

CHAPTER 20

OTHER EXPENSES

WHAT IS INCLUDED IN THE OTHER EXPENSES CATEGORY?

- 1 This category comprises the transactions that remain after the Commission has identified the major State services to be separately examined and assessed. As such, it covers a varied range of State functions and expenses, including:
 - centrally provided services — State legislatures and central administrative agencies that support State service delivery agencies and supervision of local government, general research and other administrative functions;
 - services and expenses not assessed elsewhere — expenses for culture and recreation (such as libraries, public halls, art and sport facilities etc.), national parks and public safety services (such as emergency services, public order, fire protection etc.), GST administration, communications, pipelines, natural disaster relief and debt charges;
 - transitional expenses — transitional arrangements relating to superannuation items. They are the financial effects of the move to accrual accounting in 1998. These transitional expenses cease after 2007-08; and
 - miscellaneous expenses — a balancing item to ensure the total expenses assessed by the Commission equal the total expenses included in the ABS government finance statistics.
- 2 The superannuation for State government employees engaged in providing these services is also included in this category.
- 3 We initially considered assessing public safety expenses separately. They were comparatively large (\$119 per capita in 2007-08) and appeared to be influenced by factors that were different from those affecting other expenses. However, further examination indicated the drivers of public safety expenses were similar to those affecting functions in this category. Consequently, we have included public safety expenses here because it is simpler and more consistent with our assessment guidelines.
- 4 State expenses for this category are shown in Table 20-1. Total expenses were \$29.3 billion in 2008-09, or 17.1 per cent of total State expenses.

Table 20-1 Other expenses, 2008-09

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Services (\$m)	5 201.7	2 966.5	4 517.4	1 408.5	1 511.6	756.6	868.8	618.8	17 849.9
Transitional superannuation (\$m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GFS balancing item (\$m)	1 570.7	4 478.1	2 670.9	1 069.6	847.3	163.7	357.9	305.3	11 463.4
Category total (\$m)	6 772.4	7 444.6	7 188.3	2 478.1	2 358.9	920.2	1 226.7	924.1	29 313.3
Total (\$pc)	961.80	1 387.67	1 652.67	1 124.34	1 463.32	1 839.41	3 526.54	4 168.58	1 354.49
Proportion of State operating expense (%)	13.4	19.1	19.4	13.0	17.4	21.1	35.3	23.1	17.1

Source: Commission calculation using State data.

- 5 Table 20-2 shows that on average expenses classified to the Other expenses category have declined from 17.8 per cent of total expenses in 2005-06 to 17.1 per cent of total expenses in 2008-09.

Table 20-2 Other expenses as a proportion of State operating expenses

	2005-06	2006-07	2007-08	2008-09
Total for category (\$m)	24 056.8	25 289.3	26 893.5	29 313.3
Total operating expenses (\$m)	134 969.0	146 359.0	157 538.0	171 074.5
Proportion of total operating expenses (%)	17.8	17.3	17.1	17.1

Source: Commission calculation using ABS GFS data and State data.

The average service delivery policy

- 6 The diversity of services in this category means there is also a diverse range of service delivery processes. Large proportions of the legislative and general administrative services and some cultural and recreation services are delivered through major agencies and institutions located in the metropolitan areas. Many cultural, recreation and public safety services are provided closer to where people live through State funding for local and community organisations or a network of State service delivery units. National parks expenses may be incurred in any part of a State with environmental or recreational value.

What is the role of the Commonwealth?

- 7 Commonwealth payments that affect services in this category and their treatment are shown in Table 20-3. Full details of the treatment accorded Commonwealth payments and the reasons for them can be found in the Adjusted budget chapter.

Table 20-3 Commonwealth payments to States relevant to the Other expenses category and their treatment

Payments affecting relativities	Payments not affecting relativities
Commonwealth own-purpose expenses	National partnership payments
EMA emergency services grants	National action plan to build on social cohesion, harmony and security
	Transfer of Commonwealth land to Victoria—Point Nepean
	Equine influenza emergency response
	Natural disaster relief
	Disaster resilience Australia
	Film and literature classifications
	Sinking fund on State debt
	Strengthening Tasmania
	Sydney cricket ground grandstand
	World sailing championships
	Federation fund projects
	Payments to support local government
	General purpose assistance
	ACT municipal services
	Commonwealth own-purpose expenses
	Preservation and protection of Indigenous heritage
	Indigenous sports and recreation
	Indigenous culture and support
	National arts and craft industry support
	Maintenance of Indigenous language and records
	Promotion of Indigenous art
	Broadcasting Services

Source: Commonwealth of Australia *Budget Paper No. 3, 2009-10*.

