

WESTERN AUSTRALIAN SEPTEMBER 2009 SUBMISSION

LOCATION

Key Points

- Western Australian cross-classified data suggests that the Commission's relative cost profile for schools by remoteness is understated by 100%.
- We support an interstate (and intrastate) air travel assessment, and have supplied data to assist with this.
 - An interstate air travel assessment should cover unproductive travel time.
- The Commission should average regional cost indexes (as it has done for schools), rather than regional costs per employee (which it appears to have done for police).
- We support the Commission's proposal to extrapolate location factors from schools and police to other categories.
- As service delivery scale costs are substitutable for regional location costs (by centralising or decentralising service delivery), the combination of regional location and service delivery scale factors should be extrapolated from schools and police to other categories.
- The Commission should further consider the evidence we have provided for service delivery scale assessments for courts and prisons.
- The location of junior teachers should be adjusted out of the schools regional cost data.
 - This submission provides the data to adjust the Western Australian data.
- We do not support discounting of location assessments for data uncertainty, as this introduces a bias into the results.
- The regional location costs factor for Community and Other Health Services should recognise that lack of private provision increases this category's remote share of the client base, compared to schools and police.
- The Commission should assess the impact of remoteness on the per house cost of employee housing.
- Interstate location assessments should reflect Western Australia's high construction costs (as measured by Rawlinsons).

ANALYSIS OF WESTERN AUSTRALIAN SCHOOLS CROSS-CLASSIFIED DATA

We have analysed data recently provided by the Western Australian Department of Education and Training (see our submission on School Education) to determine the cost of remoteness in Western Australia, after allowing for socio-economic status (SES), indigeneity and school size. The results are shown in Table 1.

- An issue with this analysis is the large size of the indigenous cost weights implied by the data (see our Schools submission). We have therefore calculated remoteness weights under two assumptions:
 - a 34% weight for indigeneity, reflecting the Commission’s assumption; and
 - a 100% weight for indigeneity, which is more consistent with our data.

Table 1: Remoteness Weights (%) – WA Schools Data

	34% weight for indigeneity	100% weight for indigeneity
<i>Primary Schools</i>		
High SES, low indigeneity, large	26	25
High SES, low indigeneity, small	48	48
High SES, high indigeneity, large	32	24
High SES, high indigeneity, small	42	38
Low SES, high indigeneity, large	30	14
Low SES, high indigeneity, small	38	25
<i>Secondary Schools</i>		
High SES, low indigeneity	9	8
High SES, high indigeneity	33	30
Low SES, high indigeneity	18	12
Average	31	25

The Commission’s relative cost profile for schools, weighted by Western Australia’s student distribution (weighted for indigeneity), implies an additional weight for remote areas of 13%, relative to non-remote areas. Hence Table 1 implies that the Commission’s cost profile understates Western Australia’s remoteness costs by between 92% and 138%.

INTERSTATE AIR TRAVEL

The Draft Report proposes an interstate air travel assessment.

We support such an assessment, and have recently provided detailed data on Western Australian air travel to assist Commission staff in designing this assessment.

Western Australia faces higher costs than other States due to the larger travel distances to other States, and the disproportionate number of meetings held in Canberra, Sydney and Melbourne.

The interstate air travel assessment should also reflect unproductive travel time. Officers from Sydney and Melbourne can fly into a meeting in Canberra on the morning of the meeting. However, officers from Perth generally have to fly in the previous day, due both to the longer travel time and the time difference.

We have also provided intrastate air data, to facilitate an assessment of these costs.

AVERAGING REGIONAL COST GRADIENTS

The Draft Report presents regional cost gradients for schools and police, which are derived from the average of gradients for individual States.

It appears that each State has been weighted in the average in proportion to that State's number of staff, and that the averaging has been done separately for each SARIA region. It also appears that indexes have been averaged for schools, but dollars per employee have been averaged for police.

Averaging the indexes is appropriate. Averaging the dollars per employee is not appropriate, as policy differences can distort the average.

- For example, if every State had the same gradient, and the more dispersed States had a policy of paying staff less in highly accessible areas, then the average gradient would be reduced.

REGIONAL LOCATION COSTS AND SERVICE DELIVERY SCALE

The Commission has developed regional cost factors and service delivery scale factors for schools and police.

