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

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

Significant Changes Since the Draft Report

December 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

This submission responds to the *Significant Changes Since the Draft Report* paper 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 submission addresses the key issues of concern to the Western Australian Department of Treasury. These are summarised in this Executive Summary.

Health

Admitted Patients non-State service activity

We are pleased that the CGC has recognised that private health insurance benefits are not a reliable measure of non-State service activity.

Non-hospital patient transport

When non-hospital patient transport data are included in the national weighted activity units for all data years, the CGC should consult with States as to whether this will best measure HFE, rather than automatically implementing the change.

Discounting non-State service adjustments

We do not support discounting non-State service adjustments.

We reiterate our view that the assessment guidelines in the CGC's Final Report should more clearly document the CGC's justification for discounting.

Non-admitted Patients substitutability level

We would like to know why the CGC has not addressed our arguments in our Draft Report submission against using its 'affordable services' method.

Housing

The average-household size method proposed by the CGC is flawed as it does not adjust for average-household size when it apportions national social housing expenses by socio-demographic group. The CGC should fix this flaw before the Final Report.

Roads

We are pleased that the CGC will retain the 2020 Review method for assessing rural road length, which includes roads to mines, gas wells, ports and national parks.

We strongly disagree that the Roads assessment should be discounted.

Urban Transport

The CGC's latest quantification of the impact of proposed method changes has large differences from the quantification in the Draft Report, as a result of error corrections. This indicates unreliability in the Urban Transport methods. We support additional discounting for this unreliability.

Geography

As the general gradient has improved, including from the removal of the subsidies data, the 25% discount should be reduced. If not, it should be applied flexibly based on how well an assessment is aligned with the components used to calculate the general gradient.

COVID-19

We remain resolute that an actual-per-capita assessment of COVID-19 expenses is not appropriate, as different State policies and efficiencies were significant drivers of outcomes, and contributed to most of the differential impact of COVID-19.

Should the CGC decide to implement its proposal to assess COVID-19 expenditure actual per capita, we suggest the largest discount of 50% be assigned to the assessment, as the CGC must concede that State policies were not completely aligned.

1. Health

KEY POINTS – HEALTH

Admitted Patients non-State service activity

We are pleased the CGC has recognised that private health insurance benefits are not a reliable measure of non-State service activity.

Non-hospital patient transport

When non-hospital patient transport data are included in the national weighted activity units for all data years, the CGC should consult with States as to whether this will best measure HFE, rather than automatically implementing the change.

Discounting non-State service adjustments

We do not support discounting non-State service adjustments.

- It is unclear to us that the data for these assessments are less reliable than for other assessments.
- Although the methods have been subject to much debate, the CGC has presumably chosen the methods that it considers to be correct.

We reiterate our view that the assessment guidelines in the CGC's Final Report should more clearly document the CGC's justification for discounting.

Non-admitted Patients substitutability level

We would like to know why the CGC has not addressed our arguments in our Draft Report submission against using its 'affordable services' method.

Admitted Patients non-State service activity

We are pleased that the CGC has recognised that private health insurance benefits are not a reliable measure of non-State service activity, as the benefits paid for equivalent hospital services vary among States due to factors other than case complexity.

Non-hospital patient transport

We accept that it is reasonable for the CGC to assess non-hospital patient transport within Admitted Patients in an annual update if the costs are included in the national weighted activity units (NWAUs) for all data years.

However, when this occurs, the CGC should consult with States as to whether this will best achieve HFE. That is, the CGC should not automatically introduce the change without further consideration of the data's quality and the impact on States.

We note that the CGC would want to be assured of the quality of the patient transport data that the States are providing for the NWAUs. The States would also want to be assured that the CGC's proposed implementation is correct.

Discounting non-State service adjustments

The CGC has decided to apply a low discount (12.5%) to the health non-State service adjustments, citing "uncertainty about the reliability of data and the robustness of the methods".[1]

It is unclear to us that the data are less reliable than used in other assessments.

