

# Other expenses

## Overview

- 1 On 12 October 2023, the Commission issued a consultation paper on the [other expenses](#) assessment. The Commission considered changes since the 2020 Review and their implications for the assessment method.
- 2 The Commission proposed to retain the 2020 Review assessment method.
- 3 A summary of state and territory (state) responses to each consultation question is included below, as well as the Commission's draft position and the draft 2025 Review assessment method.
- 4 State submissions can be viewed [here](#).

## Consultation questions

### Q1. Do states agree with the expenses classified to the other expenses category?

#### State views

- 5 All states agreed that there have been no significant developments that warrant a change in the expenses classified in the other expenses category.

#### Commission draft position

- 6 The Commission is proposing no change to the classification of expenses under the other expenses category.

### Q2. Do states agree that other expenses should be assessed equal per capita?

#### State views

- 7 All states agreed to assessing other expenses on an equal per capita basis, as the drivers of these expenses are likely to be best represented by state population.
- 8 Victoria raised concerns with the application of regional and wage costs to a subset of expenses in the other expenses category. It said that the Commission had not explained the decision and it appears arbitrary to make the adjustments to only a subset of expenses.

## Commission response

### Regional costs

- 9 The range of state expenses included in the other expenses assessment is listed in Table 1.
- 10 There are likely to be differences in the cost of providing some of these services to different regions within a state. To determine if costs are likely to change with remoteness, the Commission has reviewed information on service delivery arrangements for the services included in the other expenses category.
- 11 Where the nature of the service suggests service delivery would likely involve transporting equipment and/or public servants from less remote to more remote areas (with associated accommodation costs for the public servants), or service delivery would likely require more travel within a region on a regular basis, the Commission considers costs are likely to increase with remoteness. For example, the delivery of functions such as fire protection services and recreational and sporting services would likely be more expensive in remote areas. In contrast, services such as central agency functions and public debt transactions are largely unaffected by regional costs.
- 12 The share of expenses for which costs are likely to increase with remoteness has been estimated at around 47% of total expenses in 2021–22. This compares to 62% using the approach in the 2020 Review.
- 13 The general regional cost gradient is used because it is not practicable to directly measure the effect of remoteness on each of the service expenses for the category. As is the case wherever the general gradient is used, a 25% discount is applied, reflecting the uncertainty about the nature of the relationship between remoteness and cost for some functions.<sup>1</sup>

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<sup>1</sup> Commonwealth Grants Commission (CGC), [Report on GST Revenue Sharing Relativities: 2020 Review](#), Volume 2, Part B, Ch19–33, CGC, Australian Government, 2020, accessed 1 June 2024, p 443.

**Table 1 Expenses in the other expenses assessment**

	Subcomponent (COFOG)	Description	Do regional costs apply?
<b>Public safety</b>	<b>820-10</b>		
	321	Civil protection services	Yes
	322	Fire protection services	Yes
	391	Control of domestic animals and livestock	Yes
	399	Public order and safety n.e.c.	Yes
<b>Sports and Recreation</b>	<b>820-20</b>		
	811	Recreational and sporting services	Yes
	821	Film production services	Yes
	829	Cultural services	Yes
	831	Broadcasting and publishing services (part of)	No
	832	Publishing services	No
	841	Religious and other community services	Yes
	851	R&D - Recreation, culture and religion	No
	891	Community centres and halls	Yes
	899	Recreation, culture and religion n.e.c.	Yes
<b>Communications</b>	<b>820-30</b>		
	451	Communication	Yes
	475	R&D - communication	No
<b>Other purposes</b>	<b>820-40</b>		
	0	COFOG n.e.c.	No
	1091	Natural disaster relief	Yes
	111	Executive and legislative organs	No
	112	Financial and fiscal affairs	No
	113	External affairs	No
	121	Economic aid to developing countries	No
	122	Economic aid routed through international orgs	No
	131	General personnel services	No
	132	Overall planning and statistical services	No
	139	General services n.e.c.	No
	141	Basic research	Yes
	151	R&D - general public services	No
	161	Public debt transactions	No
	171	Transfers between difference levels of government	No
	199	General public services n.e.c.	Yes