- It proposes applying the police regional cost factor in all of Justice, and applying an average of the schools and police regional cost factors in Community and Other Health Services, Welfare and Housing, Roads and Other Expenses.¹
- It proposes applying an average of the schools and police service delivery scale factors in Community and Other Health Services, and Welfare and Housing.

We support the proposals to use schools and police data in other categories. The dispersal of Western Australia's population imposes major costs on the State across a range of services. The Commission saw first hand evidence of this during State visits, and has some data supporting this from some States.

- Unfortunately, obtaining data to measure these costs is very difficult, so data from most States is only available for schools and police (we also provided cost data for child protection, total health and prisons, and employee data for prisons and courts). Not assessing costs for the other categories would clearly detract from HFE. Therefore, we support the Commission's decision to extrapolate from schools and police to other categories.

We understand that the Commission is assessing service delivery scale in fewer categories than regional location costs because service delivery in other categories tends to be more centralised than in schools and police.

However, service delivery scale and regional location costs are two aspects of the same influences. Services can be provided locally (e.g. education, police and child welfare – child welfare officers are often based at police stations), which will increase service delivery scale (and possibly location allowances) or they can be provided centrally, which will increase travel costs. In practice, there is a mix of service delivery modes (e.g. for police, local stations and regional/central investigative staff flying to locations of crime).

Therefore, we believe that the combination of regional location costs and service delivery scale should be extrapolated from schools and police to other categories.

¹ The factors also vary between categories due to different client groups used to weight each region within the factor calculation.

In our February 2009 Justice submission, we presented data supporting service delivery scale assessments for prisons and courts.

- The Draft Report does not appear to explain why the Commission decided against a service delivery scale assessment for prisons and courts.
- We understand that Commission staff believe that prisons can be provided centrally (on the basis of Northern Territory practice). However, this involves trade-offs with prisoner transport costs. Also, there is the question of what is standard policy.
- Commission staff undertook to re-examine our courts data. We encourage the Commission to reconsider a courts service delivery scale assessment.

SCHOOLS REGIONAL LOCATION COST GRADIENT

We continue to be concerned that the schools regional cost gradient is understated, as remote region wages per staff member are reduced by the location of teachers aides and junior teachers.

Table 2 shows data from our Department of Education and Training on number of teachers and total base salary of these teachers, by region.

- This data excludes higher level positions (e.g. department heads, principals), teachers aides and non-teaching staff. It also excludes allowances – in particular, locality allowances. Therefore, the average salary per teacher in this data is only affected by length of service.²

Table 2 shows that, compared to the State as a whole, more remote regions have lower average salaries (and hence, less experienced teachers).

As all States have junior teachers, the location of these teachers should not affect the regional location cost assessment.

The junior teacher effect can easily be removed from the Western Australian wages data used in the regional cost assessment, using the dollar amounts in the last column of Table 2 (e.g. subtract \$11.0 million from highly accessible wages, add \$5.8 million to very remote wages).

This should be done for all States, either through actual data, or extrapolation from Western Australian data.

² Teaching qualifications beyond a three-year degree add to length of service for purposes of Western Australian pay scales.

Table 2: Junior teacher effect, 2008-09

Education region	Teachers (FTE)	Base salary		Actual <i>minus</i> average salary	
		(\$m)	(\$/FTE)	(\$/FTE)	(\$m)
<i>Highly accessible</i>					
Metropolitan	9,923	704.7	71,020	1,113	
	9,923	704.7	71,020	1,113	11.0
<i>Accessible</i>					
Peel	656	45.7	69,654	-253	
South West	1,216	87.0	71,581	1,674	
	1,871	132.7	70,906	999	1.9
<i>Moderately accessible</i>					
Wheatbelt	781	51.3	65,769	-4,138	
Great Southern	505	35.9	70,965	1,058	
Midwest	459	30.9	67,287	-2,620	
	1,745	118.1	67,673	-2,234	-3.9
<i>Remote</i>					
Goldfields-Esperance	575	37.0	64,324	-5,583	
	575	37.0	64,324	-5,583	-3.2
<i>Very remote</i>					
Gascoyne	122	7.7	63,589	-6,318	
Pilbara	496	31.4	63,203	-6,704	
Kimberley	375	24.5	65,350	-4,557	
	993	63.6	64,062	-5,845	-5.8
Total WA	15,107	1,056.1	69,907	-	-

DISCOUNTING

The Draft Report proposes discounting both the interstate wages and regional cost assessments.