- For example, although the Draft Report noted that the CGC could not get "perfect alignment" in the States' approaches to the data request on the share of related non-admitted and admitted patient services, sensitivity analysis gave similar final results.[2] We also note that the CGC only sought a national average from these data, so individual differences among States in the CGC's approach would average out.

Although the methods have been subject to much debate, the CGC has presumably chosen the methods that it considers to be correct.

- It would create perverse incentive to consultation if States arguments against current CGC methods were likely to result in a discount to those assessments.

Hence, we do not support these discounts.

We also note that the CGC has no basis for knowing whether the discounts will move the assessments towards or away from HFE. We do not see this as a problem, as we consider the use of discounting is a valid response to uncertainty. However, we reiterate our view in our Tranche 2 submission that the assessment guidelines in the CGC's Final Report should more clearly document the CGC's justification for discounting.[3]

Non-admitted Patients substitutability level

We note that the CGC has not addressed our arguments in our Draft Report submission against using its 'affordable services' method as an input to the Non-admitted Patients substitutability level.[4]

We would appreciate this being addressed in the CGC's Final Report.

[1] Commonwealth Grants Commission, *2025 Methodology Review, Significant changes since the Draft Report*, page 14, paragraph 61.

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

[3] Western Australia, *Submission to the Commonwealth Grants Commission's 2025 Methodology Review, Tranche 2 Assessments*, *Pre-Tranche 2 Issues*, pages 74-76.

[4] Western Australia, *Submission to the Commonwealth Grants Commission's 2025 Methodology Review, Draft Report, Health,* pages 24-25.

2. Housing

KEY POINTS – HOUSING

The CGC's proposed method, based on average household size, is intended to mitigate the impact of overcrowding. However, the form that the CGC has proposed is flawed, as the method:

- correctly adjusts for average household size, when it apportions national average spending to States based on the number of households they have in each socio-demographic group; but
- incorrectly fails to adjust for average household size, when it apportions national average spending by socio-demographic group.

The CGC should fix this error. Once fixed, the corrected average-household size method will give the same results as the individual-based method, as proposed in the Draft Report.

In this review, to address the underestimated cost of social housing due to overcrowding, the CGC proposed changes to better reflect the drivers of State spending.

We are pleased the CGC accepted the conceptual case that overcrowding results in higher costs, and that the household-based method used in the 2020 Review does not adequately compensate States for overcrowding. However, we are disappointed the CGC decided to assess net expenses for social housing using a method based on average household size, rather than the individual-based method, as proposed in the Draft Report.

Maintaining, refurbishing and replacing houses in remote Indigenous communities is expensive and is required more frequently due to environmental conditions, remoteness and overcrowding. However, without appropriate maintenance, the costs to the State will ultimately be higher as houses can fall into a level of disrepair that cannot be remediated, and therefore need to be replaced more frequently. Western Australia is the only jurisdiction where the State is the sole entity that funds and provides municipal services to remote Indigenous communities, without involvement of local government authorities or the Commonwealth.

In the Draft Report, the CGC proposed to use the individual-based assessment to better reflect these drivers of State spending and to directly account for overcrowding. This was because the method used in the 2020 Review underestimates the assessed expenditure in States with above-average overcrowding. Using an individual-based assessment would compensate States with fewer houses per capita and above average overcrowding.

Hence, we agree with the Northern Territory that this individual-based housing assessment is logical, as States provide houses to persons. This is consistent with the definition of HFE to provide States with the fiscal capacity to deliver an average standard of services to persons.

However, since the Draft Report was released, the CGC proposed to derive a household count for each socio-demographic group in each State based on the national average household size in each socio-demographic group. This seems based on the comments from New South Wales and Victoria.

