

# Queensland response to Draft Report on the 2025 Methodology Review

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**Queensland  
Government**

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# Preface and summary of Queensland positions

Queensland remains strongly committed to ensuring that horizontal fiscal equalisation (HFE) and the supporting principles are upheld by the Commonwealth Grants Commission.

As such, Queensland welcomes this opportunity to consider the Commission's methods and proposed changes to ensure that all assessments and proposed assessments are suitably rigorous and aligned with HFE and the supporting principles.

However, the Commission's proposed positions on a range of issues laid out in this draft report are disappointing, do not appear to be aligned with enhancing HFE outcomes, and in several cases represent a clear departure from key supporting HFE principles.

In several cases, the draft positions proposed by the Commission appear to have disregarded the clear evidence and detailed analysis provided in Queensland's previous submissions, or appear to be based on selective consideration of positions put forward in specific state submissions and/or supported by flawed analysis.

Queensland considers that the Commission needs to reconsider its position on the following key issues:

- **Mining revenue - coal royalties** – The proposed assessment of coal royalty revenue based on price bands raises substantial issues on the grounds that it moves the mining assessment further away from a policy neutral setting. This submission outlines a range of key reasons why any proposed disaggregation of the coal royalty assessment is inappropriate. However, it is also noted that an addendum paper will be provided on this assessment and Queensland will provide further detailed views on this issue in response to any positions proposed in that addendum.
- **Mining revenue - gas royalties** – The Commission's own initial position to assess onshore gas revenues on an equal per capita basis to address policy neutrality concerns, which was supported by Queensland's substantial evidence and advice in both its *Tranche 1* and *2* submissions (and through presentations as part of the state visit) has been dismissed.
- **COVID-19 expenses** – As outlined previously in Queensland submissions made as part of multiple Annual Updates, the proposed actual per capita assessment of state spending on COVID-related expenses is inappropriate given the substantial policy differences between states with regard to lockdowns, quarantine arrangements and business support.
- **Roads assessment** – Queensland has substantial concerns with some of the specific changes proposed to the Roads assessment, including the proposed changes in scope of roads considered under the synthetic roads network.

More broadly, it is inappropriate to propose a substantial change to any assessment that has not been consulted on, either in the tranche papers or in a supplementary paper. The lack of detailed analysis and evidence supporting the proposed changes and expectations that states will fully consider this new proposed change (in the absence of previous engagement on it) within the limited time period available for review of the entire draft report is not in the spirit of good consultation. This gives weight to suggestions that the Commission's analysis is arbitrary. As such, any consideration of these changes should be deferred until a detailed and appropriate review can be undertaken as part of the 2030 review.

This submission outlines Queensland's views and concerns based on Queensland's understanding of the Commission's proposed changes and their impacts, as well as Queensland's views on other outstanding issues related to assessment methodologies.

Importantly, Queensland notes that the Commission has provided states with an addendum to the Transport expenses and investment assessments, with the addendum proposing some important and substantial changes from positions presented in the draft report.

Therefore, Queensland will provide its full response to the Commission's positions on all aspects of the transport assessment, including transport-related investment, both for the draft report and the addendum, in the one response to the addendum in late August 2024.

Queensland notes the Commission will continue to consider further methodological changes in the final phase of consultation to be held later in 2024. Given this, Queensland has provided further detailed analyses and cases for change across a number of assessments. Our view is that these changes would present a substantial improvement compared with existing methods and we encourage the Commission to give these proposed changes appropriate consideration as part of their ongoing review of these matters.

Several other issues related to specific assessments and the approach taken by the Commission in regard to the review are also raised in this submission, all of which should be carefully considered by the Commission.

Finally, as soon as possible following the release of the final report for this review, it would be beneficial for the Commission to consider starting foundational work related to the 2030 Methodology Review, noting that time constraints limited the ability for the Commission, staff and states to comprehensively undertake a full review of a range of matters and assessments as part of the current 2025 review.

# Supporting Principles and the Quality Assurance Framework

Queensland continues to strongly support the overarching principle of horizontal fiscal equalisation (HFE) to ensure that a similar level of services and infrastructure can be provided across all states, given the same level of effort and efficiency.

Likewise, Queensland continues to see value in the important supporting principles ('what states do', policy neutrality, practicality and contemporaneity). These principles are intended to guide the approach to assessing state fiscal capacities and are similarly integral to the workings of the HFE system. Consequently, the assessment methods, and any changes to these methods, should strongly imbed these principles in their design.

While achieving HFE should always be the primary objective of the GST system, Queensland is extremely concerned that through the course of this Review there has been a deliberate shift in emphasis away from the supporting principles. In particular, there has been a clear departure in the proposals put forward by some states, and also in some of the positions proposed by the Commission, from the policy neutrality principle. Unfortunately, the watering down of this principle has manifested itself in draft recommendations that are against the national interest.

The policy neutrality principle is significant and critical in that it ensures that a state's policy choices do not significantly affect assessments. Without sufficient regard being given to this principle, this enables, and in fact can incentivise, states to maintain or implement policy decisions in order to influence their GST outcomes.

