

Services to communities

Overview

- 1 On 21 June 2023, the Commission issued a [consultation paper](#) on the draft services to communities assessment. The Commission considered changes since the 2020 Review and their implications for the assessment method.
- 2 While the Commission did not propose changes to the 2020 Review assessment method, it did identify an issue for consideration following the 2025 Review.
- 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 that the existing assessment methods for spending on disaster mitigation remain appropriate?

State views

- 5 There was general support from states for the continuation of the existing equal per capita assessment of spending on natural disaster mitigation. New South Wales, Victoria, Queensland and Tasmania supported ongoing investigation following the 2025 Review of whether a differential assessment was feasible.
- 6 States discussed potential drivers of need. New South Wales focused on exposure to disasters. Victoria noted that the subject is complex, with the need for mitigation likely driven by relationships between mitigation, risk, previous mitigation efforts and the need for disaster responses. South Australia said that, similar to expenditure on environmental protection, there is no reliable driver of need as each state has its own unique climatic issues and circumstances. It also noted that the occurrence of natural disasters on its own is not a reliable proxy for mitigation expenditure. The ACT noted that more work is required in order to appropriately capture, measure, and analyse drivers of need as well as report on disaster mitigation spending. The Northern Territory said that matters such as local planning rules and legacy planning decisions can influence both the propensity of a disaster to impact states, and the costs which arise from those disasters.

Commission response

- 7 As noted by states, there are significant challenges in developing a separate assessment for mitigation expenses. These include agreeing on a definition of mitigation, separately reporting expenses and determining a reliable driver of state expense needs.

Commission draft position

- 8 The Commission does not propose to separately assess state spending on natural disaster mitigation in the 2025 Review. Following the 2025 Review, the Commission will continue to monitor developments and proposes to explore, in consultation with states, whether a differential assessment is appropriate and can be measured robustly.

Q2. Do the definitions used in the National Partnership on Disaster Risk Reduction provide an appropriate basis for describing the type of spending that could be classified as natural disaster mitigation?

State views

- 9 States generally agreed on the importance of a collective understanding of what constitutes natural disaster mitigation spending. However, views differed on whether the definition used in the National Partnership is appropriate.
- 10 Queensland, Tasmania and the ACT expressed support for the definition. New South Wales also expressed general support for the definition but advocated the incorporation of expenses associated with pandemics, pests and invasive species, as well as other disaster events. The ACT noted that its definition of disaster risk reduction is currently under review, in line with the development of the ACT Disaster Resilience Strategy and Strategic Action Plan for Disaster Risk Reduction. The ACT suggested the Commission remain open to consider any new developments surrounding the definitions and coverage of natural disaster mitigation.
- 11 Victoria, South Australia and the Northern Territory expressed concerns with the definition used in the National Partnership on Disaster Risk Reduction.
- 12 Victoria noted its expenditure includes more than what is included in the National Partnership definition, and a broader definition is required to incorporate all of its mitigation operations. This would include the need to recognise upfront investment to minimise or avoid future disasters.
- 13 South Australia said that, practically, it may be difficult to distinguish elements of expenditure on general infrastructure/maintenance programs from expenditure with the specific purpose of disaster risk reduction. For example, the construction of a seawall, wetland or road in a densely forested area may have disaster mitigation

benefits but its main purpose could be a general improvement to public amenity (not specifically related to disasters).

- 14 The Northern Territory said that the definition was too broad. It noted that this definition is suitable in a funding context as it creates flexibility, but is less suitable as an accounting definition, as it covers many areas which are assessed in other expenditure categories or are a component of general expenditure.

Commission draft position

- 15 As part of the ongoing work on this issue, the Commission proposes to monitor developments, including any relevant recommendations that come from the Independent Review of Commonwealth Disaster Funding,¹ and consult with states on the definition and measurement of natural disaster mitigation expenses.

Q3. Where is this spending currently classified in the Government Finance Statistics framework?

State views

- 16 States acknowledged the difficulty in identifying how all mitigation expenses are currently classified. States said that expenses are most likely to be reported against multiple classifications of the functions of government (COFOG) codes, including civil and fire protection services, public order and safety, environmental protection, natural disaster relief, community development, and road maintenance and construction.

Commission draft position

- 17 The Commission will use the information provided by states on the classification of natural disaster mitigation expenses to monitor changes in spending.