In its response to the CGC's Draft Report, the CGC referenced Victoria:[1]

> *"a move to an individual-based assessment is unnecessary as existing drivers in the housing assessment (for example, remoteness) are already appropriate proxies for overcrowding. Victoria also said larger households pay more in rent, resulting in higher revenue for the service provider. It said in most cases, this offsets any additional costs associated with extra tenants."*

We strongly refute this. Although the CGC includes an Indigenous cost weight to recognise the higher costs of providing social housing to Indigenous households compared to non-Indigenous households, the current Indigenous cost weight severely underestimates the additional costs faced by Western Australia to provide housing for Indigenous households. This is both because the weight is underestimated and because there is greater overcrowding for Indigenous households in Western Australia compared to the national average. Whilst we agree that larger households pay more rent, we believe this is a separate issue to overcrowding. In the case of overcrowding, the additional occupants usually do not add to the rent. Therefore, it does not result in higher revenue for the State. Additionally, we consider that the general gradient greatly underestimates the costs to supply and maintain social housing in regional areas.

The household approach, currently proposed by the CGC, results in an inequitable assessment, because despite Western Australia's high rates of overcrowding, it is not compensated through this changed method. Western Australia has consistently had the second-lowest proportion of Indigenous people living in appropriately sized housing, and this worsened between 2016 and 2021. For example, in an East Kimberley community only 36% of Indigenous people lived in appropriately-sized (not overcrowded) housing in 2021, down from 44% in 2016.

It makes no sense that the data[2] show that Western Australia has the second highest rates of severe overcrowding, but the CGC's proposed average-household size method results in Western Australia receiving a decrease in GST distribution compared with the 2020 Review method.

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1 Commonwealth Grants Commission, *2025 Methodology Review, Significant changes since the Draft Report*, page 17, paragraph 75.

2 *ibid.,* page 19, Table 4.

We have analysed the proposed average-household size method and compared it to the Draft Report individual-based method.

As described by the CGC, the Housing assessment has two fundamental steps.[3]

- Step 1 involves the calculation of national average spending by socio-demographic group.
- Step 2 involves the apportionment of national average spending to States based on the number of people or households they have in each socio-demographic group. This gives State assessed expenses by socio-demographic group.

Although the CGC has described Step 2 differently for the average-household size method and the individual-based method, the step is identical between those two methods. Applying a national-average household size to individuals within a socio-demographic composition group simply scales those individuals within that group by the same amount for each State. When State shares are calculated, the scaling factors out, and shares are based on individuals.

The two methods differ in Step 1. The individual-based method allocates national expenses to socio-demographic groups by individuals in social housing in each group, whereas the average-household size method allocates national expense by social housing households in each group.

- The key issue is that the average-household size method, as proposed by the CGC, does not take account of the average household sizes in Step 1.
- This means that socio-demographic groups with above-average overcrowding nationally are not assigned additional State expenses to account for this. This understates the cost of these households nationally.
- We consider that, for Step 1 in the average-household size method, the CGC should assess the number of social housing households in each socio-demographic group as equal to the number of social housing individuals in that group, divided by the average social housing household size across all socio-demographic groups. This would mirror what the CGC proposes for Step 2 for this method.[4]
- If the CGC were to do this, the average-household size method would give the same results as the individual-based method.

If the CGC is concerned that costs for overcrowded households do not grow proportionally to the number of residents, it could blend the 2020 Review household-based method with the corrected average-household size method.

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[3] *ibid.,* page 20, paragraph 89.

[4] *ibid.,* page 21, paragraph 91.

3. Roads

KEY POINTS – ROADS

Rural roads to mines, gas wells, ports and national parks

We are pleased that the CGC will retain the 2020 Review method for assessing rural road length, which includes roads to mines, gas wells, ports and national parks.

Discounting

We strongly disagree that the Roads assessment should be discounted. We consider that the assessment of road expenditure is no less accurate than some other assessments that are not discounted.

- Discounting the Roads assessment demonstrates the inconsistency of the CGC's use of discounting as it is contrary to the approach in other assessments.

Rural roads to mines, gas wells, ports and national parks

We agree with the CGC that there is insufficient evidence that roads to mines 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.

We are pleased the CGC will retain the 2020 Review method for assessing rural road length, and include routes to mines, national parks, gas wells and ports. The CGC should continue with these methods while it investigates the suitability of the National Service Level standards data, when available.