ASSESSMENT APPROACH

Factors affecting service use

- 8 Many of the functions in this category are provided to the whole State population, rather than particular groups within the population. For some functions, it is difficult to accurately identify a target group. Services fall into one or more of the following classes:
- they provide indirect support to State service functions. It is difficult to assign different use to one group in the population over another. Examples are the operation of State treasuries, GST administration expenses and debt charges;

- they provide direct services to people but in a way that is not obviously differentiated between population groups. Examples are public safety and culture and recreation services; and
 - disabilities may exist but it has not been possible to identify or measure them reliably. An example is national parks. Some States said service use and costs were affected by the amount of park visitation, the sensitivity of parks to that visitation, the size of declared parks and differences in biodiversity between States. However, we are not able to construct a reliable, policy neutral assessment because we could not determine the average policy that applied in declaring land to be parks and reserves, adequately relate some of the variables to State spending or reliably measure many of the variables. Similarly, we were not able to discern any effects of urban size and complexity on per capita public safety services expenses.
- 9 Most States agreed there were no service use disabilities for the majority of services in this category and, therefore, State populations could be used to measure service use. However, some States argued for disabilities.
- 10 New South Wales and Victoria continued to argue that there were higher costs of delivering the level of public safety preparedness required in very large cities (such as Sydney) and this should be recognised. On the other hand, Queensland and the ACT said data were not available or did not support such an allowance.
- 11 South Australia said differences in per capita GST administration expenses were beyond the control of individual States and should be recognised through an actual per capita assessment. However, analysis showed that a differential assessment of GST administration expenses would not be material.
- 12 The Northern Territory argued that material service use disabilities existed for national parks. Western Australia, Tasmania and the ACT agreed, but accepted that a robust assessment had not been found and an equal per capita (EPC) assessment was therefore reasonable.
- 13 The national parks assessment was the subject of considerable State comment during the course of the review. We concluded that an EPC assessment of service use in this area was warranted both because of concern about policy differences between States in declaring and managing national parks and difficulties in finding reliable measures of disability and relating them to State expenses for national parks.
- 14 We have concluded that the best measure of use for most services in the Other expenses category is State population. The main exceptions are natural disaster and transitional superannuation expenses which are discussed below. We accept, however, the costs of providing the services may vary between States due to differences in factors affecting unit costs, such as the cost of minimum administrative structures and different unit costs of labour between States.

Native title and land rights

- 15 We considered that some expenses related to the operation of the Commonwealth's native title and land rights legislation applied to these expenses. The details of how these expenses were determined can be found in the Native title and land rights chapter.

Natural disaster relief services

- 16 Natural disaster relief services are significantly different from most expenses in the category. While they are potentially provided to the total population of the States, the expenses actually incurred are affected by unique features of each State; namely, the prevalence and impact of natural disasters. They were included in this category because they did not fit with any other expense category and were not large enough to be separately assessed¹.
- 17 Natural disaster relief expenses reflect the net cost to States of damage caused by natural disasters after making claims to the Commonwealth under the Natural Disaster Relief and Recovery Arrangements. A common framework has been established by the Commonwealth for claims and State expenses are reported under this framework.
- 18 Given the common policy for reporting expenses, we considered all differences between the States in their per capita expenses were not subject to significant policy differences and could be attributed to the effect of factors beyond the control of individual States. We concluded an actual per capita assessment should be made for natural disaster expenses.
- 19 Most States agreed that an assessment of natural disaster expenses could be based on actual costs net of Commonwealth payments to each State. While the ACT argued there may be some policy differences between States in relation to insurance and disaster preparedness, it did not present supporting evidence. Moreover, we noted that the Natural Disaster Relief and Recovery Arrangements guidelines² require States to have made adequate progress with mitigation strategies before payments can be made.

Transitional superannuation items

- 20 In the 2001 Update, the Commission decided the assessment of Superannuation expenses should reflect accrual concepts and that transitional arrangements were required to ensure it recognised needs relating to the large unfunded superannuation liabilities that existed under the previous cash accounting process. These transitional arrangements were to occur over the ten years from 1998-99 to 2007-08.
- 21 We have decided these transitional arrangements will continue in the 2010 Review. Tasmania said they should be extended because the move to a three year assessment period for the 2010 Review means two years will not be fully equalised. The 2004-05 year will only have been assessed in four Inquiries and the 2005-06 year will only have been assessed in three

¹ Under the Commission's assessment guidelines, a separate category should not be created for expenses less than \$50 per capita. See *materiality test* in the Commission's terminology list at the end of this report.