Further, if the Commission continues to reduce the importance of policy neutrality in key assessments, **state's will be disincentivised from making policy decisions that are in the national interest** because of the uncertainty regarding potential changes to the treatment of those policy outcomes in the context of future GST revenues. This is particularly relevant in assessments where states have a significant share of the revenue base such as in the mining revenue assessment and in the transport expense and capital assessments.

In a number of key assessments, the Commission has chosen to apply treatments which place differing levels of emphasis on policy neutrality or adopt contrasting approaches to policy neutrality. **In these cases, this is materially impacting assessments and resulting in very large changes to GST redistributions.**

This lack of consistency is most clearly evident in the vastly different approach proposed to two elements of the mining revenue assessment, gas royalties and coal royalties. For onshore gas, states such as New South Wales and Victoria apply specific, deliberate policies that prohibit or limit development of a gas industry and the raising of revenues in those states (despite having substantial resources). However, the current assessment methods continue to assess these states as having no (or very limited) revenue capacity.

This severe policy contamination substantially penalises Queensland and rewards the other states in terms of GST redistribution.

Meanwhile, in stark contrast, under the coal mining assessment the Commission is proposing to change the current methodology to specifically capture and reflect differences in state policy frameworks, in particular, Queensland's policy decision to make changes to Queensland's royalty tiers.

**Both assessments should be policy neutral. For gas this would be achieved through an EPC assessment and for coal by either aggregating minerals, or at least, maintaining the current approach to the coal assessment.**



There has also been a noted shift away from simplicity in some cases. Despite the terms of reference stating that assessments should aim to be simple, there has been a trend toward an increasing level of complexity in assessment methods. This has been magnified in the current Review with consideration of method changes with the potential to introduce significantly greater granularity and complexity.

While it would be beneficial for states and the Commission to discuss these issues more comprehensively as part of a broader discussion on the future direction of HFE, Queensland considers that the Commission's positions outlined in the draft report should include references to how the supporting principles have factored into their decisions and any potential trade-offs made among the principles. This would enhance accountability and transparency while helping to manage concerns about arbitrary decision making.

The 2025 Review Quality Assurance Framework included commitments by the Commission to be transparent, to allow states scrutiny of methods and calculations, and to engage in meaningful consultation with states.

The consultation for the 2025 Review has fallen short of achieving these commitments. There has been a marked lack of transparency in some cases, with the Commission providing no, or very limited, information on several material method changes, including in relation to roads, housing and COVID-19 expenditure, until after the initial consultation process.

Given these shortcomings, the Commission should work towards more purposefully ensuring that their Quality Assurance Framework is followed, with clear evidence that each component of this framework is upheld for each assessment.

Ensuring the supporting principles and quality assurance framework are upheld will help ensure more appropriate assessment methods and support the effectiveness of the GST system as a whole to be reliable, fit-for-purpose and delivering the most appropriate and effective HFE outcomes.

# Summary

A summary of Queensland’s positions is provided in the following table with further detail in the submission below.

## SUMMARY OF QUEENSLAND POSITIONS

| Priority assessments for the 2025 Methodology Review |  |                       |
|--|--|-----------------------|
| Assessment   | Commission draft position  | Queensland response   |
|  | Proposes to split the assessment by price band, should data be available.  | <b>Do not support</b> |
|  | Proposes to split the assessment by coal type, should data not be available.   | <b>Do not support</b> |
|  | Proposes to assess Victoria coal capacity equal to the revenue raised.   | <b>Do not support</b> |
|  | <b>Queensland’s additional/alternative recommendations for the coal mining revenue assessment</b>  |                       |
| <b>Coal mining revenue</b>                           | Queensland <b>recommends</b> that the Commission consider assessing all mining revenues using an aggregated approach.  |                       |
|  | If the Commission assesses coal using a price band approach, Queensland <b>recommends</b> that the Commission apply a 50% discount on all coal royalty revenue due to the impact of a policy change in a ‘dominant state’.           |                       |
|  | If the Commission assesses coal using a price band approach, Queensland <b>recommends</b> that this differential assessment based on price bands only be applied from the assessment of revenues in the 2025-26 single year onwards. |                       |
|  | <b>Queensland will provide further feedback in its full response to the Commission’s positions on all aspects of the coal mining revenue assessment in a submission responding to the forthcoming addendum report.</b>               |                       |
|  | Proposes to continue the current assessment approach (not to introduce an EPC assessment).   | <b>Do not support</b> |
|  | Proposes <u>not</u> to assess uranium royalties EPC.   | <b>Do not support</b> |
| <b>Onshore gas mining revenue</b>                    | Proposes to assess onshore oil and gas on a volume of production basis.  | <b>Do not oppose</b>  |
|  | <b>Queensland’s additional/alternative recommendations for the onshore gas mining revenue assessment</b>   |                       |
|  | Queensland <b>strongly recommends</b> that the Commission assess all revenue related to onshore gas, uranium, and any other minerals facing significant restrictions in some states as EPC. Failing this, a 50 per cent              |                       |