Discounting

The CGC proposes to introduce a discount of 12.5% to address concerns with some aspects of the Roads assessment.

We strongly disagree that the Roads assessment should be discounted.

Although we agree that there is data uncertainty in the Roads assessment, the main sources for the Rural and Urban Roads components are the Australian Bureau of Statistics (ABS) and State budgets. To derive the component weights of the Roads category, the CGC uses the annual road expenditure returns submitted by each State Road Authority to the National Transport Commission (NTC). The component weights from the NTC data are then applied to ABS Government Financial Statistics (GFS) expenses. All sources are universally used (not only by the CGC) to provide nationally consistent data.

Likewise, the heavy and light vehicle traffic volume data use reliable nationally-consistent data from the NTC, and the synthetic rural road network was developed by the CGC to be a policy-neutral reflection of States' rural road needs. The concerns that the CGC has in relation to importance of the drivers of expense needs are also not unique to the Roads assessment. For example:

- 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,[1] 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,[2] the CGC does not discount the Housing assessment.

Further, the Roads assessment is largely unchanged since this version was developed in the 2010 Review. Yet, over that time the CGC has not expressed any concerns about the assessment's accuracy.

Therefore, we consider the data used in the Roads assessment to be no less reliable or accurate than the data used in some other assessments that are not discounted. Whilst we acknowledge the CGC recently reviewed its use of discounting across assessments, there remains inconsistency in our view.

We also note that the CGC has no basis for knowing whether the discounts will move the assessments towards or away from HFE. We do not see this as a problem, as we consider the use of discounting is a valid response to uncertainty. However, we reiterate our view in our Tranche 2 submission that the assessment guidelines in the CGC's Final Report should more clearly document the CGC's justification for discounting.[3]

1 Commonwealth Grants Commission, *2025 Methodology Review, Draft Report*, *Welfare,* pages 207-14, paragraphs 44, 64 and 74.

2 *ibid., Housing,* page 186, paragraph 53.

3 Western Australia, *Submission to the Commonwealth Grants Commission's 2025 Methodology Review, Tranche 2 Assessments*, *Pre-Tranche 2 Issues*, pages 74-76.

4. Urban Transport

KEY POINTS – URBAN TRANSPORT

The CGC's latest quantification of the impact of proposed method changes has large differences from the quantification in the Draft Report, as a result of error corrections. This indicates unreliability in the Urban Transport methods.

- Hence, we support discounting of the assessment for unreliability, through increased blending for the recurrent assessment and a discount towards equal per capita for the capital assessment.

We remain concerned about the reliability of the Urban Transport regression.

Since its Draft Report, the CGC has corrected some errors in its regression calculations, which altered the assessment. It advised that the primary cause of changes to the assessment was correction of inconsistent logarithm bases for passenger numbers,[1] and that other errors included the exclusion of depreciation expenses for Adelaide, resolving a rounding error in New South Wales rail usage ratios and the inclusion of some small bus contract expenses.[2]

These corrections resulted in substantial revisions to the impact of the CGC's proposed 2025 Review method changes for Urban Transport, quantified in the Draft Report, as shown by Table 4-1.

Table 4-1

Impact of Proposed Urban Transport Method Changes (a)

Significant Changes Since the Draft Report versus *Draft Report*

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	$m	$m	$m	$m	$m	$m	$m	$m
Draft Report	-937	-224	+248	+560	+324	+59	-35	+7
Significant Changes	-241	-268	-32	+351	+147	+66	-27	+3
Difference	*+696*	*-44*	*-280*	*-209*	*-177*	*+7*	*+8*	*-4*
	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc
Draft Report	-109	-32	+44	+190	+171	+100	-74	+27
Significant Changes	-28	-38	-6	+119	+78	+114	-56	+13
Difference	*+81*	*-6*	*-50*	*-71*	*-93*	*+14*	*+18*	*-14*

(a) If proposed 2025 Review method changes were applied in the 2024 Update. Includes both recurrent and capital method changes.

Source: WA Treasury comparison of CGC provided estimates.