² Natural Disaster Relief and Recovery Arrangements Determination 2007, found at www.esa.gov.au.

Inquiries. We accept this, but have decided not to extend the transitional superannuation arrangements because they are one of many assessments affected by the move from five to three assessment years.

- 22 The assessment method is the same as used for the 2004 Review, except that the allowance for the higher borrowing costs faced by States with smaller budgets has been discontinued because it was not material. The assessment comprises one tenth of States' unfunded superannuation liabilities in 1997-98 plus nominal interest on those liabilities³. A historical cost factor has been applied. It captures the disabilities influencing the quantity of unfunded superannuation liabilities States would have accrued over a 20 year period on a standardised basis⁴.

Miscellaneous expenses

- 23 This is a balancing item designed to ensure the coverage of the assessments is the same as that of the ABS government finance statistics. As such, they should not have differential effects on the fiscal capacities of the States. They have been assessed on an EPC basis to ensure that outcome.

Factors affecting the cost of services

- 24 States may face different costs of delivering services even where there are no differences in per capita service use. In the case of this category, we considered such cost variations result from the effects of:
- diseconomies of small scale on administrative expenses;
 - cost differentials arising from interstate and regional differences in labour and other input costs; and
 - some special circumstances, such as the effects on costs in the ACT of its role as the national capital and the use of its services by residents of New South Wales.
- 25 Since these factors have similar effects on different expense categories (although the proportion of expenses affected by each factor may differ from service to service), most matters relating to their measurement are discussed in separate chapters. The following sections outline the matters relating specifically to this category.
- 26 No factors affecting unit costs were explicitly assessed for natural disasters expenses. To do so would be double counting. The actual per capita assessments made for these expenses automatically capture the effects of differences in use and cost levels because they attribute all interstate differences in per capita expenses to disabilities.

³ The nominal interest was calculated at 7 per cent of unfunded liabilities in 1997-98. The amount of unfunded liabilities was reduced by 10 per cent a year so that at the end of the transitional period all nominal interest would be assessed equal per capita. The unfunded superannuation liabilities were set in the 2001 Update.

⁴ The historical cost factor was calculated as the average of the category disability factors for the 50 years from 1948-49 to 1997-98.

Administrative scale

- 27 Some of the expenses in this category represent administrative overheads that must be incurred before any specific services can be delivered. Since many services in this category represent aspects of the legislative and administrative infrastructure required to support State governments, a larger proportion of expenses are affected by diseconomies of small administrative scale than is the case in other categories.
- 28 States generally agreed administrative scale disabilities would affect these services although New South Wales and the Northern Territory had broader concerns about how the assessment was made. The Commission has assessed an administrative scale disability for Other expenses. The estimation of those minimum scale affected costs is set out in the Administrative scale chapter.

Location

- 29 We considered that location disabilities (predominantly interstate differences in wage levels) affected the administrative scale expenses and service delivery expenses (but not those for natural disasters, superannuation transitional items and the miscellaneous expenses items). Most States did not comment or agreed that location disabilities should apply to all expenses in the category, except those for natural disasters, transitional superannuation and miscellaneous expenses. In the case of regional location disabilities, Victoria and Tasmania argued that these should be applied only to a subset of service delivery expenses, because not all were affected by intrastate location differences.
- 30 Interstate and regional location disabilities have been applied only to the relevant components of the Other expenses category. Interstate wage and non-wage location disabilities have been applied to the service expenses component of the category, weighted according to the proportion of wages in the category and non-wage expenses across all categories. Regional location disabilities have been applied to expenses relating to public safety, culture and recreation, national parks and wildlife, pipelines and communications, and half of the expenses for general public services, intergovernmental transactions and other purposes. This amounted to 48 per cent of service expenses on average over the period 2005-06 to 2007-08, and the regional location factor is applied to this proportion. The Location chapter discusses the disability in more detail.