|                 |  |                       |
|-----------------|--|-----------------------|
|                 | discount should be applied to acknowledge the significant policy contamination issues at play when assessing these minerals.   |                       |
| <b>COVID-19</b> | Proposes to treat Commonwealth payments for public hospitals and public health services under the National Partnership on COVID-19 Response as impact and assess state spending on an actual per capita basis. | <b>Do not support</b> |
|                 | Proposes to assess state spending covered by the COVID-19 business support national partnership agreements on an actual per capita basis from 2021-22.   | <b>Do not support</b> |
|                 | Proposes to use the reconciled value of payments rather than estimates published in Commonwealth final budget outcomes.  | <b>Do not support</b> |
|                 | Proposes not to retrospectively adjust GST distributions from previous updates.  | <b>Support</b>        |
|                 | Proposes not to include unpaid quarantine expenses in the assessment.  | <b>Support</b>        |
| <b>Roads</b>    | Proposes to retain the 2020 synthetic rural road network but remove the routes to mines, national parks, gas wells and ports.  | <b>Do not support</b> |
|                 | Proposes to retain population as the driver for urban road length in towns of over 40,000 people.  | <b>Do not oppose</b>  |
|                 | Proposes to investigate the suitability of using National Service Level Standards data once available.   | <b>Do not oppose</b>  |
|                 | Proposes to hold constant the current shares of urban/rural traffic for light vehicles and heavy vehicles.   | <b>Do not oppose</b>  |
|                 | Proposes not to add additional cost drivers, including rainfall and soil composition.  | <b>Noted</b>          |
|                 | Proposes to continue using the National Transport Commission data.   | <b>Support</b>        |
|                 | Proposes to retain the existing assessment of bridges and tunnels.   | <b>Support</b>        |
|                 | Proposes to replace the general cost gradients with the Rawlinson's cost gradient for rural road lengths and the bridges and tunnels component.  | <b>Do not support</b> |
|                 | Proposes to retain the 50:50 no impact/impact blended treatment of national network road and rail network payments.  | <b>Support</b>        |

|   |   |                       |
|---|---|-----------------------|
|   | Proposes to introduce a discount of 12.5 per cent.  | <b>Do not support</b> |
| <b>Queensland’s additional/alternative recommendations for the roads assessment</b> |   |                       |
|   | Queensland <b>recommends</b> that the Commission should update the synthetic road network to include all roads to all protected areas.  |                       |
|   | Queensland <b>recommends</b> that all internal roads within national parks and all other protected areas are also included within the synthetic road network.   |                       |
| <b>Transport</b>  | <b>Queensland will provide its full response to the Commission’s positions on all aspects of the transport assessment, including transport-related investment, both for the draft report and the addendum, in the one response to the addendum in late August 2024.</b> |                       |
|   | Proposes to continue the current assessment approach, with the option to switch to state provided year 3 data when a relevant shock occurs.   | <b>Support</b>        |
|   | Proposes to continue to explore other options to improve the responsiveness of the health assessment, including reducing reliance on proxy indicators of activity.  | <b>Support</b>        |
|   | Proposes to introduce a direct measure of the use and cost of specialised community mental health activity for ambulatory services only.  | <b>Do not support</b> |
| <b>Health</b>   | Proposes to broaden the proxy indicator of community and public health activity to include a combination of emergency department triage categories plus a subset of non-admitted patient allied health services.  | <b>Support</b>        |
|   | Proposes to use a hospital-based proxy for public health activity rather than an equal per capita assessment.   | <b>Support</b>        |
|   | Proposes to maintain the current 12.5 per cent discount on community and public health expenses.  | <b>Noted</b>          |
|   | Proposes that the current approach to non-state sector adjustments remains appropriate with further consideration between reviews.  | <b>Support</b>        |
|   | Proposes to update the substitutability level for the emergency departments component using AIHW methods. The level itself is maintained at 15 per cent.  | <b>Support</b>        |

|  |                       |
|--|-----------------------|
| Proposes to use expenses measured by benefits paid by private health insurance funds as a proxy for private patient activity.  | <b>Support</b>        |
| Proposes to use the mid-point of 2 methods to determine the non-state sector substitutability level for non-admitted patients.   | <b>Support</b>        |
| Proposes to continue to include Commonwealth funded services provided by First Nations community health organisations in the separate adjustment for Community Controlled Health Services.   | <b>Support</b>        |
| Proposes to use the 2019-20 data to update the calculation of the substitutability level rather than more recent years.  | <b>Support</b>        |
| Proposes to maintain the substitutability level for community and public health.   | <b>Support</b>        |
| Proposes to continue to use socio-demographic cohort-averaged national weighted activity units in the health assessment.   | <b>Do not support</b> |
| Proposes not to separately assess state spending on multicultural and language services.   | <b>Do not oppose</b>  |
| Proposes to maintain the existing age group categories.  | <b>Support</b>        |
| Proposes to continue to apply remoteness weights to national weighted activity units.  | <b>Support</b>        |
| Proposes to continue to assess by the usual drivers of need any Commonwealth payments funding hospital services that are not a state responsibility, unless a share of funding is specified and agreed by Commonwealth and states. | <b>Do not support</b> |
| Proposes to separately assess costs associated with aeromedical services and the Patient Transport Assistance Scheme with further consideration between reviews.   | <b>Support</b>        |
| Proposes to continue to apply cross border adjustments to the National Health Reform Agreement Commonwealth payments.  | <b>Support</b>        |

