



Government of **Western Australia**
Department of **Treasury and Finance**

Western Australia's Submission to the Commonwealth Grants Commission's 2026 Update

New Issues

November 2025

Acknowledgement of Country

This report was prepared by the Department of Treasury and Finance on the traditional Country of the Wadjuk people of the Noongar Nation.

Department of Treasury and Finance 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 gst@dtf.wa.gov.au

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Key Points

Data issues

Schools – changes in State funding

Whilst we support the use of the 2023 Australian Curriculum, Assessment and Reporting Authority (ACARA) data without adjustment, such volatility in the regression results casts doubt over how accurately the Schools regressions are capturing the drivers of costs.

Health – community health activity proxy

We support the preliminary treatment of the new non-admitted patient clinic categories.

Emergency department activity data for 2023-24 should continue to be scaled. Removing the scaling will exacerbate the effect of no longer scaling non admitted patient activity data.

Transport – regression re-estimation

The problems arising from re-estimating the Urban Transport regression raise further concerns about the model used in the 2025 Review. We recommend increasing the blending ratio of the regression results with urban population share further to at least 50:50 to reflect this uncertainty.

Assessment Issue

Schools – Better and Fairer Schools Agreement

The Better and Fairer Schools Agreement should be assessed equal per capita with a wage cost factor applied to the expense assessment. This should be transitioned in with the first data year (2024-25) receiving the updated treatment, and the preceding two years receiving the previous treatment.

New Commonwealth payments

We accept the proposed treatment of nearly all new Commonwealth payments, besides the *Housing Australia Future Fund – Remote Indigenous Housing*. This should be treated consistently with similar previous payments, which were quarantined by Terms of Reference.

This submission responds to the Commonwealth Grants Commission's (CGC's) *New Issues in the 2026 Update* discussion paper.

Data issues

Schools – changes in State funding

There have been statistically significant changes to several coefficients in the Schools regression from the inclusion of the 2023 Australian Curriculum, Assessment and Reporting Authority (ACARA) data. These changes significantly affect the results for remoteness, fixed costs and the cost of Indigenous students.

The CGC has proposed the use of 2023 ACARA data without adjustment. We support this proposal, and agree that adjusting the data would deviate from the *what States do* principle. However, we question the reliability of the regression, and do not believe the *policy neutrality* principle is upheld.

During the 2025 Review consultation process, the result for the Indigenous cost weight in the Government Schools component varied drastically. At the time of the Draft Report, the CGC noted that between calendar years 2019 and 2021, the coefficient for Indigenous students fell from a 46% cost weight to a 24% cost weight. This wasn't the result in the Final Report (due to a change in the variable used for socio-educational disadvantage), but this further highlights the volatile nature of the Schools regressions, despite funding for schools being relatively static.

Whilst we are pleased to see an increase in the cost weight for Indigenous students, given the significantly higher costs in Western Australia, this is at the detriment of adequate remoteness cost weights. As we outlined in the 2025 Review, whilst there is correlation between the Indigenous status, socio-educational disadvantage and remoteness variables, this does not necessarily translate in the assessment. If the proportion of students in each State for each of these variables is not uniform, it will incorrectly lead to differences in assessed expenses. Large variations in the regression results are concerning and are not accurately capturing the costs faced by Western Australia.

In addition to these concerns, it is likely that the exclusion of variables (such as students with a disability) that cannot be captured in the CGC's regression, but are captured by the Schooling Resource Standard, are biasing the model towards variables that may not be correct.

It is also concerning that changes in one State impacts the regression model significantly. This is also a known issue in the Urban Transport regression and is not consistent with the *policy neutrality* principle. In both this case and in Urban Transport, the assessments are clearly heavily impacted by New South Wales.

This is intrinsically the case in Urban Transport (which does not make it alright in that case). However, for Schools, it should not be expected that funding changes that were not specifically targeted at socio-demographic factors would have such a large impact on all States. This contributes to doubts that the Schools regression is accurately capturing drivers of costs.

Health – community health activity proxy

Non-admitted patient clinic categories

We support the CGC's preliminary treatment of the three new Tier 2 clinic categories for services provided by allied health personnel and/or clinical nurse specialists identified by the Independent Health and Aged Care Pricing Authority.