National capital and cross-border effects

- 31 The Commission considered that some expenses for the ACT in this category were affected by its role as the national capital. Specifically, we considered the existence of the National Capital Plan, which is not administered by the ACT Government, increased some planning related costs incurred by the ACT (for example, it leads to a higher ratio of public to private land).
- 32 We also accepted that some expenses incurred by the ACT, specifically those for culture and recreation services, were increased as a result of the use of ACT services by New South Wales

residents living close to the ACT. Full details of these assessments can be found in the National capital and Cross-border chapters.

- 33 Most States did not comment on these matters, although New South Wales said the conceptual case for national capital disabilities was not strong. The ACT and the Northern Territory supported the inclusion of a national capital allowance, and the ACT supported the cross-border assessment with evidence on the use of library services and sporting facilities.

Cultural and Linguistic Diversity (CALD)

- 34 The Commission has accepted the conceptual case for inclusion of a disability reflecting the additional expenses incurred by States in providing services to migrants with low English fluency. We have made a combined assessment covering the disability for Schools education, Admitted patients and Community and other health services in this category. A more specific assessment was made in the Post-secondary education category where data were available to do so. We considered making an assessment for Welfare and housing and Justice services but have not done so, and the reasons for these decisions are detailed in the relevant category chapters.
- 35 While there was clear evidence of a conceptual case for CALD disabilities, we had considerable difficulty obtaining reliable data to measure them. Data relating to migrants with low English fluency are of inconsistent quality — there are some good data on unit costs, some not so good data on unit costs, and limited and conflicting data on intensity of service use. A CALD disability was not material in any individual category, although a low English fluency disability (that may have overlapped with Indigenous influences) was material in the Schools category. By applying a broad interpretation of low English fluency effects, we have assessed a single aggregate allowance in this category. The allowance is based on the number of people in each State who were born overseas and speak a language other than English at home. After examining all of the evidence and data on the size of CALD influences, we have used judgment to set the Australian average expenses on culturally and linguistically diverse people as \$15 per head of State population in 2006-07⁵, which equates to about \$127 per head of CALD population. The assessment is material.
- 36 We have not made a separate allowance for location effects on CALD expenses here since the categories where these expenses are incurred already have appropriate location allowances assessed. To do so again here would be to double count.

THE ASSESSMENT METHOD

- 37 The Commission has assessed expenses in the Other expenses category in four components because they are affected by different factors.

⁵ 2006-07 was used as the base year as it is first year of the 2010 Review assessment period. The amount is indexed in following years.

38 Table 20-4 sets out the category structure, the proposed disabilities and the relative size of each component for 2008-09. The component weights will be adjusted annually in accordance with actual expenses.

Table 20-4 Other expenses category structure, 2008-09

Component	Component weight %	Disability	Influence measured by disability
Service expenses	54.75	Cross-border	Recognises the cost to the ACT of providing cultural and recreational services to people who are New South Wales residents.
		Location	Recognises the differences in the cost of providing labour and non-labour resources between States and to different areas within a State.
Other expenses	6.14	Administrative scale	Recognises the unavoidable costs each State incurs to provide the policy and administrative infrastructure necessary to provide the minimum unavoidable service, regardless of the size of the task.
		Natural disasters	Recognises State costs of natural disaster relief. These are claims made under the Australian Government's natural disaster relief arrangements. Australian Government assistance is not included.
		National capital	Recognises the costs to the ACT arising because of Canberra's status as the national capital and seat of government.
		Native title and land rights	Recognises State costs of settling native title and land rights claims made under Australian Government legislation.
		CALD	Recognises State costs of providing services to people born overseas and speak a language other than English at home.
Transitional superannuation	0.00	Historical cost	Based on the average of the superannuation category factors for the period 1948-49 to 1997-98.
Miscellaneous expenses	39.11	Equal per capita	Balancing items to ensure that total expenses in the Commission's assessment equal those in the ABS GFS.

Note: There is no transitional superannuation amount in 2008-09. It has been included in the table because there are amounts in 2006-07 and 2007-08, which form part of the assessment period.

Source: Commission calculation.

Service delivery expenses

39 Service delivery expenses made up 54.8 per cent of the average expenses for the category in 2008-09.

40 The assessed service delivery expenses for each State were derived by:

- sharing aggregate service delivery expenses between States on the basis of their population shares (that is, equal per capita);
- applying a cross-border factor to the proportion of service expenses relating to culture and recreation⁶;
- applying a regional location factor to the proportion of service expenses relating to public safety, culture and recreation, national parks and wildlife, pipelines and

⁶ An average proportion was calculated for 2005-06 to 2007-08 based on the size of culture and recreation expenses as a proportion of the size of service expenses in this inquiry. This proportion has shown little variation over the last six years so we do not recommend updating it.

communications, and half of the expenses for general public services, intergovernmental transactions and other purposes⁷; and

- adjusting for interstate location disabilities.