Q4. Is spending on mitigation measures expected to increase significantly over the next 5 years?

State views

- 18 New South Wales, Victoria, Queensland, Western Australia and the ACT all expected spending on mitigation measures to increase. New South Wales and Victoria considered that this will occur in response to increased frequency and severity of natural disasters, although New South Wales acknowledged that spending may remain more heavily focused on recovery and relief activities, rather than mitigation and preparedness. Queensland and Western Australia said that the Commonwealth's Disaster Ready Fund would support an increase in state spending. The ACT said the

¹ NEMA (National Emergency Management Agency), [Independent Review of Commonwealth Disaster Funding](#), NEMA, 2023, accessed 13 June 2024.

expected increase is primarily a refocus of response and recovery funding into areas of disaster and emergency management that demonstrate greater effectiveness and efficiency on a 'per dollar' basis, to reduce the impacts of disasters.

- 19 South Australia does not currently have significant increases in mitigation spending included in its forward estimates. Tasmania and the Northern Territory were less certain than other states about the trajectory of mitigation spending.

Commission draft position

- 20 As part of the ongoing work on this issue, the Commission proposes to monitor state spending on natural disaster mitigation and developments in national disaster resilience policy.

Other issues raised by states

Drivers of water supply subsidies

- 21 Victoria said it was concerned about the use of small communities and regional costs as the only drivers of the cost of water subsidies. While acknowledging the conceptual case that costs are likely to be higher in remote and small communities, Victoria said that other factors also impact the cost of supplying water, such as: distance from water supply; water quality; water availability; ageing assets; and the number of users per fixed infrastructure.
- 22 Victoria said that the use of remoteness and remote communities, as the main drivers of need, may provide an incentive for states with higher remote populations to continue inefficient community service obligations, even though under the National Water Initiative all states have agreed to remove them where possible.
- 23 Western Australia said that water quality and availability affect the cost of providing water. State governments regulate and subsidise water and sewerage providers to ensure communities have access to services at a reasonable price and a nationally determined quality. They subsidise providers to assist with the cost of providing services in regions where full cost recovery is not viable.
- 24 Western Australia suggested 2 options for assessing states' needs to subsidise water supply:
- expand the population used in the small communities assessment to include non-capital towns with poor water quality and availability
 - assess water subsidies actual per capita or blend the current assessment with an actual per capita method.

- 25 To support its case for an actual per capita assessment, Western Australia pointed to a Productivity Commission Inquiry Report on National Water Reform from December 2017² that found evidence of under-pricing in only a few states. It said this was evidence that pricing policies are not the reason for the above average spending on subsidies by Western Australia, South Australia and the Northern Territory.

Commission response

- 26 In the 2020 Review, all states supported an assessment of subsidies to water utilities due to unavoidably high costs that meant full cost recovery from consumers was impractical. The Commission decided that the additional costs faced by utilities in supplying water to small communities justified an assessment of state needs to provide subsidies for these small communities.
- 27 States presented a conceptual case in the 2020 Review that other factors that contribute to the cost of supplying water, such as water quality and availability, remoteness, isolation and distance from the water source, mean that utilities cannot fully recover the costs of supplying water and therefore subsidies are justified.
- 28 The Commission agreed that there was a conceptual case that water quality is a factor that drives utilities' costs but was unable to derive a simple and reliable measurement. The Commission did not make an additional assessment for populations in isolated outer regional towns serviced by exceedingly long pipelines. This was due to the lack of conclusive evidence about the relationship between distance from surface water sources and subsidies.
- 29 The Commission considers that an assessment of differences between states in the cost of supplying water should take into account all the non-policy drivers of costs. The *National performance report 2021–22: urban water utilities*³ published by the Bureau of Meteorology listed the following factors that influence operating costs for utilities supplying water and wastewater:
- utility size
 - government policy
 - climate and rainfall
 - distance and method by which water is transported (for example, piped)
 - sources of water (for example, purchased from a bulk utility or sourced from dams or alternative sources such as desalination plants)
 - input costs (for example, fuel, chemicals, and labour)
 - level of water and sewage treatment required

² Productivity Commission, [Overview and recommendations - National Water Reform - Inquiry Report](#), Productivity Commission, 2017, accessed 13 June 2024.

³ Bureau of Meteorology, [National performance report 2021–22: urban water utilities](#), Bureau of Meteorology, 2023, accessed, 13 June 2024.

