease.

Non-wage costs

We continue to strongly believe that there are additional costs faced by Western Australia due to the isolation of Perth that are not currently captured in assessments.

Rawlinsons' cost gradient

As the differential costs between States can be measured in a way that is consistent with CGC principles, it would better reflect HFE to apply individual States' Rawlinsons' gradients.

Remoteness

We are extremely disappointed that the CGC has dismissed our arguments that current remoteness measures do not address the costs faced in Western Australia. We reiterate that whilst ARIA+ (Accessibility/Remoteness Index of Australia Plus) attempts to group like-areas, this does not mean the costs faced in these areas are similar, and are often not even broadly similar.

The CGC states that it does not have any evidence for any particular, significant bias in the current approach that should be overcome.[1] The simplest way to conceptualise the issue faced by Western Australia (and any other large State) is that, when people or items need to be transported to a remote or very remote area to provide a service, the cost increases as distance increases. Petrol costs do not stop when the distance reaches three times the national average, as the ARIA+ methodology would suggest. The time costs for the person travelling also do not stop. The disincentive to travel the extra distance likely also does not stop, requiring increasing incentivisation. Flying is not an alternative for freight, and even

[1] Commonwealth Grants Commission, *2025 Methodology Review Draft Report, Geography*, page 420, paragraph 64.

for the person, it can be prohibitively expensive over such large distances and with restricted supply.

We tried to highlight concerns with the approach through comparison with Tasmania. We understand that a larger proportion of Tasmania's population lives in regional areas than the Western Australian population (driven in part by Hobart's classification as inner regional). We understand that some of Western Australia's ultra-high-cost areas have few people to service, giving a high cost per person but not a high total expenditure.

However, we find it extraordinary that Tasmania, with a land mass of 68,401 square kilometres, was allocated $648 million for remoteness in 2023-24 compared to Western Australia, with a land mass of 2,527,013 square kilometres, being allocated only $633 million for remoteness.[2] Therefore, despite Western Australia being almost 37 times larger than Tasmania, and with more than five times the population, it is deemed more expensive to provide services in Tasmania **in total**, due to remoteness.[3]

In response to our concerns about this, and about Hobart's inner regional classification, the CGC claimed that Hobart remains quantitatively different from major cities around Australia (without providing evidence).[4] However, when we provide evidence that shows Western Australia faces quantitatively different costs due to the extreme size of the State, it is dismissed.

We find the CGC's response to our concerns surprising, considering its own acknowledgment that the categories used by ARIA+ do not cover a full range of circumstances, and that providing services to locations in the same remoteness area can have very different costs.[5]

We understand the CGC's argument that Karratha (population 22,000) in Western Australia may have access to some services that Clermont (population 3,000) in Queensland does not. However, that does not mean that the costs to provide the same service in these locations would be the same, or more in the smaller population centre.

As a practical example of amenity and availability, most towns will have a hardware store, regardless of size. A location needs to be a sufficient size for that hardware store to be a large retailer like Bunnings.[6] In both Karratha and Clermont, the town is serviced by a much smaller Mitre 10.[7]

If a tradesperson in a small town not serviced by a major retailer, like Bunnings, needs to buy supplies that are not available in their local hardware store, they have a few options.

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2 Commonwealth Grants Commission, *2025 Methodology Review, Geography consultation paper*, page 8, table 3.

3 This equates to $1,109 per person for Tasmania, compared to just $223 for Western Australia.

4 Commonwealth Grants Commission, *2025 Methodology Review Draft Report, Geography*, page 422, paragraph 71.

5 Commonwealth Grants Commission, *2025 Methodology Review, Geography consultation paper*, page 9, paragraph 20.

6 Additionally, Bunnings is often cheaper than smaller retailers, so smaller towns will face higher prices if they are able to purchase what they need.

7 Mitre 10 is often the retailer in remote towns.

The first is to purchase it from an online retailer, often resulting in exorbitant freight costs. They cannot simply order it from Bunnings, as they only send items to places that are near their stores.[8] The second is to drive to the nearest location that stocks this item. The closest Bunnings to Clermont is 289 kilometres away (Mackay, with two stores). The closest Bunnings to Karratha is 835 kilometres away (Geraldton, with one store).

Major providers will primarily be in large population centres. Regardless of size, if a service provider or item is not available in a location, the distance to the closest provider will be the primary consideration. If providers are more likely to operate in larger population centres, the distance to this location will matter, and will affect costs.

Our aim was to provide some possible ways forward to improve the assessment and generate serious discussion. We tried to highlight inconsistencies in the assessment and the illogical results. We did not expect any conclusions in this review, but highlighted the issues for future examination. But the CGC concentrated on rebuffing our suggestions, rather than acknowledging the costs in Western Australia or the stark comparisons to Tasmania. Our aim, and expectation, at the very least, was that remoteness would have formed part of the CGC's forward work program.