Coverage of the emergency department triage 4 and 5 data

We do not support ceasing to scale emergency department (ED) triage 4 and 5 data for 2023-24. Removing the scaling for ED activity data will likely exacerbate the impact of no longer scaling non-admitted patient (NAP) activity data from 2021-22. The factors that led to data gaps in hospital reporting for NAP activity data likely contribute to the data gaps for ED activity data. This change would likely result in States with more remote patients being further stripped of the funds necessary to support these communities.

We note that scaling ED but not NAP activity data would give a greater weight to the former component. However, as the new issues paper details, this effect is minor for 2023-24 – removing the scaling would only reduce the ED share of total community and public health from 55.6% to 55.0%. We do not consider it justified to exacerbate an existing data limitation for such a minor impact.

If the CGC does cease scaling the ED data, it should examine the coverage rate of 2024-25 ED activity data to determine if scaling should be reintroduced.

Transport – regression re-estimation

The new results imply that the model is unsound

The regression coefficients used in the 2025 Review Urban Transport assessment were derived solely from 2022-23 data. Incorporating data from 2023-24 leads to substantial changes in the regression coefficients. It is noted in the discussion paper that they do not appear to be consistent with changes in State transport provision. This raises concerns about the robustness of the model. While the variation may be due to the new data, the model's sensitivity to an increase in the sample size suggests that the original regression may lack stability and reliability.

The CGC's preliminary position to retain the 2025 Review regression coefficients to assess Urban Transport needs across States in the 2026 Update assumes that the existing model data accurately captures the non-policy drivers of public transport service provision. Although the existing model may be theoretically sound when restricted to 2022-23 data, the significant changes in coefficient values (including an illogical sign reversal for the 'distance to work' variable) when introducing an additional data year suggest that the model specification likely does not consistently hold over time. Notably, using the coefficients from the re-estimated regression would reduce the assessment for New South Wales and Victoria (to a lesser extent), but would benefit all other States except the Northern Territory.



In our submissions to previous method reviews, we addressed several perceived flaws in the Urban Transport regression. We acknowledge that the CGC has responded to State concerns by including the Urban Transport assessment and methodology in the forward work program ahead of the 2030 Review, and by engaging a consultant to investigate the issue. However, the inconsistent results from including an additional data year undermine confidence in the current model specification and whether it can accurately assess Urban Transport needs.

This is not a problem with the new data

The panel data provided for 2022-23 and 2023-24 shows a marked increase in the number of passengers across most significant urban areas (SUAs) relative to the increase in the estimated resident population in those areas. For example, there was an 18.6% increase in 'bus and light rail' passengers in Perth between 2022-23 and 2023-24, while 'heavy rail' usage increased by 12.2%, with both greatly exceeding growth in the estimated resident population (3.8% for Perth) over the same period. This relative increase in patronage is broadly consistent across most significant urban areas (SUAs) in the dataset.

While this requires further investigation, the panel data provided by the CGC for the 2026 Update suggests that a gradual return to public transport usage that emerged in 2022-23 continued in 2023-24, noting that data from 2020-21 and 2021-22 were previously excluded from the model due to pandemic-related distortions. The pronounced year-on-year difference points to a structural difference between the data years, which may help to explain the shift in model coefficients when re-estimating the regression.

It is not sufficient to assume that the data for 2023-24 is the issue, and that the model specification and the resulting coefficients (when limited to only 2022-23 data) are sound. Indeed, the 2023-24 data may better reflect underlying conditions for urban transport provision than the 2022-23 data.

The new data supports our previous arguments

The panel data also show that, with the exception of SUAs in Queensland (which appear to be outliers in terms of expense growth), net expenses for Urban Transport remained fairly stable across most areas between 2022-23 and 2023-24. This is despite a relatively large increase in reported passenger numbers between the two data years. This supports an argument we made in submissions to both the 2020 and 2025 Reviews – that the number of passengers is not an appropriate proxy for the supply of public transport, as many services must be provided irrespective of passenger numbers. The data provided shows that net expenses (and the provision of services) do not necessarily rise in line with passenger numbers. A measure of available capacity of public transport would better reflect the supply of public transport. This may be addressed by the consultant as part of the 2030 Review forward work program.

Our recommendation

Currently, the results of the urban centre characteristics model are blended with the urban population share, which moderates the influence of the regression output. In the 2025 Review, the blending ratio was set at 65:35 (regression to population share) due to concerns about data reliability. The information presented in the discussion paper casts further doubt on how accurately the 2025 Review regression model coefficients reflect the relative needs of States' urban transport provision.