- capital procurement strategies (for example, public–private partnerships or build–own–operate–transfer schemes).

30 The Commission has used the data that accompany the Bureau of Meteorology’s report to compare operating costs of water utilities by state, which incorporate all policy and non-policy factors affecting the cost of supplying water. This analysis showed that Victoria, Queensland and the Northern Territory had above-average connection costs and other states were either below or equal to the national average (Table 1). An analysis of how costs varied by remoteness area was not possible as the region serviced by individual utilities often extends across multiple remoteness areas.

Table 1 Relative costs of supplying water, average 2017–18 to 2021–22

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Operating cost relative to national average	0.8	1.1	1.5	0.8	0.7	1.0	1.0	1.5

Source: Bureau of Meteorology, [Urban National Performance Report](#), Bureau of Meteorology, 2023, accessed 13 June 2024.

31 Table 2 shows an indicative impact on GST distribution from using actual operating costs of water utilities by state to assess needs for states to subsidise water supply. Although Victoria has higher than average cost per connection, its share of connected properties is less than its population share and so its share of the total operating costs of utilities is less than its population share. The opposite is the case for South Australia. The GST distribution using this approach compared to an equal per capita distribution would not be material for any state.

Table 2 Water subsidies, impact on GST distribution

	NSW	Vic	QLD	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Equal per capita	89	72	57	30	20	6	5	3	282
Assessed (operating costs)	66	71	80	22	29	6	5	3	282
Difference to EPC	-23	-1	23	-8	10	-1	0	0	0
Difference (\$pc)	-3	0	4	-3	5	-1	1	1	0

Source: State data, Bureau of Meteorology, [Urban National Performance Report](#), Bureau of Meteorology, 2023, accessed 13 June 2024, Commission calculations.

32 The data used in this analysis have limitations that mean it is insufficiently reliable to use in an assessment. These data are influenced to some extent by regulatory policies of states. Some states provide subsidies to bulk water utilities (wholesalers) and so the costs incurred by retail utilities accessing water from these wholesalers may not reflect the full cost of water supply. Further, these data do not allow an analysis of how water supply costs are affected by remoteness. However, the Commission considers they provide sufficient support for the continuation of an equal per capita assessment of water subsidies that states provide to locations outside small communities, as defined by the Commission.

33 The Productivity Commission's *National Water Reform 2020* report stated:

“Under the National Water Initiative, any operational subsidies should be provided as transparent and untied Community Service Obligation payments. But beyond stating a preference for support in the form of Community Service Obligation payments, the National Water Initiative does not specify how payments to unviable urban water systems should be calculated, nor did it define scheme viability, leaving both as decisions for state and territory governments.

The lack of prescription has allowed state and territory governments to approach funding decisions in ways that reflect the diversity in their service delivery models. But it has also meant that there are no agreed principles on how to fund regional and remote community services ...”⁴

34 In the absence of a consistent national water pricing arrangement (or enforcement mechanism), the Commission cannot conclude that water subsidies are not policy influenced. As such, an actual per capita assessment is not appropriate. The Commission's view is that an actual per capita assessment may undermine the water pricing objectives in the National Water Initiative.

35 The Commonwealth has committed to work with states to renew the National Water Initiative. The Commission will monitor developments to determine if future Commonwealth-state commitments on water pricing have implications for the assessment.⁵

Commission draft position

36 The Commission will continue to assess water subsidies provided to small communities using a driver of need based on the population each state has in communities that meet the criteria of a small community.

37 For water subsidies provided to residents outside of these small communities, state population will continue to be the driver of need (that is, an equal per capita assessment).

Community criteria and regional cost gradients for the assessment of water and electricity subsidies

38 Victoria said the Commission should apply a discount to the small communities water subsidies assessment if, as occurred in the 2020 Review, only a small number of states can provide data to calculate the regional cost weight.

⁴ Productivity Commission, [Inquiry report - National Water Reform 2020](#), Productivity Commission, 2017, accessed 13 June 2024.

⁵ DCCEEW (Department of Climate Change, Energy, the Environment and Water), [National Water Initiative](#), DCCEEW, 2024, accessed 13 June 2024.