We want to explore alternative approaches, with the CGC. The CGC considers that Hobart should be grouped with other cities of its size.[9] But does Hobart's status as a capital city, with Tasmania's seat of government, make it different to, say, Townsville (of similar size)? Alternatively, do the three major cities of Cairns, Townsville and Mackay somehow collectively create economies of scale (they are less than 400 kilometres apart)? We want to explore such questions, and others, in the CGC's forward work program.

The CGC previously noted that improvements in data may allow for a differential assessment of remoteness costs in the future.[10] However, the CGC excluded discussion of this in the Draft Report. We would like this also included in the CGC's forward work program.

General gradient

We appreciate that the CGC has improved the robustness of the general gradient by including more assessments in the calculation. As a result, the gradient better reflects the costs experienced in the relevant assessments, improving the reliability.

The general gradient previously contained only two assessments, which limited the likelihood that the gradient accurately reflected costs associated with other assessments. These limitations were the justification for a 25% discount applied to the general gradient. Given that the robustness of the gradient has increased, at the very least, it would be appropriate to reduce the discount applied to 12.5%.

8 Presumably this is due to the extreme costs associated. If they are sending items closer to where they have a store, they can make the most of economies of scale as they are already sending large volumes of stock.

9 Commonwealth Grants Commission, *2025 Methodology Review Draft Report, Geography*, page 422, paragraph 71.

10 *ibid*., page 411, paragraph 23.

Non-wage costs

We continue to strongly believe that there are additional costs faced by Western Australia, due to Perth's isolation, that are currently not assessed. The examples used by the CGC in the Draft Report are simplistic.[11] Fuel cost and travel cost are two very specific points of comparison between States and may not capture the main driver of the differences.

For example, for major infrastructure projects, there are significantly fewer Tier 1 builders based in Perth when compared to other major cities such as Melbourne and Sydney. In part, this is due to Perth's isolation. The significantly shorter travel distance between other major cities means that Tier 1 builders based in these cities have more choice as to where they take on projects. It is a short flight between capital cities on the east coast, allowing for greater mobility and more competition.[12]

There is less incentive for a company to be based in Perth as there are fewer opportunities, and it makes it difficult to take on work in other States. This has led to a 'thin' market in Western Australia. Essentially, less competition leads to higher prices. The proximity of other States means it is less costly even if the builder comes from a neighbouring State.

We look forward to continuing to work with the CGC to identify Western Australia's additional costs due to isolation, and would like this also included in the CGC's forward work program.

Rawlinsons' cost gradient

We appreciate the increased use of Rawlinsons' for calculating regional costs. However, we believe that there is no reason to apply the average of States' Rawlinsons' gradients.

The CGC applies averages to mitigate policy influences. In the case of Rawlinsons', we believe this is unnecessary. The gradient is calculated using a range of data sources that are dominated by the private sector. Like the wages regression, Rawlinsons' acts as a proxy to allow for a policy-neutral approach to calculating the experience in the public sector. Hence, individual State Rawlinsons' indices act in the same manner as the wages factors, and should be applied as stated.

Furthermore, as this calculation is also based on State-specific data, it is consistent with the CGC's *policy neutrality* and *what States do* principles.

Given the differential costs between States can be measured in a way that is consistent with CGC principles, and reliable data is readily available, it would be more consistent with HFE to apply individual State gradients.

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[11] *ibid*., pages 418-19, paragraphs 50-52.

[12] That is, Sydney, Melbourne, Brisbane and even Hobart have significantly shorter travel times between one another. This travel time is much less than travelling to Perth. Whilst not on the east coast, Adelaide is still only a short flight away from east coast cities.

12. Other Assessments

KEY POINTS – OTHER ASSESSMENTS

We support the CGC's proposals to:

- combine the non-NDIS, aged care and national redress scheme assessment into a single Other Welfare assessment;
- further consider measurements of socio-economic status, in particular for Indigenous persons; and
- not implement a 'smoothing' measure in the Investment and Net Borrowing assessments.

We will consider the Transport addendum before making any comment on that category.

We have no further comments (beyond previous submissions) on:

- Post-secondary Education;
- Natural Disaster Relief;
- Native Title and Land Rights;
- Administrative Scale;
- National Capital;
- Other Expenses;
- Commonwealth Payments; and
- the Adjusted Budget.