**Queensland’s additional/alternative recommendation for the health assessment**

Queensland **recommends** that the NHRA Commonwealth Payment should be assessed according to a 12.5:87.5 no impact/impact blended treatment.

|   |  |   |
|---|--|---|
| <b>Investment</b>   | Proposes not to smooth population growth.  | <b>Support</b>  |
|   | Proposes not to freeze component shares.   | <b>Support</b>  |
|   | Proposes to continue the current assessment approach.  | <b>Support</b> , excluding the transport investment assessment. |
|   | Proposes to monitor the appropriateness of Rawlinson's cost indices.   | <b>Support</b>  |
|   | Proposes not to introduce a brownfields assessment.  | <b>Support</b>  |
|   | Proposes that capital stock requirements in health include mental health services.   | <b>Support</b>  |
|   | Proposes that capital stock requirements in welfare include homelessness service expenses but exclude National Disability Insurance Scheme expenses. | <b>Support</b>  |
|   | Proposes to retain the current approach for remaining investment components.   | <b>Support</b>  |
| <b>Queensland's additional/alternative recommendation for the investment assessment</b>   |  |   |
| Queensland <b>recommends</b> that the population squared variable is replaced by urban population in the urban transport investment assessment. |  |   |
| Queensland <b>recommends</b> that the Commission apply a large (50 per cent) discount to the Rawlinsons capital city index.                     |  |   |

### Other assessments considered during the 2025 Methodology Review

| <b>Assessment</b>                                       | <b>Commission draft position</b>  | <b>Queensland response</b>  |
|---|---|---|
| <b>Revenue Assessments</b>                              |   |   |
| <b>Mining revenue (other than coal and onshore gas)</b> | Proposes to continue to assess mining revenue capacity using a mineral-by-mineral approach. | <b>Do not support.</b>  |
|   | Proposes not to introduce a dominant state adjustment.                                      | <b>Do not support</b>   |
| <b>Land tax</b>   | Proposes to retain the current 12.5 per cent discount.                                      | <b>Noted</b> , do not support calls for the discount to be increased. |
|   | Proposes to retain the existing value ranges.   | <b>Support</b>  |
|   | Proposes not to introduce an elasticity adjustment.   | <b>Support</b>  |
|   | Proposes to remove the adjustment to ACT's taxable land values on materiality grounds.      | <b>Support</b>  |

|                                  |  |                |
|----------------------------------|--|----------------|
|                                  | Proposes to distribute NT estimated land values across the value ranges using the average distribution of SA, Tasmania and ACT.                                      | <b>Support</b> |
|                                  | Proposes to not to introduce changes for the introduction of a COVID-19 Debt Recovery Surcharge in Victoria or changes in states' Foreign Owner Land Tax Surcharges. | <b>Support</b> |
| <b>Stamp duty on conveyances</b> | Proposes to continue the current assessment approach with the following adjustments.   | <b>Support</b> |
|                                  | Proposes that revenue from NSW property tax be assessed with land tax.   | <b>Support</b> |
|                                  | Proposes not to adjust NSW value of property transferred for the effects of its First Home Buyer Choice Scheme.  | <b>Support</b> |
|                                  | Proposes not to adjust ACT value of property transferred for the effects of its stamp duty on conveyances reform.  | <b>Support</b> |
|                                  | Proposes not to make elasticity adjustments.   | <b>Support</b> |
|                                  | Proposes not introduce a new assessment of Victoria's commercial and industrial property tax since Victoria will not receive revenue from the tax until 2034-35.     | <b>Support</b> |
|                                  | Proposes to continue assessing duties on non-real property transfers on an equal per capita basis.   | <b>Support</b> |
|                                  | Proposes to retain the existing value ranges.  | <b>Support</b> |
| <b>Insurance duty</b>            | Proposes to continue the current assessment approach.  | <b>Support</b> |
|                                  | Proposes not to introduce an elasticity adjustment.  | <b>Support</b> |
|                                  | Proposes to leave third party insurance in the insurance tax category.   | <b>Support</b> |
| <b>Motor taxes</b>               | Proposes not to introduce a separate assessment for electric vehicle charges.  | <b>Support</b> |
|                                  | Proposes to assess revenue from emissions-based registration fees using the number of light vehicles.  | <b>Support</b> |
|                                  | Proposes to assess electric vehicle incentives where they are classified in GFS data.  | <b>Support</b> |
|                                  | Proposes not to reintroduce a differential assessment of stamp duty on motor vehicle transfers.  | <b>Support</b> |