41 These calculations are summarised in Table 20-5.

Table 20-5 Assessed expenses, Service expenses component, 2008-09

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Service expenses (\$m)	5 221.9	3 978.6	3 225.6	1 634.5	1 195.5	371.0	258.0	164.4	16 049.5
Cross-border	0.99920	1.00000	1.00000	1.00000	1.00000	1.00000	1.01624	1.00000	
Location factor	1.00910	0.99031	0.99030	1.01181	0.99165	0.98906	1.01466	1.08071	
Assessed expenses (\$m)	5 265.2	3 940.0	3 194.3	1 653.8	1 185.5	366.9	266.0	177.7	16 049.5

Source: Commission calculation.

Other expenses

42 The other expenses component includes administrative scale expenses, natural disaster relief expenses (net of Commonwealth payments), national capital expenses for the ACT, native title and land rights expenses and cultural and linguistic diversity expenses.

43 Table 20-6 summarises the assessment of other expenses component.

Table 20-6 Assessed expenses, Other expenses component, 2008-09

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Administrative scale expenses	103.6	100.6	99.3	102.6	99.9	97.9	104.8	105.5	814.4
Natural disaster relief	112.0	263.3	160.9	11.1	0.0	0.0	0.0	9.6	556.9
National capital	0.0	0.0	0.0	0.0	0.0	0.0	14.4	0.0	14.4
Native title and land rights	17.6	2.4	13.0	26.1	3.0	0.0	0.0	5.6	67.8
CALD	147.0	110.2	35.3	26.7	18.9	1.9	5.2	1.8	347.0
Assessed expenses	380.2	476.6	308.5	166.5	121.9	99.8	124.4	122.5	1 800.4

Source: Commission calculation.

Transitional superannuation

44 Transitional superannuation arrangements ceased in 2007-08, and there are no expenses in 2008-09. The transitional superannuation expenses continue to have an impact for two years

⁷ An average proportion was calculated for 2005-06 to 2007-08 based on the size of the relevant expenses as a proportion of the size of service expenses. This proportion has shown little variation over the last six years so we do not recommend updating it.

of the assessment period. Table 20-7 uses 2007-08 data to illustrate the impact of transitional superannuation expenses in the final year in which they are assessed.

- 45 The transitional superannuation expenses for each State were calculated as one tenth of the unfunded superannuation liabilities States held in 1997-98 plus nominal interest on the unequalised liabilities. A historical cost factor was applied, calculated using the average of the superannuation category factors for the period from 1948-49 to 1997-98.

Table 20-7 Assessed expenses, Transitional superannuation component, 2007-08

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Transitional Superannuation (\$m)	1 626.9	1 232.9	994.1	500.9	373.3	116.1	80.1	50.9	4 975.3
Historical cost	0.99353	0.97482	1.00717	1.06056	1.03810	1.12492	0.54830	1.22736	
Assessed expenses (\$m)	1 616.4	1 201.9	1 001.2	531.3	387.6	130.6	43.9	62.5	4 975.3

Source: Commission calculation.

Miscellaneous expenses

- 46 The miscellaneous expense component represents a balancing item used to ensure the coverage of the assessments is the same as that of the ABS government finance statistics. It mainly includes balancing amounts for user charges netted off expenses and Commonwealth payments netted off expenses so that they have no impact on the relativities. These balancing expenses are assessed on an EPC basis, and shown in Table 20-8.

Table 20-8 Assessed expenses, Miscellaneous expenses component, 2008-09

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Miscellaneous expenses	3 729.8	2 841.7	2 303.9	1 167.5	853.9	265.0	184.3	117.4	11 463.4
Assessed expenses	3 729.8	2 841.7	2 303.9	1 167.5	853.9	265.0	184.3	117.4	11 463.4

Source: Commission calculation.

Bringing the category assessment together

- 47 Table 20-9 brings the assessed expenses for each component together to derive the total assessed expenses for each State for the category.
- 48 Table 20-10 summarises the category factors. It shows for each disability how the expenses per capita in each component and in total are affected by differences in State characteristics. A disability factor below one indicates a State spends less than average. A disability factor above one indicates a State spends more than average.
- 49 Table 20-9 and Table 20-10 show that service expenses is the main component of assessed expenses in this category.