13. Post 2025 Review

KEY POINTS – POST 2025 REVIEW

Flexibility to consider method changes between reviews

We propose that the CGC includes in its 2025 Review Final Report its statements that it will consider alternative methods in the same way as it does in a method review, involving extensive consultation with States, and that this may take more than one annual update.

CGC’s forward work program

We consider it important to commence work between method reviews.

During the Productivity Commission (PC) review of the GST distribution reforms, timing of CGC consultation with the States will have to work around PC submission deadlines.

We propose adding to the CGC’s forward work program the following items (some of these were raised in specific chapters in the Draft Report, but not listed in the CGC’s forward work program).

- Identifying policy inconsistencies in observed revenue bases.
- The dominant State problem in the Mining Revenue assessments.
- For Admitted Patients, reasons for variation in private health insurance benefit payments per separation among States
- Emergency Departments substitutability levels by remoteness.
- An alternative way to calculate a Housing Indigenous cost weight.
- Water quality and availability.
- Transition to net zero.
- Suitability of using the National Service Level Standards data for Roads when they become available.
- Alternatives to ARIA+ (Accessibility/Remoteness Index of Australia Plus).
- Additional costs associated with Western Australia’s isolation.
- Reductions in Indigenous cost weights due to increased self-identification.

Flexibility to consider method changes between reviews

The CGC proposes that it have additional flexibility to consider alternative methods between reviews in very limited circumstances, where States experience major unexpected developments that:

- have a significant impact on the fiscal positions of one or more States;
- are not captured in existing assessment methods; and
- there is a reasonable basis to conclude that a change in methods before the next review would better achieve the objective of fiscal equalisation.

In our March 2024 submission, we argued that any change in methods between reviews would likely be rushed. We argued that shocks can take a long time to develop, and even longer to understand. Our concern is that flexibility to change methods between reviews would promote knee-jerk reactions, without adequate consideration and consultation, and without allowing the shock to develop.

Hence, we are encouraged by several statements in the CGC's Draft Report. In particular, the CGC proposes to consider alternative methods in the same way as it does in a method review, involving extensive consultation with States.[1] The following statement is also encouraging:

> *"If, after considering state views, the Commission decided to change an assessment method, it would aim to make the change in the earliest practicable update following consultation. This may not be the first update following the change in circumstances, given the availability of reliable data and the need for adequate time to consult with states."*[2]

We consider it important that the CGC is prepared to take time for extensive consultation, which may take more than one annual update. We would like to see wording along the lines of these paragraphs in the CGC position in the 2025 Review Final Report.

CGC's forward work program

We consider the CGC's forward work program to be a very good idea.

Method reviews are typically time constrained, so work between reviews will improve the consultation over proposed methods.

A further benefit would be if this encourages State Treasuries to maintain dedicated resources for HFE between method reviews. We consider the CGC's decision-making processes to be improved when all treasuries maintain a good understanding of HFE.

1 Commonwealth Grants Commission, *2025 Methodology Review Draft Report*, *Flexibility to consider method changes between reviews,* pages 479-80, paragraph 34.

2 *ibid*., page 480, paragraph 35.

However, the CGC should note that the highest priority for Western Australia, and probably all other States, will be the Productivity Commission (PC) review of the GST distribution reforms, with the PC's final report to be delivered by the end of 2026.

This should not preclude States from being involved in the CGC's work between reviews, provided the CGC can work around the PC's deadlines for submissions.

The earlier chapters of our submission have proposed that the following items be added to the CGC's forward work program.

- Revenues – Identifying policy inconsistencies in observed revenue bases.
- Health – For Admitted Patients, reasons for variation in private health insurance benefit payments per separation among States.
- Housing – An alternative way to calculate an Indigenous cost weight.
- Services to Communities – Water quality and availability.
- Geography:
  - The CGC has acknowledged that ARIA+ (Accessibility/Remoteness Index of Australia Plus) does not cover the full range of circumstances experienced by States.[3] Alternative options should be explored.
  - We will continue to work with the CGC to identify non-wage cost differences due to Western Australia's isolation.
- Indigeneity – The significant reduction in the cost weight for Indigenous students in government schools due to increased self-identification. This is a concern as identified in Western Australia's *Assessing Indigenous Disadvantage in Commonwealth Grants Commission Assessments* discussion paper.

Also, there are a few items raised in the specific Draft Report chapters that do not appear (at least explicitly) in the CGC's forward work program. We suggest adding these, as follows.

- Mining Revenue – The dominant State problem.
- Health – For Emergency Departments, use of separate substitutability levels by remoteness region.
- Services to Communities – Transition to net zero emissions.
- Roads – Suitability of using the National Service Level Standards data when they become available.

[3] Commonwealth Grants Commission, *2025 Methodology Review, Geography consultation paper*, page 9, paragraph 20.