|                             |   |   |
|-----------------------------|---|---|
|                             | Proposes to assess revenue from payroll tax surcharges on the same basis as payroll tax.  | <b>Support</b>  |
| <b>Payroll tax</b>          | Proposes to continue the current assessment approach.   | <b>Support</b>  |
|                             | Proposes to continue to investigate the potential to use BLADE/PLIDA data.  | <b>Support</b>  |
|                             | Proposes not to implement an alternative assessment method using BLADE/PLIDA until the next review.   | <b>Support</b>  |
|                             |   |   |
| <b>Other revenue</b>        | Proposes to retain the composition of revenues classified to this category.   | <b>Support</b>  |
|                             | Proposes to assess revenues in this category on an equal per capita basis.  | <b>Support</b>  |
| <b>Expenses Assessments</b> |   |   |
|                             | Proposes to continue the current assessment approach with the following changes.  | <b>Do not support</b>                                 |
|                             | Proposes not to apply any new equal per capita assessment or discounts due to data concerns.  | <b>Support</b>  |
|                             | Proposes to update the justice assessment in the 2026 Update with data from 2022-23 and 2023-24.  | <b>Support</b>  |
|                             | Proposes not to request justice data from states on an ongoing annual basis.  | <b>Support</b>  |
| <b>Justice</b>              | Proposes to include a cost weight for juvenile detainees in the prisons assessment.   | <b>Support</b> , with an increase in the cost weight. |
|                             | Proposes not to change the prisons assessment to account for proposed increases in the age of criminal responsibility.                                    | <b>Support</b>  |
|                             | Proposes to retain the current method for assessing police expenses.  | <b>Do not support</b>                                 |
|                             | Proposes to consider whether there should be an additional cost weight for remote offenders. If supported, this would be incorporated in the 2026 update. | <b>Support</b>  |
|                             | Proposes to consider a treatment for central police costs based on state data. If supported, this would be incorporated in the 2026 update.               | <b>Do not support</b>                                 |
|                             | Proposes to conduct further analysis to determine whether certain police costs are unique to major cities and should be included in                       | <b>Do not support</b>                                 |
|                             |   |   |



|  |                       |
|--|-----------------------|
| the police assessment. If supported, this would be incorporated in the 2026 update.  |                       |
| Proposes to consider whether cultural and linguistic diversity affects service costs in its forward work program.                                    | <b>Do not oppose</b>  |
| Proposes not to make changes to the police assessment due to potential barriers for policy reform.   | <b>Support</b>        |
| Proposes to continue to exclude traffic and breach of bail data from the police assessment.  | <b>Support</b>        |
| Proposes to continue using proceedings data in the calculation of assessed offenders.  | <b>Support</b>        |
| Proposes to continue to apply the socio-economic approach for First Nations people to offence rates with further analysis to be undertaken.          | <b>Support</b>        |
| Proposes not to apply a discount to the police assessment.   | <b>Support</b>        |
| Proposes to continue to use number of finalised defendants as the most appropriate driver of criminal court expenses.                                | <b>Support</b>        |
| Proposes to continue using data from all states in the criminal courts component.  | <b>Support</b>        |
| Proposes to attribute Indigenous status to not stated finalised defendants based on the proportion of stated defendant responses in the 2026 update. | <b>Support</b>        |
| Proposes to continue to apply a cost gradient when assessing regional and service delivery scale costs in the criminal courts assessment.            | <b>Support</b>        |
| Proposes to continue to use data from states to split other legal services and criminal court expenses.  | <b>Support</b>        |
| Proposes to further consider an approach to regional and service delivery scale costs in the prisons assessment and include this in the 2026 update. | <b>Do not support</b> |
| Proposes to continue using defendant socio-economic status as a proxy for prisoner socio-economic status in the prisons assessment.                  | <b>Support</b>        |
| Proposes to include an assessment of community correction orders in the prisons assessment in the 2026 update, if material.                          | <b>Do not support</b> |

## Queensland's additional/alternative recommendation for the justice assessment

Queensland **recommends** that all policing be assessed as a single component, with socio-demographic characteristics determined by offender rates as the key volume driver of need and regional costs applied to all policing costs.

|                |   |  |
|----------------|---|--|
|                | Proposes to include variables in the schools regression reflecting the differential cost of primary and secondary schools and students.   | <b>Support</b>                         |
|                | Proposes not to include Nationally Consistent Collection of Data on School Students with Disability in the schools regression.  | <b>Support</b>                         |
|                | Proposes to use the schools regression calculated based on mainstream schools to determine state spending for special schools.  | <b>Do not oppose</b>                   |
|                | Proposes not to use the Schooling Resource Standard as the basis for state funding.   | <b>Support</b>                         |
|                | Proposes to use the lowest decile of socio-educational advantage for government schools and the most disadvantaged half of students for non-government schools.   | <b>Support</b> , with recommendations. |
|                | Proposes applying a First Nations cost weight to the non-government schools regression.   | <b>Support</b>                         |
| <b>Schools</b> | Proposes to continue to test for the impact of First Nations concentrations and the interactions between First Nations students and other variables and consult with states on any changes to the regression model. | <b>Support</b>                         |
|                | Proposes not to include a variable for students who speak a language other than English.  | <b>Do not oppose</b>                   |
|                | Proposes to continue to include spending on early childhood education with school spending.   | <b>Noted</b>                           |
|                | Proposes to retain the ABS classification of remoteness as the basis for its assessment of the impact of remoteness on state expenses.  | <b>Noted</b>                           |

## Queensland's additional/alternative recommendations for the schools assessment

Queensland **recommends** that the Commission assess socio-educational disadvantage cost-weightings for government schools using two categories, assessing both severe and moderate socio-educational disadvantage.