As discussed in our September 2009 Discounting submission, we do not support discounting for data uncertainty, as this introduces a bias in the results. Discounting should only be used where there is evidence that the discounted results will better reflect HFE.

We note that the proposed discounting of location factors will increase the grant redistribution away from Western Australia, by lowering our relativity.

COMMUNITY AND OTHER HEALTH SERVICES REGIONAL LOCATION COSTS

The Draft Report proposes applying an average of the schools and police regional location cost factors in the Community and Other Health Services (C&OHS) category.

The regional location factors for schools and police are calculated by applying cost indexes to measures of each State's "client base" in each SARIA region.

Like schools and police, indigeniety is a significant contributor to the C&OHS "client base". However, C&OHS has another significant contributor, which is the extent of non-State service provision. This will be considerably less in remote regions.

Therefore, more remote regions should have a greater proportion of the "client base" for C&OHS, compared to schools and police.

EMPLOYEE HOUSING

In CGC2008/15-S, the Commission used Rawlinson's construction cost data to calculate that, for each unit of the SARIA index, construction costs increase by 2.6 per cent. It was assumed that maintenance costs follow a similar pattern.

Western Australia, in response to that paper, provided quality data from our Government Regional Officers' Housing (GROH) office that showed a gradient of 2.1 per cent for maintenance costs, corroborating the Rawlinson's result.

- However, we argued that the cost of providing housing was more than just maintenance; that only market rental value encapsulated all cost elements.

Again, using quality data from GROH, we presented evidence of a 3.3 per cent gradient for leasing costs. The Commission acknowledges this result in the draft report.

However, following receipt of unreliable data from other States, the Commission is proposing to ignore the evidence and assume a zero cost gradient by location for employee housing.

- By assuming a zero cost gradient, the Commission is ignoring a strong conceptual case that housing costs increase by SARIA region, and ignoring two consistent and reliable data sources (WA data and Rawlinsons).
- The Commission should use available reliable data to assess the impact of higher per-house costs in remote areas.

INTERSTATE CONSTRUCTION COSTS

We believe interstate location assessments should reflect Western Australia's high construction costs.

- Table 3 below shows the per square metre estimated cost of construction for a variety of buildings, source from Rawlinsons 2009. In the majority of cases, Perth is estimated to have higher per square metre building costs than the other major capital cities in Australia.

Table 3: Capital City Construction Costs

Building Type	Average Building Costs Per Square Metre (\$/sqm)				
	Sydney	Melbourne	Brisbane	Perth	Adelaide
Admin office 2-3 storey	2,225	2,285	2,365	2,450	2,195
Admin office 3-10 storey	2,560	2,683	2,623	2,820	2,520
Town hall 1000 capacity	3,553	3,618	3,470	3,918	3,470
Library suburban	2,095	2,250	2,030	2,290	2,098
Magistrates court	2,145	2,220	2,150	2,323	2,078
Fire station	1,900	1,995	2,023	2,158	1,900
Police station	2,173	2,228	2,155	2,415	2,078
Primary school ^(a)	1,310	1,388	1,393	1,288	1,408
Secondary school ^(a)	1,708	1,755	1,690	1,570	1,698
Technical	1,803	1,860	1,820	1,753	1,755
Uni lecture theatre	2,960	3,040	2,828	3,083	2,848
Uni science	3,513	3,620	3,430	3,710	3,388
District hospital	3,278	3,210	3,085	3,433	3,140
General hospital	5,138	4,228	4,100	5,253	4,625
Maternity hospital	4,148	3,403	3,368	4,298	3,663
Multipurpose health centre	2,603	2,660	2,670	2,800	2,563
Office single storey	1,433	1,500	1,475	1,625	1,428
Office 7-20 storey	2,928	2,748	2,403	3,083	2,760
Aged person single storey home	1,820	1,690	1,788	1,975	1,570
Nursing home	1,895	1,803	1,880	2,010	1,645
Average	2,559	2,509	2,437	2,713	2,441

Source: Rawlinsons 2009

(a) Possibly affected by special factors highlighted recently in the media.