

Brief comments on “Review of substitutability levels for the health category”

The Commonwealth Grants Commission (CGC) circulated a document titled “2020 Review - Review of Substitutability Levels for the Health Category, Staff Discussion Paper CGC 2018-05-S”. The document proposes substitutability levels for each health component and seek State comments on:

- *The overall approach*
- *The substitutability level for each health component*
- *The indicators to measure non-State service usage*

If States do not agree with the proposed levels of substitutability and/or the indicators, we would appreciate further suggestions on alternative approaches, and/or more suitable indicators.

This paper is not seeking comments on the choice of assessment method (i.e. direct or subtraction approach).

Western Australia’s position on the Health category assessment has been presented to the CGC earlier this year in a number of documents and in a telepresence, and recently and comprehensively in our submission responding to the CGC’s Draft Assessment Papers. The CGC has circulated papers on this matter but has yet to address the key issues raised by Western Australia.

We cannot comment directly on this discussion paper because the questions relate to an approach that that we have argued is not valid.

The issue is not a simple choice between the methods used in the last two reviews. It is about using an approach that has a clear conceptual basis.

The assumption in the ‘direct method’ that proportional variations in the non-State sector correspond to proportional variations in the State sector is unique to this method. No similar assumption is made for Indigenous/non-Indigenous populations, remote/non-remote areas, younger/older persons, low SES/high SES populations or public/private students.

For example, if private school enrolments are higher, then public school enrolments are lower by the same amount, not the same percentage.

The direct method is also inconsistent with the CGC’s inclusion of Commonwealth tied grants in its assessments. Unlike the direct method, included tied grants are treated as dollar for dollar offsets to State spending.

Ultimately, it is the substitutability of non-State services that should be considered, not the substitutability of State services.

It makes no conceptual difference whether equalisation is presented in the form of a 'subtraction approach' as used in the 2010 Review, or in the form of a factor assessment approach as used in the 2015 Review. If implemented correctly, the two can deliver the same results – hence, the CGC could achieve equalisation by sufficiently modifying its 'direct method'. However, the proportion of State sector health expenses that are substitutable would be irrelevant to such a method.