Queensland **recommends** that moderate socio-educational disadvantage is assessed based on the second-to-fourth lowest deciles of students.

|                                 |   |  |
|---------------------------------|---|--|
|                                 | Proposes not to introduce a course mix driver.  | <b>Support</b>                         |
| <b>Post-secondary education</b> | Proposes to retain the variables used in the socio-demographic assessment.  | <b>Support</b>                         |
|                                 | Proposes to use data that reflect the amount of cross border training not covered by alternative funding arrangements and update this between reviews.  | <b>Support</b>                         |
|                                 | Proposes to use an individual based assessment instead of a household assessment to better reflect drivers of spending.   | <b>Do not support</b>                  |
| <b>Housing</b>                  | Proposes not to include housing stress as a driver of need.   | <b>Support</b>                         |
|                                 | Proposes to continue to apply a combined assessment of spending on public and community housing.  | <b>Support</b>                         |
|                                 | Proposes not to introduce a high-cost tenant cost gradient.   | <b>Support</b>                         |
|                                 | Proposes to retain the current regional costs assessment method for housing.  | <b>Support</b> , with recommendations. |
|                                 | Proposes to retain a First Nations cost weight of 1.2 and to use the national average share of First Nations people living in First Nations specific housing for the calculation of the capital stock factor. | <b>Support</b> , with recommendations. |
|                                 | Proposes not to include cultural and linguistic diversity as a driver to the assessment or as a cost weight factor.   | <b>Do not oppose</b>                   |
|                                 | Proposes not to include an aged-based cost weight factor.   | <b>Do not oppose</b>                   |
|                                 | Proposes not to develop a driver based around the need to use private rental properties to meet social housing demand.  | <b>Do not oppose</b>                   |
|                                 | Proposes to continue monitoring developments in affordable housing support and exploring whether a differential assessment is required.   | <b>Support</b>                         |
|                                 | Proposes to re-balance the social housing/non-social housing split using AIHW data.   | <b>Do not support</b>                  |
| <b>Welfare</b>                  | Proposes to continue to apportion 'not applicable' and 'not stated' responses as required.  | <b>Support</b>                         |
|                                 | Proposes to collect state contributions to the NDIS from Commonwealth data.   | <b>Support</b>                         |

|                                |   |   |
|--------------------------------|---|---|
|                                | Proposes to maintain the current methods of assessing state contributions to NDIS.  | <b>Support</b>  |
|                                | Proposes to include a homelessness services assessment using data from AIHW.  | <b>Do not oppose</b>  |
|                                | Proposes to introduce a new annual data request to obtain state expenses on homelessness services by COFOG.   | <b>Noted</b> , however Queensland is unable to provide data to meet this request. |
|                                | Proposes to apply the following drivers to a homelessness services assessment (age, Indigenous status, socio-economic status, remoteness).  | <b>Do not oppose</b>  |
|                                | Proposes not to apply drivers to a homelessness assessment related to mental health conditions, family and domestic violence and housing affordability.   | <b>Support</b>  |
|                                | Proposes to combine the other welfare and non-NDIS disability services, aged-care and national redress scheme assessments into a single other welfare assessment.                                 | <b>Do not oppose</b>  |
|                                | Proposes to stop collecting state spending on the National Redress Scheme from states.  | <b>Support</b>  |
|                                | Proposes to consider how cultural and linguistic diversity affects state service costs in a forward work program.   | <b>Do not oppose</b>  |
|                                | Proposes to continue to use the general regional cost gradient.   | <b>Support</b> , with recommendations.  |
|                                | Proposes to continue to apply the service delivery scale factor to child protection and family services expenditure.  | <b>Support</b> , with recommendations.  |
|                                | Proposes to continue to monitor the evidence on service delivery scale and work with states to estimate how service delivery affects the costs of service provision in regional and remote areas. | <b>Support</b>  |
|                                | Proposes not to include a First Nations cost weight in the child protection and family services assessment.   | <b>Do not support</b>   |
| <b>Natural disaster relief</b> | Proposes to continue the current assessment approach (an APC assessment).   | <b>Support</b>  |
|                                | Proposes to monitor developments and consider whether a differential assessment is appropriate for mitigation expenses.   | <b>Support</b>  |