[1] Commonwealth Grants Commission, Microsoft Teams message, 28 November 2024.

[2] Commonwealth Grants Commission, *Differences in GST effects between November 2024 figures and Draft Report figures* explanatory paper, page 2, paragraph 9.

The differences in Table 4-1 are not all due to error correction. In particular, they include changes to the allocation of expenses between Urban Transport and Non-urban Transport introduced since the Draft Report. However, these re-allocations only shift maxima of $13 million for New South Wales and $4 per capita for Tasmania and the Northern Territory. Hence, they have little impact on Table 4-1.

We find the magnitude of the differences in Table 4-1 (for half of the States) remarkable for what seem like either technically simple or relatively small error corrections (despite since learning that the logarithm error had a substantial impact). This suggests that any other errors may also have relatively large impacts, which indicates there is a substantial degree of unreliability in the assessment.

- Such unidentified errors could be simple oversights, which appear easy to make given the ongoing series of communications from the CGC about the errors it has identified.
- However, they could also arise from intrinsic difficulties in ensuring correct data, such as accurately splitting public transport expenses between urban and intra-urban when routes extend within the capital city boundaries out to other urban centres (which occurs in at least both Sydney and Brisbane).

Based on this, the assessment should be discounted for unreliability, through increased blending for the recurrent assessment and a discount towards equal per capita for the capital assessment. This would be consistent with the CGC's recently reviewed use of discounting across assessments.

5. Geography

KEY POINTS – GEOGRAPHY

General gradient

A discount of 25% applied to the general gradient disadvantages larger States. As the general gradient has improved, including from the removal of the subsidies data, the discount should be reduced.

If the discount is not reduced, it should be applied flexibly based on how well an assessment is aligned with the components used to calculate the general gradient.

General gradient

The general gradient is applied to calculate additional regional costs where there is a strong conceptual case for higher expenditure as remoteness increases. The degree of discount applied is based on CGC judgement.

The CGC has proposed to maintain the 25% discount (medium level discount) applied to the general gradient. This is despite improvements to the robustness of the gradient. The general gradient has been amended to be informed by the weighted average of regional gradients for:[1]

- State funding of Government schools;
- Post-secondary education;
- Admitted patients;
- Emergency departments;
- Non-admitted patients;
- Criminal courts;
- Prisons; and
- Rawlinsons cost of construction.

[1] We note that Electricity and Water subsidies have been removed from the general gradient calculation since the Draft Report.

We understand the general gradient will not align exactly to all types of additional expenditure faced by States. However, we consider that regional costs calculated using the general gradient are severely understated due to the underlying methods (i.e., ARIA+ and the averaging of State's expenses).[2] Applying a 25% discount unnecessarily dilutes these costs further, and further disadvantages States with vast remote areas. Western Australia consistently demonstrates, backed up with data, that the CGC's regional gradients are generally far lower than the extreme costs we face. This is unlikely to be any different for the assessments that receive the general gradient.

Even if the CGC does not accept that the general gradient understates regional costs, there is no evidence that the 12 assessments using the general gradient experience lower remoteness costs than those gradients used in the calculation.

Additionally, since the Draft Report, changes made to the variables in the Government Schools regression (relating to low socio-educational disadvantage) have led to lower regional cost weights in this component. As Schools is one of the largest drivers of the general gradient, it is concerning that a small change to a variable not entirely correlated to regional costs can have such a profound impact on a substantial number of assessments.

Hence, we do not support the 25% discount to the general gradient.

We also note that the CGC has no basis for knowing whether the discounts will move the assessments towards or away from HFE. We do not see this as a problem, as we approve of the use of discounting as a response to uncertainty. However, we reiterate our view in our Tranche 2 submission that the assessment guidelines in the CGC's Final Report should more clearly document the CGC's justification for discounting.[3]

At the very least, a low-level discount of 12.5% would be more acceptable. Additionally, some assessments are more conceptually aligned with the general gradient than others. That is, the general gradient is more applicable to some assessments over others. Therefore, the CGC should apply some flexibility to the discount that is applied. For example, the Other Welfare component is more general in nature, and should receive a lower-discounted, or non-discounted, general gradient than an assessment that is less aligned.