- 39 Western Australia proposed that communities with populations of fewer than 50 people should be included in the assessments because:
- the lower limit of 50 people is arbitrary
 - 60% of regional and remote communities in Western Australia with populations fewer than 50 rely on subsidised state water and electricity services
 - many isolated farms and stations are connected to state services, depending on their distance to local centres.

Commission response

Remote communities electricity subsidies

- 40 The Commission asked states for data on electricity subsidies to update the criteria for communities assessed to need electricity subsidies and to update the regional cost gradient applied to remote and very remote communities. The materiality of a separate assessment of electricity subsidies for remote communities was also re-tested.
- 41 Based on the updated data, the Commission proposes to remove the 50 person minimum population requirement. In the 2020 Review method, the relevant populations for the remote communities electricity subsidies had a minimum community size of 50 people. This minimum was set to exclude isolated farms and stations that may rely on their own water and electricity services. However, the number chosen was arbitrary and adds complexity and removing it has a negligible impact on the assessment.
- 42 To further simplify the assessment, the Commission proposes to remove the community population density requirement of 60 people per km² for geographic areas not identified as urban centres and localities.
- 43 The new criteria capture 77% of the 151 off-grid communities receiving subsidies.
- 44 The updated criteria results in 5,522 remote communities and 5,885 very remote communities being assessed as needing electricity subsidies. This compares to 128 remote and 182 very remote communities using the previous criteria. The corresponding numbers in the 2020 Review were 116 remote and 202 very remote communities (Table 3).
- 45 The updated data on subsidies and assessed communities were used to calculate the population weighted subsidy per capita for remote and very remote communities. These figures were then used to derive the cost gradient (3.0) the Commission proposes for 2025 Review (Table 3).
- 46 For the 2020 Review method, the Commission used a cost gradient derived using a per capita subsidy by location (not population weighted). Given that the cost gradient is applied to eligible populations, not eligible locations, it is more appropriate to use a population weighted gradient. The population weighted gradient is also less sensitive to changes in ABS census remoteness classifications and the criteria used to define eligible communities (see Table 3).

- 47 A separate assessment of electricity subsidies for remote communities continues to result in a material distribution of GST for the Northern Territory (around +\$400 per capita compared to an equal per capita distribution).

Table 3 Population and regional cost gradients for the electricity subsidies assessment

	Number of communities	Population	Total subsidy	Subsidy Unweighted	Subsidy Weighted	Cost gradient Unweighted	Cost gradient Weighted
2020 Review							
			\$m	\$pc	\$pc		
Remote	116	190,419	188	577	989	1	1
Very remote	202	129,603	239	1,989	1,843	3.45	1.86
2025 Review with 2020 Review criteria							
Remote	128	217,998	109	164	499	1	1
Very remote	182	133,653	193	1,795	1,442	10.94	2.89
2025 Review with new criteria							
Remote	5,522	299,365	109	5	365	1	1
Very remote	5,885	191,071	211	97	1,105	20.31	3.03

Source: Commission calculations using ABS and state provided data.

Small communities water subsidies

- 48 The Commission requires data from states on water subsidies to update the criteria for small communities assessed to need water subsidies and to update the regional cost gradient applied to small communities.
- 49 States were unable to provide the Commission with sufficient data to update the regional cost gradient. For the 2025 Review, the Commission proposes to retain the 2020 Review regional cost gradient.⁶
- 50 To simplify the assessment, for the population criteria for small communities, the Commission proposes to remove the community population density requirement of 60 people per km² and the 50 person minimum population requirement, as proposed for the assessment of electricity subsidies (see above). The upper bound for small communities needing water subsidies will remain at 3,000 people.
- 51 The change in the share of small community populations for each state is shown in Table 4.

⁶ The 2020 Review cost weights are 2.171 for outer regional and 4.448 for remote and very remote communities.

Table 4 Change in share of small community populations from proposed changes to community criteria (percentage points)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Inner regional Australia	-4	5	0	0	-1	0	0	0
Outer regional Australia	1	-1	1	-2	0	1	0	1
Remote Australia	1	1	-3	2	1	-2	0	0
Very remote Australia	1	0	-4	5	1	1	0	-4
Total	-1	3	-1	-1	-1	1	0	-1

Source: Commission calculations using ABS data.

- 52 A separate assessment of water subsidies for small communities continues to result in a material distribution of GST for the Northern Territory (around +\$66 per capita compared to an equal per capita distribution).