**Wage costs**

- 14 Differences in wage costs between states have a differential effect on the cost of providing services. Based on the information provided by states with their latest expense data, around 51% of total costs in the other expenses category are wage costs. This compares to 62% using the approach in the 2020 Review. The proportion

of total costs for which a wages adjustment is relevant will be updated each year based on the annual expense data submitted by states.

### Commission draft position

- 15 The Commission proposes that other expenses should continue to be assessed equal per capita with adjustments for regional and wage costs for a sub-set of expenses.
- 16 The Commission considers that costs to deliver some services will increase with remoteness. On the basis of a review of state expense data for the services included in this category, it is proposed that the share of expenses for which regional costs will be applied will be around 47%, with the exact share to be determined on an annual basis based on state expenses. The general regional gradient, discounted by 25%, remains the best regional cost gradient for this category. For details on the proposed changes to the general regional gradient, see the geography chapter. Wage costs will also be applied to around 51% of total costs in this category, with the exact share to be determined on an annual basis based on state expenses.

## Draft 2025 Review assessment method

- 17 Following consideration of state views, the Commission proposes that expenses be assessed on an equal per capita basis with adjustments for regional and wage costs for a sub-set of expenses. The Commission proposes that the share of expenses for which regional costs will be applied will be around 47% and wage costs will be applied to around 51% of total costs with the exact share to be determined on an annual basis based on state expenses.
- 18 Table 2 shows the proposed structure of the 2025 Review other expenses assessment.

**Table 2 Proposed structure of the other expenses assessment**

Component	Driver of need	Influence measured by disability	Change since 2020 Review?
Other expenses	EPC	The driver of these expenses is state population (a)	No
	Wage costs	Recognises differences in wage costs between states affect the costs of delivering services (b)	Yes. Share of relevant costs reduced
	Regional costs	Recognises the higher cost to deliver services to regional and remote areas (b)	Yes. Share of relevant costs reduced

(a) Population is considered the only driver for some but not all components of expenses in this category.

(b) Applied to a subset of service expenses: 47% of total category expenses for regional costs and 51% for wages costs in 2021–22.

## Indicative distribution impacts

- 19 The impact on the GST distribution in 2024–25 from the proposed changes is shown in Table 3.
- 20 The proposed reduction in the share of expenses for which wage costs are applied would increase the GST distributed to states with below average wage costs. The proposed reduction in expenses for which regional costs are applied would increase GST distributed to states with a larger share of their population in less remote areas. The proposed changes to the general regional cost gradient are explained in the geography chapter. The changes would increase the distribution of GST to states with a larger share of their population in more remote areas.

**Table 3 Indicative impact on GST distribution (difference from an equal per capita distribution), 2024–25**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total Effect
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
U2024 using R2020 methods	-619	-815	3	185	92	315	368	471	1,434
U2024 using draft R2025 methods	-591	-814	-17	199	73	308	373	469	1,422
Effect of draft method changes	28	1	-20	15	-19	-7	5	-3	48
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
U2024 using R2020 methods	-73	-116	0	62	49	543	768	1,835	52
U2024 using draft R2025 methods	-69	-116	-3	67	39	531	778	1,825	52
Effect of draft method changes	3	0	-4	5	-10	-12	10	-11	2

Note: Based on no change to the wage costs assessment. The effect of these changes is shown in the wage costs chapters. The GST pool and population estimates are equivalent to those used in the 2024 Update. The data included in the table have not been subject to full quality assurance processes and as such, should be treated as indicative only. Indicative GST impacts are provided for illustrative purposes only and should not be used to predict impacts on GST distribution for 2025–26.