Table 5-1 below outlines the components that receive the general gradient, with potential treatments.

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2 See our comments in: Western Australia, *Submission to the Commonwealth Grants Commission's 2025 Methodology Review, Tranche 2 Assessments, Geography*, pages 54-66.

3 *ibid.*, *Pre-Tranche 2 Issues*, pages 74-76.

Table 5-1

Proposed General Gradient Discounts

Assessments	Discount	Rational
Housing		
Social Housing	0%	The expenses likely follow a similar trend to the components in the general gradient. There is no evidence there is a materially different pattern for remoteness costs to the components in the general gradient. Approximately a quarter of the general gradient is informed by Rawlinsons, which is highly relevant to the Social Housing component.
Welfare		
Child Protection and Family Services	0%	The expenses likely follow a similar trend to the components in the general gradient. There is no evidence there is a materially different pattern for remoteness costs to the components in the general gradient.
Homelessness	0%	The expenses likely follow a similar trend to the components in the general gradient. There is no evidence there is a materially different pattern for remoteness costs to the components in the general gradient.
Other Welfare	0%	Covers a wide range of service provision that is general in nature. The expenses likely follow a similar trend to the components in the general gradient.
Services to Communities		
First Nations Community Development	12.5%	The general gradient is not informed by any assessments that capture the unique costs of providing services to Indigenous people. However, the general relationship is likely similar to assessments in the general gradient calculation. Therefore, a low-level discount would be appropriate.
Other Community Development	0%	Covers a wide range of service provision that are general in nature. The expenses likely follow a similar trend to the components in the general gradient.
Environmental Protection	12.5%	The general gradient is not informed by any assessments that relate to Environmental Protection. However, the general relationship is likely similar to assessments in the general gradient calculation. Therefore, a low-level discount would be appropriate.
Transport		
Non-urban Transport	12.5%	Transport costs are typically more complex than other assessments. However, the general trend would not be dissimilar to the general gradient. As a result, a low-level discount would be appropriate.
Services to Industry		
Agriculture Regulation	12.5%	The components that make up the general gradient are not closely aligned with regulation. However, the trend would be similar. Hence, a low-level discount would be suitable.
Mining Regulation	12.5%	The components that make up the general gradient are not closely aligned with regulation. However, the trend would be similar. Hence, a low-level discount would be suitable.
Other Industries Regulation	12.5%	The components that make up the general gradient are not closely aligned with regulation. However, the trend would be similar. Hence, a low-level discount would be suitable.
Other Expenses		
Service Expenses	0%	Covers a wide range of service provision that are general in nature. The expenses likely follow a similar trend to the components in the general gradient.

6. COVID-19

KEY POINTS – COVID-19

We remain resolute that an actual-per-capita assessment of COVID-19 expenses is not appropriate, as different State policies and efficiencies were significant drivers of outcomes, and contributed to most of the differential impact of COVID-19.

In addition to the evidence presented by Western Australia, Queensland and South Australia in past submissions, we note that the recent *COVID-19 Response Inquiry Report*, commissioned by the Commonwealth Government and recently released, contained several statements that affirm our stance that States took different approaches to containing the pandemic.

Should the CGC decide to implement its proposal to assess COVID-19 expenditure actual per capita, despite insurmountable evidence against that method, we suggest the largest discount of 50% be assigned to the assessment, as the CGC must concede that State policies are not completely aligned.

As part of its New Issues discussion paper, the CGC advised of proposed changes to the treatment of Commonwealth payments to States for COVID-19 public health and business support, should the proposed changes to COVID-19 expenditures in the Draft Report be adopted. We responded in our submission that the CGC had correctly identified the required changes under these methods.