Commission draft position

- 53 The Commission proposes to simplify the criteria used to define which remote communities are assessed to need electricity subsidies and which small communities are assessed to need water subsidies. Population, in all communities in remote and very remote areas, is proposed as the driver of need for remote community electricity subsidies. Population, in communities with up to 3000 people, is proposed as the driver of need for water subsidies for small communities.
- 54 For remote community electricity subsidies, a cost weight of 3.0 is proposed for very remote communities.
- 55 For small community water subsidies, the Commission proposes to retain the 2020 Review regional cost gradient due to a lack of data to support an update.

First Nations Community Development

- 56 Victoria said that historical circumstances mean that it has a smaller proportion of Indigenous people living in discrete First Nations communities, compared with other states, but dispersed First Nations communities living in larger cities and regional centres. It said that Victoria incurs costs to support these communities through programs such as the Aboriginal Community Infrastructure Program, Victoria’s First Mortgage and Community Infrastructure Program, Right People for Country Program and Treaty Readiness and Nation Building.
- 57 Victoria said that its spending on First Nations communities should be included in the assessment and the assessment method should be based on hectares managed by traditional owners under settlement agreements or treaties rather than the current assessment based on populations in discrete First Nations communities.
- 58 Western Australia said that costs for First Nations community development are higher in Western Australia due to the need for additional engagement with local First Nations communities regarding the mining industry.

59 Western Australia said that any decisions involving major ground disturbances affecting a site of First Nations importance requires an approval process between First Nations people and the state government. It said the costs associated with these processes should be included in the assessment.

Commission response

60 The types of expenses currently included in the assessment of spending in discrete First Nations communities are:

- land management and development expenses including costs associated with changes to land tenure issues and land tenure reform
- developing community plans to improve overall service delivery
- planning, coordinating and supporting implementation of capital works programs including for essential and municipal services
- land transfer administration (excluding costs assessed under the native title and land rights assessment)
- capability development for First Nations community leaders and future leaders
- community amenities which are usually provided by local government such as street lighting, public conveniences, pedestrian shopping malls, drinking fountains, bus shelters, cemeteries and crematoria
- general revenue support for local government services provided to councils with a predominantly First Nations population which cannot be assigned to a specific function (for example: housing, water, electricity).

61 The Commission considers that population in discrete First Nations communities continues to be the appropriate driver of need for these expenses.

62 The expense programs listed by Victoria in its submission have varying degrees of connection to land managed by traditional owners under settlement agreements or treaties. The Commission is not aware of evidence indicating these expenses varied by the size of the land managed by traditional owners.

63 Similarly, the Commission is not aware of evidence that population in discrete First Nations communities is the appropriate driver of need for expenses related to approval processes between First Nations people and the state government for decisions involving major ground disturbances affecting a site of First Nations importance.

Commission draft position

64 The Commission does not propose to broaden the type of expenses included in the discrete First Nations communities assessment or change the driver of need.

Drivers of spending on environmental protection

65 Victoria and Western Australia proposed alternative drivers of spending on environmental protection.

- 66 Victoria said that it has higher costs associated with protecting the environment due to:
- the quantity of infrastructure associated with high population growth and density, coupled with a more progressive but expensive regulatory framework that has allowed the government's capital expenditure program to go ahead while minimising harm to the environment
 - higher land costs and smaller farm size. Victoria said that biodiversity and landscape protection costs are driven by land prices in all states and Victoria spends relatively more than other states to compensate landowners for land set aside for biodiversity measures due to its high land prices. Also, the lack of available land means that small farms require higher compensation to participate in biodiversity programs.
- 67 Western Australia acknowledged the difficulty the Commission has had in previous reviews in identifying a policy neutral driver of need for spending on environmental protection. It said one of the main drivers of spending for national parks and wildlife services is meeting international and Commonwealth obligations and this is the average policy that is applied by states when declaring land to be protected areas.
- 68 As in the 2020 Review, Western Australia proposed that the assessment of national parks and wildlife costs should be based on national park area rather than population. It said that larger national parks have greater costs associated with maintenance of roads and bridges, which are critical to access for weed and pest control, fire control, and other natural disaster mitigation. It also said that the costs to control and prevent beach erosion are not correlated to population and should be assessed on the length of beach that needs to be maintained.