Table 20-9 Assessed expenses, Other expenses, 2008-09

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Service expenses	5 265.2	3 940.0	3 194.3	1 653.8	1 185.5	366.9	266.0	177.7	16 049.5
Other expenses	380.2	476.6	308.5	166.5	121.9	99.8	124.4	122.5	1 800.4
Transitional Superannuation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous expenses	3 729.8	2 841.7	2 303.9	1 167.5	853.9	265.0	184.3	117.4	11 463.4
Total (\$m)	9 375.2	7 258.3	5 806.8	2 987.8	2 161.3	731.7	574.6	417.6	29 313.3
Assessed expenses (\$pc)	1 331.44	1 352.95	1 335.04	1 355.60	1 340.74	1 462.65	1 651.93	1 883.73	1 354.49
Cost of service provision ratio	0.9830	0.9989	0.9856	1.0008	0.9898	1.0799	1.2196	1.3907	1.0000

Source: Commission calculation.

Table 20-10 Category factor, Other expenses, 2008-09

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
Service expenses (component weight = 54.75 %)									
Cross-border	0.99920	1.00000	1.00000	1.00000	1.00000	1.00000	1.01624	1.00000	1.00000
Location	1.00910	0.99031	0.99030	1.01181	0.99165	0.98906	1.01466	1.08071	1.00000
Component factor	1.00829	0.99031	0.99030	1.01181	0.99165	0.98906	1.03114	1.08070	1.00000
A. Weighted component factor	0.55205	0.54221	0.54220	0.55398	0.54294	0.54152	0.56456	0.59170	0.54751
Other expenses (component weight = 6.14 %)									
Administrative scale	0.39095	0.49858	0.60687	1.23740	1.64752	5.20147	8.00778	12.64710	1.00000
Natural disaster relief	0.61818	1.90726	1.43730	0.19521	0.00029	0.00000	0.00000	1.68860	1.00000
National capital	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	62.21647	0.00000	1.00000
Native title and land rights	0.79707	0.14552	0.95590	3.78102	0.60229	0.00000	0.00000	8.05759	1.00000
CALD	1.30216	1.28126	0.50620	0.75599	0.73265	0.23319	0.92756	0.49855	1.00000
Component factor	0.64902	1.06789	0.85263	0.90811	0.90916	2.39763	4.29769	6.64218	1.00000
B. Weighted component factor	0.03986	0.06559	0.05237	0.05578	0.05584	0.14726	0.26397	0.40796	0.06142
Transitional superannuation expenses (component weight = 0 %)									
Historical cost	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Component factor	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
C. Weighted component factor	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Miscellaneous expenses (component weight = 39.11 %)									
Equal per capita	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Component factor	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
D. Weighted component factor	0.39107	0.39107	0.39107	0.39107	0.39107	0.39107	0.39107	0.39107	0.39107
Category factor									
[A+B+C+D]	0.98298	0.99886	0.98564	1.00082	0.98985	1.07985	1.21959	1.39073	1.00000

Source: Commission calculation.

WHAT IS THE IMPACT ON THE GST DISTRIBUTION?

50 Table 20-11 shows the extent to which the assessments for this category move the recommended distribution of the GST for the 2010 Review away from an EPC distribution. It shows Western Australia, South Australia, Tasmania, the ACT and the Northern Territory are assessed as needing to spend above average per capita amounts in this category.

Table 20-11 Impact on the GST distribution of the Other expenses assessment

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
Dollars million	-116.4	-146.4	-57.4	38.4	1.8	70.4	80.9	128.7	320.1
Dollars per capita	-16.32	-26.81	-12.88	16.98	1.07	139.33	229.12	568.35	14.54

Note: The difference from an equal per capita assessment, derived using 2006-07, 2007-08 and 2008-09 assessed expenses and 2009-10 GST.

Source: Commission calculation.

- 51 Table 20-12 provides a summary of how the more influential disabilities of the assessment move the recommended State GST shares away from an EPC distribution over the period 2006-07 to 2008-09.
- 52 Even though other expenses component is small, the administrative scale assessment within that component is the biggest driver of the redistribution in this category. The administrative scale expenses for the Other expenses category are large in comparison with other categories, because many of the minimum structures that States need to establish reside in this category. We assess the five less populous States as requiring an above average GST share per capita for the administrative scale assessment.
- 53 Two other big drivers are location and natural disasters. Location redistributes GST away from Victoria, Queensland, South Australia and Tasmania to New South Wales, Western Australia, the ACT and the Northern Territory. Natural disasters relief redistributes GST towards Victoria, Queensland and the Northern Territory, reflecting disaster occurrence in recent years.