However, we continue to firmly argue that the proposed methods are not appropriate. Different State policies and efficiencies were significant drivers of outcomes, and contributed to most of the differential impact of COVID-19. Western Australia provided ample evidence of this in its 2021 Update and 2022 Update new issues submissions.[1]

Since discussion of expenditure under the COVID-19 pandemic first appeared in the lead-up to the 2021 Update, we have consistently argued that States' policy responses to the pandemic, and hence its impact in individual States and their expenditures, have differed greatly. We provided the CGC with extensive evidence, including conclusions from academic studies and renowned international agencies, and statements from politicians and senior public servants, all of which supported our arguments. We showed that the recommended approaches to the pandemic from these studies were similar to the Western Australia response, and to the Queensland and South Australian responses, but very different to the responses from New South Wales and Victoria.

The decisions made by New South Wales and Victoria led to high case numbers and associated spending, and extended lockdown periods that increased the requirements for business support spending, without improving health outcomes.

[1] Western Australia, *2021 Update New Issues*, October 2020, and *2022 Update New Issues*, November 2021.

We showed that the *National Partnership on COVID-19 Response*[2] funding bore no relationship to the number of COVID-19 cases in each State, and State baselines on preparedness and equipment were different.

In addition, all States signed bilateral *Business support payments* agreements with the Commonwealth. This separate-agreement setup was intentional to capture the differences in each State's approach and need to support businesses. This directly accommodated different State policies.

While we acknowledge that all States maintained the same policy goal to eliminate COVID-19 throughout 2019-20 and 2020-21, there were substantial differences in how States attempted to achieve this policy goal. The policy decisions States made in attempting to mitigate and eliminate outbreaks led to different health and economic outcomes.

The CGC suggests that differences in State approaches do not inherently imply different State policies, just the implementation responses to differing circumstances. However, we argue that different policies and efficiencies have been instrumental in creating those different circumstances, based on the evidence we provided previously.

Importantly, the CGC could not identify any drivers of COVID-19 State spending.[3] To this day, it is not clear what those drivers were.

Hence, we cannot stress strongly enough that the CGC's proposed actual-per-capita (APC) method for COVID-19 spending is not appropriate. APC is only appropriate where there is a high level of policy consistency between States, whether through the individual adoption of similar policies, coordinated or not, or through direction from the Commonwealth.

The CGC should not reward poor State policies. That is what the proposed APC assessment for COVID-19 business support and health spending will do.

In addition to the evidence we provided, Queensland and South Australia provided compelling evidence of their own. They provided examples and independent opinions that supported the view that State policy decisions had a significant impact on COVID-19 case numbers and associated expenditure.

Despite all of this, the CGC decided, seemingly without any evidence, to adopt the position that States followed the same policy approach to the pandemic, but were faced with differing circumstances. This manifested in a statement without support that read: "*Staff have formed a tentative view that policy differences between States were relatively small*".[4] There appeared to be no consideration that those differing circumstances are the result of different policies, as we assert.

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2 https://federalfinancialrelations.gov.au/agreements/covid-19-response

3 Commonwealth Grants Commission, *Discussion Paper, 2023 Update: New Issues,* October 2022, page 12, paragraph 55.

4 Commonwealth Grants Commission, *New Issues for the 2021 Update,* page 2, paragraph 8.

Further, we note that the recent *COVID-19 Response Inquiry Report*,[5] commissioned by the Commonwealth Government and recently released, contained several statements that affirm our stance that States took different approaches to contain the pandemic. We further note that a member of the Commonwealth Grants Commission was on the panel of reviewers.

The following are reproduced from the report, with our emphasis in bold italics.

> "...over time, the unified direction and national leadership began to deteriorate and cracks in the system started to emerge. Decisions became less cohesive and coordinated as the pandemic continued. ***Differences in levels of local risk and response capacity led to different responses across the country***." (p.67)

> "Australia's federated system meant ***states and territories could pursue different approaches to respond to the crisis***. These approaches were influenced by differing public health system robustness, capability, capacity and resilience across states and territories." (p.76)

> "Despite the lack of a national plan, states and territories agreed to operate, enforce and meet the costs of quarantine. ***Each jurisdiction adopted a distinct approach to hotel quarantine***. They felt greater Commonwealth leadership was needed on hotel quarantine to provide risk-based national guidance and supporting coordination and funding structures…" (p.102)