We recommend increasing the blending ratio of the regression results with urban population share further to at least 50:50. This would better reflect the limitations of the current method, and to recognise increased uncertainty of about the robustness of the existing regression model, and its resulting assessment of States' needs.

Assessment Issue

Schools – Better and Fairer Schools Agreement

Implementing the Terms of Reference

The treatment of the Commonwealth Funded Government Schools component requires changes to conform with the Commonwealth Treasurer's supplementary terms of reference for the 2025 Review, due to the updated *Better and Fairer Schools Agreement* (BFSA).

We agree with the CGC that the current method:

- **does not** unwind differences in educational disadvantage captured in the Schooling Resource Standard (SRS); but
- **does** unwind differences in the proportion of the SRS each State receives from the Commonwealth.

The CGC have proposed two approaches for meeting the requirements of the terms of reference.

- It could exclude the Commonwealth funding for government schools and the associated expenses (the standard 'no impact' approach to Commonwealth payments).
- It could include the Commonwealth funding and assess the associated spending on an actual per capita basis. The Commonwealth funding and the assessed expenses would offset each other, and the payment would have no effect on the distribution of the GST. This would have the same effect as the 'no impact' approach.

However, we believe the more appropriate choice would be to assess both the Commonwealth funding and the associated spending **equal per capita** with a wage cost adjustment.



An equal per capita assessment would:

- not unwind differences in the educational disadvantage in the SRS;
- not unwind differences in the proportion of SRS each State receives from the Commonwealth; and
- prevent windfall gains to States who are non-participants.

Therefore, it would meet the requirements set out in the 2025 Review supplementary terms of reference.

However, it would allow the CGC to continue to provide compensation for higher wage costs, consistent with the 2025 Review method. This has been a longstanding method in the Schools assessment, recognising that differences between wage costs have a differential effect on the cost of providing school services across States.

We note that the CGC considers that the current assessment of wage costs does not unwind differences in the educational disadvantage in the SRS. We also do not consider it to unwind differences in the proportion of SRS each State receives from the Commonwealth. Note that differences in these proportions among States are not designed to adjust for wage differences, rather they are just different stages towards an end goal of each State receiving the same proportion of the SRS (higher for the Northern Territory, based on complex needs).

As noted in the CGC's New Issues discussion paper, the exclusion of the Commonwealth Funded Government Schools would be a significant amount of funding excluded. For example, in the 2025 Review, this component resulted in a re-distribution of \$349 million. The option selected by the CGC should attempt to unwind as little of the current method as possible whilst conforming with the terms of reference. This would be best achieved with an equal per capita assessment with a wage cost adjustment.

Transitioning

The CGC has proposed three potential methods for implementing the updated treatment of the BFSA funding. The options are:

- apply BFSA treatment in all 3 assessment years ('backcasting');
- apply the *Quality Schools* treatment (unwind the funding proportions) in 2022-23 and 2023-24, and apply the BFSA treatment in 2024-25 (simple phasing); or
- apply the *Quality Schools* treatment in 2022-23 and 2023-24, and apply BFSA treatment to half of 2024-25 and *Quality Schools* treatment to the other half (complex phasing).

The CGC's preliminary view is to exclude Commonwealth spending on State schools from all calculations from 2024-25 and continue the existing approach for the 2022-23 and 2023-24 assessment years (simple phasing method).



We agree the simple phasing method is the most practical option. However, funding from 2024-25 onwards should be assessed equal per capita with a wage cost adjustment. In the absence of a wage cost adjustment, we consider complex phasing to be necessary.

New Commonwealth Payments

We accept the proposed treatment of nearly all new Commonwealth payments described in the discussion paper. However, we would appreciate clarification on the treatment of the following agreement.

- ***Housing Australia Future Fund – Remote Indigenous Housing***: The proposed treatment for this payment is ‘impact’. However, previous agreements that were similar have been excluded by Terms of Reference. For example, *Remote Housing* in the 2025 Review was treated no impact due to their exclusion across multiple Terms of Reference (2019 Update – Northern Territory, 2020 Review – Western Australia and South Australia and 2021 Update – Queensland). We would expect this agreement to be treated consistently.