Table 20-12 Reasons for difference from EPC, Other expenses

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Administrative scale factor	-22.37	-18.35	-14.26	8.83	23.42	152.75	257.84	427.89	14.68
Location factor	7.56	-6.68	-7.28	5.09	-6.20	-8.01	12.29	58.94	3.77
Natural disaster relief factor	-2.62	0.52	15.39	-9.01	-17.08	-10.33	-17.36	30.17	3.55
CALD factor	4.66	4.40	-7.62	-3.69	-4.19	-11.93	-1.12	-7.77	2.60
Historical cost factor	-1.05	-4.04	1.13	9.65	6.07	19.93	-72.14	36.28	2.50

Source: Commission calculation.

- 54 Table 20-13 provides a summary of the main reasons for changes since the 2009 Update.

Table 20-13 Changes since the 2009 Update, Other expenses

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Shortening the review period	9.5	-3.0	11.4	3.2	-7.8	-3.8	-1.8	-7.8	24.2
Method changes	-32.3	81.1	23.4	-82.8	21.5	16.8	23.9	-51.5	166.6
State circumstances	-9.0	50.1	-7.2	-17.0	-15.5	-7.9	12.5	-6.0	62.6
Total	-31.7	128.2	27.6	-96.6	-1.8	5.2	34.6	-65.3	195.5

Source: Commission calculation.

- 55 Method changes drive changes in the Other expenses category since the 2009 Update. This assessment brings together six 2009 Update categories, and many disabilities applied in these categories have not been assessed. The pattern of redistributions from method changes is complex and in many cases results from offsetting or partly offsetting changes in multiple assessments under our old methods.
- 56 One significant change was our EPC assessment of use disabilities for national parks expenses. National parks under the 2004 Review method provided significant redistributions to Western Australia, the ACT and the Northern Territory and to New South Wales and Tasmania to a lesser extent. Our change to the assessment of these expenses results in redistributions away from these States.
- 57 Removal of an economic environment disability in our previous ‘General public services’ category assessment results in a redistribution away mainly from Western Australia and to Victoria, Queensland, South Australia and Tasmania.
- 58 The change in State circumstances has a substantial impact due to State natural disaster expenses and transitional superannuation expenses. The method of assessing natural disaster expenses has not changed since the 2009 Update, but disaster occurrence has resulted in a redistribution towards Victoria in particular and away from Western Australia and South Australia. Assessment of transitional superannuation expenses ended in 2007-08, resulting mainly in redistributions away from Tasmania and the Northern Territory to Victoria and the ACT.

UPDATE PROCESS

- 59 We recommend that data used in these assessments be updated when new data become available to ensure the relativities remain contemporary and consistent with the circumstances of the States. On this basis we expect:
- the following data would be updated annually:
 - the total category expenses, Commonwealth expenses and estimated resident population data; and

- data relating to natural disaster relief expenses incurred by States for events covered by NDRRA arrangements.
- the following data would not be updated over the review period:
 - transitional superannuation arrangements are fixed as per the 2001 Update; and
 - the general cross-border and regional location factors are only applied to part of the category expenses and we do not recommend updating these proportions as they changed little historically and we have used judgment in these parts of the assessment.

SIMPLIFICATION

- 60 In the Other expenses category simplification has been achieved through:
- fewer categories. This assessment replaces six categories: public safety, culture and recreation, national parks and wildlife, GST administration costs, general public services and debt charges;
 - fewer components. Thirty-three components were combined into four; and
 - more reliable data. Substantial amounts of the data used in the 2004 Review method did not satisfy the stronger reliability criteria used in this review. Consequently, population was used to measure service use in the service expenses component. An actual per capita assessment is used for natural disaster, native title and land rights expenses.

FURTHER INFORMATION

- 61 Background material in support of this assessment is published on the Commission's website. That material includes the following documents, released for comment in the development of this assessment, together with State submissions responding to those documents:
- Staff discussion paper *2007/16-S Assessment of Other services*;
 - Commission position paper *2008/28 Other services*; and
 - *2010 Review Draft Report*.