> "Their (National Cabinet) message was further undermined when it was observed that the ***states and territories were managing similar risk settings with different levels of stringency***." (p.102)

> "As the situation evolved, ***states and territories made more unilateral decisions*** for example, decisions about lockdowns, curfews, school closures, closure of outdoor play equipment and state border closures." (p.102)

> "…implementation pressures associated with the lack of pre-existing planning structures, especially for complex logistical matters such as state border closures and vaccine rollouts; and ***perceived inconsistency in the states' responses***, sometimes reflective of their local risk levels and other times not." (p.110)

> "Trust and confidence in government decision-making was negatively impacted by a number of factors, including ***inconsistency in response by different jurisdictions***, lack of clarity or acceptance of evidence supporting key decisions, misinformation and disinformation, perceived 'politics' being played and perceived unfairness of responses." (p.115)

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5 On 21 September 2023, the Prime Minister the Hon Anthony Albanese MP announced an independent inquiry into Australia's response to the COVID-19 pandemic. The Independent Panel, consisting of Ms Robyn Kruk AO as Chair, Prof. Catherine Bennett, and Dr Angela Jackson, reviewed the Commonwealth Government's response to the COVID-19 pandemic to identify lessons learned to improve Australia's preparedness for future pandemics. The extensive 12-month inquiry delivered its report on 29 October 2024. Accessed: https://www.pmc.gov.au/resources/covid-19-response-inquiry-report

> "States and territories were largely responsible for implementing public health measures following National Cabinet decisions. Through public health orders, directions and legislative instruments, they imposed state border closures, lockdowns, school closures, and vaccine and mask mandates. As the pandemic continued, ***individual states and territories became more divergent***, taking unilateral response measures with varying levels of restrictions." (p.122)

> "One of the greatest challenges to trust in science was when ***jurisdictions took different approaches in similar situations*** while telling the public they were listening to the science. The Australian Government encouraged national consistency, but by mid-2020 it had become increasingly difficult to achieve." (p.126)

> "During the suppression phase, ***state and territory public health directions and orders began to vary across jurisdictions***. Local ***variation did not always align with overt differences in outbreak control challenges or risks***. Restrictions sometimes changed frequently, becoming more complex and difficult for the community to understand." (p.128)

> "Governments could legitimately restrict certain human rights in implementing their response to COVID-19. However, the ***evidence suggests that some restrictions were poorly justified in extent and/or duration, disproportionate to the risk and inconsistently applied across the country***, and that specific groups were disproportionately impacted." (p.138)

> "***Each state and territory also had their own definition of 'close contact' under state legislation*** for the purposes of contact tracing from early in the pandemic. ***Different jurisdictions had different ways of implementing contact tracing and different self-quarantine periods for close contacts***." (p.221)

> "***States and territories adopted individual approaches with varying rules*** on both the mandatory and recommended or voluntary use of masks – rules and exemptions were set out in state and territory public health orders." (p.223)

Given the weight of all this evidence, from Western Australia, Queensland and South Australia, and from the extensive *COVID-19 Response Inquiry Report*, we cannot fathom how the CGC can conclude that States followed the same policies, just under different circumstances.

When policies vary between States, the standard approach is for the CGC to seek drivers of expenditure. Where it cannot find a driver, it makes an equal-per-capita (EPC) assessment. A prominent example of this is the Gambling Tax assessment, which also struggles with a lack of identifiable drivers and has immense policy differences. It is treated EPC, as should this assessment.

Should the CGC decide to implement its proposal to assess COVID-19 expenditure APC, despite insurmountable evidence against that method, we suggest the largest discount of 50% be assigned to the assessment. We cannot see how the CGC could possibly claim that there is no chance of differing policies between States. It must concede that State policies are not completely aligned. Therefore, a discount is warranted and just. Further, the evidence supplied by Western Australia, Queensland and South Australia, and the *COVID-Response Inquiry*, suggest that the discount should be large.