|  |   |   |
|--|---|---|
| <b>Native Title &amp; Land Rights</b>  | Proposes to continue the current assessment approach (an APC assessment).   | <b>Support</b>  |
|  | Proposes to continue to monitor the impact of Treaty negotiations.  | <b>Support</b>  |
|  | Proposes not to include Treaty-related costs in the Native title and land rights assessment.  | <b>Support</b>  |
| <b>Services to communities</b>   | Proposes not to separately assess spending on natural disaster mitigation but explore the need for a differential assessment in a forward work program. | <b>Support</b>  |
|  | Proposes to continue to monitor and consult with states on an appropriate definition and measurement for natural disaster mitigation expenses.          | <b>Support</b>  |
|  | Proposes to monitor state spending on natural disaster mitigation and developments in national disaster resilience policy.                              | <b>Support</b>  |
|  | Proposes to continue assessing water subsidies to small communities using population in those communities as the driver of need.                        | <b>Do not support</b>   |
|  | Proposes to assess water subsidies provided outside small communities using state population as the driver of need (an EPC assessment).                 | <b>Support</b>  |
|  | Proposes to simplify the criteria used to determine communities receiving subsidies (water and electricity).  | <b>Support</b>  |
|  | Proposes to apply a cost weight of 3.0 for electricity subsidies to very remote communities.  | <b>Supports</b> using a cost weight, with consideration of an increased weight. |
|  | Proposes to retain the current regional cost gradient for water subsidies to small communities.   | <b>Do not oppose</b>  |
|  | Proposes not to broaden the type of expenses included in the discrete First Nations communities assessment or change the driver of need.                | <b>Support</b> , with recommendations   |
|  | Proposes to continue to assess environmental expenses on an equal per capita basis.   | <b>Noted</b>  |
| Proposes to maintain the regional cost weights for state spending on the protection of biodiversity and landscape. | <b>Support</b> , with recommendations.  |   |

|                             |   |   |
|-----------------------------|---|---|
|                             | Proposed to continue to monitor state spending on the transition to net zero emissions.   | <b>Support</b>  |
| <b>Services to industry</b> | Proposes to replace total factor income as a measure of industry size with the aggregate measures of industry output, provided by the ABS.  | <b>Do not oppose</b>  |
|                             | Proposes to update the aggregate measure of industry output using the percentage change in chain volume of industry value added.  | <b>Do not oppose</b>  |
|                             | Proposes not to assess business counts as a driver of spending on regulatory activities.  | <b>Support</b>  |
|                             | Proposes to work with states and Commonwealth agencies to develop a consistent definition of net zero spending, identify drivers of need and monitor spending to consider the potential need for an assessment. | <b>Support</b>  |
|                             | Proposes to continue to assess business development expenses on an equal per capita basis with a wage cost adjustment.  | <b>Support</b>  |
| <b>Other expenses</b>       | Proposes to retain the composition of expenses classified to this category.   | <b>Support</b>  |
|                             | Proposes to assess expenses in this category on an equal per capita basis.  | <b>Support</b>  |
|                             | Proposes to adjust the share of expenses in this category to which regional costs are applied.  | <b>Do not support</b>   |
| <b>Other</b>                |   |   |
| <b>Geography</b>            | Proposes to continue the current assessment approach.   | <b>Support</b>  |
|                             | Proposes to improve representation of services in the general gradient calculation.   | <b>Support</b> , with recommendations.  |
|                             | Proposes to continue to apply a 25 per cent discount to the general gradient.   | <b>Do not support</b>   |
|                             |   | <b>Supports</b> applying regional costs to the same assessments as in the 2020 Review.  |
|                             | Proposes to continue to apply regional cost and service delivery scale to the same assessments as in the 2020 Review.   | <b>Do not support</b> applying service delivery scale costs to the same assessments, recommend that service delivery scale costs are applied to all |

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assessments with regional costs.

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Proposes not to introduce an interstate non-wage cost assessment.

**Support**

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Proposes to retain the ABS classification of remoteness.

**Support**, with recommendations.

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Proposes to retain its current approach to remoteness loadings and measure the extent to which costs increase for people who live in different regions.

**Support**

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Proposes to continue to take measures to avoid double counting in assessments.

**Support**

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Queensland **recommends** that service delivery scale cost according to the general gradient are applied to the following components:

- Indigenous community development
  - Other community development and amenities
  - Biodiversity and landscape protection
  - Agriculture regulation
  - Mining regulation
  - Other business regulation
  - Post-secondary education (in addition to component-specific regional costs)
  - Homelessness services
  - Other welfare, including non-NDIS disability services, aged care, and the NRS
  - Social housing
  - Service expenses.
- 

Queensland **recommends** that the medium (25 per cent) discount on the general service delivery scale & regional costs gradients is removed from all components.

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**Socio-economic status**

Proposes not to change the current measures of socio-economic status for the non-Indigenous population and undertake further work in a forward work program.

**Support**

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Proposes to use detailed data where possible for determining socio-economic status.

**Support**

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Proposes to work with states on a review of the Indigenous Relative Socioeconomic Outcomes Index.