Commission response

- 69 In the 2020 Review, the Commission decided to assess environmental protection expenses on an equal per capita basis, as they cover a wide variety of services and it is not possible to identify a single broad indicator for assessing total spending.
- 70 Service expenses in the environmental protection assessment include:
- Waste and wastewater management
 - Pollution abatement
 - monitor noise levels near airports; development and monitoring of standards covering pollution and air quality; prevention of pollution through use of cleaner technologies or cleaner products; treatment of exhaust gases; monitoring and control of the concentration of pollutants and air quality; development and use of anti-pollution devices; decontaminating and cleaning up surface water following accidental pollution.
 - Research and development on environmental protection
 - Protection of biodiversity and landscape
 - national parks and wildlife services; control and prevention of erosion of beaches and foreshores; flood mitigation in urban areas; places on the Commonwealth Heritage List and the National Heritage List; protection of native plants, animals and habitats; creation and maintenance of nature

conservation areas; administration of tree protection regulations; new plantings to create 'green corridors'; measures to protect and restore ecosystems; measures to control non-native feral animals; measures to control noxious weeds; wildlife sanctuaries; fire control activities carried out in national parks, state reserves and crown land; subsidies for agricultural and grazing practices aimed at reducing harm to soils and water bodies; protection and remediation of soil, ground-water and surface water from physical degradation.

- 71 The comments from Victoria and Western Australia highlighted the challenges in identifying an appropriate driver for all environmental protection.

Commission draft position

- 72 State spending on environmental protection is impacted by the features of each state and these features vary markedly between states. Some potential drivers of need, such as the land area of national parks, are also policy influenced. A common policy neutral driver of need for spending is difficult to identify. The Commission proposes to continue to assess environmental expenses on an equal per capita basis.

Regional cost weights for expenses to protect biodiversity and landscape

- 73 Western Australia said that expenses for the protection of biodiversity and landscape are unrelated to the size of the population in each remoteness area. It said that the regional cost factors being applied to national parks expenses should be weighted by their land area and the regional costs applied to spending that prevents coastal erosion should be weighted by the length of the affected beach.

Commission response

- 74 Regional costs are applied to expenses for the protection of biodiversity and landscape in the environmental protection component. The general cost gradient cannot be applied directly to expenses because expenses cannot be disaggregated by remoteness area. As such, a state regional cost factor needs to be calculated. Currently, to create a state regional cost factor from the general cost gradient, population in each remoteness area is used to weight the cost factors for each remoteness area.
- 75 The variable used to weight the regional cost gradient for converting to a state regional cost factor should relate to the proportion of spending that occurs in each remoteness area. For most assessments the amount of money spent is broadly in proportion to the number of people in an area and so population is used as the weight (that is, more money is spent in major cities compared to outer regional areas and there are more people in major cities than outer regional areas).
- 76 As discussed in the previous section, state spending on environmental protection, even within the subset for which regional costs are applied (protection of

biodiversity and landscape), is very diverse and heavily influenced by the features of each state.

- 77 For example, most costs for one state in managing national parks may relate to land area, while for another state it may relate to visitor numbers or mitigating the impacts of economic and visitor activity because the parks are close to population centres.
- 78 Also, costs per beach in controlling and preventing erosion may relate to the length of beach. However, states tend to undertake these activities on beaches where people live.
- 79 While examples exist within the diverse range of state spending on the protection of biodiversity and landscape where most spending is occurring in parts of the state where there are the fewest people, this may not be the case for all states and for all types of biodiversity and landscape protection activities.

Commission draft position

- 80 The Commission proposes to maintain the regional cost weights for state spending on the protection of biodiversity and landscape.

Transition to net zero emissions

- 81 Victoria said it supports in principle consideration of a separate assessment for state expenditure under the transition to net zero.

Commission response

- 82 The share of non-renewable energy use, individual jurisdictions' resource endowments, and the extent to which they may or may not support the transition to net zero, are important considerations in assessing the intensity of effort and investment required. A significant consideration should be the share of non-renewable energy use within a state as a driver of cost, impacting the relative costs of energy transition across states.

Commission draft position

- 83 The Commission will continue to monitor state spending to support the transition to net zero emissions.
- 84 The chapter on services to industry discusses the assessment of state spending to promote industries supporting the transition to net zero and spending to replace industries in regions that are transitioning away from high emission activities. The services to industry chapter discusses whether there are identifiable policy neutral drivers of states spending needs which could be used to assess net-zero spending.

Draft 2025 Review assessment method

85 Table 5 shows the proposed structure of the 2025 Review services to communities assessment.

Table 5 Proposed structure of the services to communities assessment

Component	Driver	Influence measured by driver	Change since 2020 Review?
Water subsidies			
Small communities	Small communities	Recognises that costs are higher for small communities.	Community criteria updated
	Regional costs	Recognises the higher costs for small communities in outer regional and remote areas.	No
	Wage costs	Recognises the differences in wage costs between states.	No
Other	EPC	The driver of these expenses is state population.	No
Electricity subsidies			
Remote communities	Remote communities	Recognises that costs are higher for remote communities.	Community criteria updated
	Regional costs	Recognises the higher costs for providing services in very remote communities.	Gradient updated
	Wage costs	Recognises the differences in wage costs between states.	No
Other	EPC	The driver of these expenses is state population.	No
First Nations community development			
	Population in discrete First Nations communities	Recognises the higher costs of providing services in discrete First Nations communities.	No
	Wage costs	Recognises the differences in wage costs between states.	No
	Regional costs	Recognises the higher costs of providing services to remote communities.	Yes. General regional gradient has been revised.
Other community development and amenities			
	EPC	The driver of these expenses is state population.	No
	Wage costs	Recognises the differences in wage costs between states.	No
	Regional costs	Recognises the higher costs of providing services to remote communities.	Yes. General regional gradient has been revised.
Environmental protection			
	Non-deliberative EPC	These expenses are not differentially assessed.	No
	Wage costs(a)	Recognises the differences in wage costs between states.	No
	Regional costs (a)	Recognises the higher costs of providing services to remote communities.	Yes. General regional gradient has been revised.

(a) Applied only to the protection of biodiversity and landscape sub-component

Indicative distribution impacts

86 The indicative impact on the GST distribution in 2024-25 from the proposed changes to the services to communities assessment is shown in Table 6.

Table 6 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	-255	-308	70	192	-8	-6	-19	334	596
U2024 using draft R2025 methods	-244	-298	62	189	-4	2	-20	312	566
Effect of draft method change	11	10	-8	-3	4	8	0	-22	33
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
U2024 using R2020 methods	-30	-44	13	65	-4	-10	-40	1,299	22
U2024 using draft R2025 methods	-29	-42	11	64	-2	4	-41	1,214	21
Effect of draft method change	1	1	-1	-1	2	13	-1	-85	1

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.

- 87 The driver of need for water subsidies in small communities is the population each state has in these communities. The change in the share of small community populations for each state from the proposed change to the criteria for defining communities for the purpose of this assessment is shown in Table 4.
- 88 The change in the GST distribution, shown in Table 7, reflects the combined effect of changes to the share of state population in small communities and the application of the unchanged regional cost gradient to these changed population shares.
- 89 The driver of need for electricity subsidies in remote communities is the population each state has in remote and very remote communities. The proposed changes to the criteria for defining communities for the purpose of this assessment would reduce the share of the population in remote communities for Western Australia and the Northern Territory (and increase the shares for other states) and reduce the share in very remote communities for Queensland and the Northern Territory (and increase the shares for the other states).
- 90 Assessed needs for electricity subsidies in remote communities would be affected by the proposed reduction in the cost gradient between remote and very remote communities.
- 91 The net effect on the GST distribution of these two changes to the remote communities electricity subsidies assessment is show in Table 7.
- 92 The general regional cost gradient is applied to expenses in the First Nations community development component, other community development and amenities

component and the environmental protection component. 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 greater share of the population in more remote areas (see Table 7).

Table 7 Indicative impact on GST distribution of proposed method changes (disaggregated), 2024–25

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total Effect
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
New definition of water subsidies population	5	11	-6	-3	-1	3	0	-9	20
Changes to electricity subsidies assessment	8	1	-2	-1	5	3	0	-15	18
New general regional costs gradient	-2	-2	1	1	0	1	0	2	5
Total	11	10	-8	-3	4	8	0	-22	33
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
New definition of water subsidies population	1	2	-1	-1	-1	5	0	-35	1
Changes to electricity subsidies assessment	1	0	0	0	3	6	0	-57	1
New general regional costs gradient	0	0	0	0	0	2	-1	8	0
Total	1	1	-1	-1	2	13	-1	-85	1

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.