**Support**

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|-----------------------------|---|--|
|                             | Proposes to use preliminary ABS GFS data for year 3 where available and state GFS data where they are not.  | <b>Support</b>   |
| <b>Adjusted budget</b>      | Proposes to introduce any adjustments based on a proposed process.  | <b>Support</b>   |
|                             | Proposes to provide non-confidential data to states for reconciliation purposes.  | <b>Support</b>   |
|                             | Proposes to correct any previous data errors in a current update.   | <b>Support</b>   |
|                             | Proposes to work with states and ABS to align GFS and budget data.  | <b>Support</b>   |
| <b>Administrative scale</b> | Proposes to continue the current assessment approach but with a broader examination as part of a forward work program.  | <b>Do not support</b> , the current approach.<br><b>Support</b> , a broader review with a discount recommended in the interim. |
|                             | Proposes not to change the 60:40 wage cost to non-wage cost ratio in the assessment.  | <b>Do not support</b> , recommend a discount be applied.   |
|                             | Proposes not to assess diseconomies for large administrative systems.   | <b>Support</b> , with recommendations.   |
| <b>Net borrowing</b>        | Proposes to continue the current assessment approach.   | <b>Do not support</b>  |
|                             | Proposes not to smooth population growth in the net borrowing assessment, consistent with its position in the investment assessment.  | <b>Support</b>   |
| <b>National capital</b>     | Proposes to discontinue the national capital assessment, if it is immaterial.   | <b>Support</b>   |
|                             | Proposes not to assess any cost advantages or disadvantages relating to national capital status.  | <b>Support</b>   |
|                             | Proposes to work with the ACT in the next review to determine whether an assessment of expenses incurred because of ACT special circumstances can be developed and is material. | <b>Do not oppose</b>   |
| <b>Wages</b>                | Proposes to use private sector wages levels as a proxy for public sector wage costs.  | <b>Noted</b>   |
|                             | Proposes not to exclude groups from or apply custom weights to private sector employees survey data.  | <b>Do not support</b>  |



|  |  |   |
|--|--|---|
|  | Proposes to continue using ABS Characteristics of Employees data.  | <b>Do not oppose</b>  |
|  | Proposes to use hourly wages rather than weekly wages as the dependent variable and disregard biased 2020 estimates.   | <b>Do not support</b>   |
|  | Proposes to include three categories of usual working hours.   | <b>Do not oppose</b>  |
|  | Proposes to replace work experience variables with 5-year age groups.  | <b>Do not oppose</b>  |
|  | Proposes to maintain its criteria for including control variables in the model and to weigh these against each other when considering variables that do not meet all criteria.   | <b>Support</b> , with recommendations   |
|  | Proposes to simplify the model by excluding detailed industry controls and removing gender interaction terms.  | <b>Support</b>  |
|  | Proposes to smooth data over time using the proposed method but not to include newer years of data into earlier estimates.   | <b>Do not support</b> , the approach to pooling recommended by the Commission.                                      |
|  | Proposes to maintain the current 12.5 per cent discount.   | <b>Support a discount</b> , recommending that it is increased to at least 25 per cent if proposed changes are made. |
|  | Proposes to estimate wage costs by applying the ratio of overall total wage to non-wage expenses to unattributed expenses across all categories.   | <b>Support</b>  |
| <b>Queensland's additional/alternative recommendations for wages</b> |  |   |
|  | Queensland <b>recommends</b> that selected industries are removed from the wages regression data to address the impacts of COVID-19 lockdowns.   |   |
|  | Queensland <b>recommends</b> that the Commission adopts a 'true' pooling approach to estimate wage costs instead of implementing the proposed smoothing method outlined.   |   |
|  | If the Commission changes the dependent variable to hourly wages, Queensland <b>recommends</b> that the discount on the assessment be increased to at least 25 per cent to account for the decreased comparability between the proxy and actual public sector wages. |   |
| <b>Commonwealth Payments</b>   | Proposes to retain its guidelines for deciding the treatment of Commonwealth payments with the following changes.  | <b>Support</b>  |

|                                       |  |  |
|---------------------------------------|--|--|
|                                       | Proposes to adopt a default treatment of impact where there is substantial uncertainty about a Commonwealth payment.   | <b>Support</b>                         |
|                                       | Proposes to discontinue assessing Commonwealth Own Purpose payments.   | <b>Support</b>                         |
|                                       | Proposes to apply existing guidelines for determining treatment of payments, including those addressing pre-existing structural disadvantage.  | <b>Support</b>                         |
| <b>Method changes between reviews</b> | Proposes to allow the flexibility to make method changes between reviews in limited circumstances and in consultation with states.   | <b>Do not support</b>                  |
|                                       | Proposes that the limited circumstances would include major unexpected developments or policy changes that impacted one or more states, were not captured in existing methods and that making a change would lead to a better HFE outcome. | <b>Do not support</b>                  |
|                                       | Proposes that consideration of method changes would occur on a case-by-case basis in accordance with set processes.  | <b>Do not support</b>                  |
|                                       | Proposes operationalising this flexibility in standing terms of reference.   | <b>Do not support</b>                  |
|                                       | Proposes not to retrospectively adjust GST shares for method changes between reviews.  | <b>Support</b>                         |
| <b>Forward work program</b>           |  |  |
| <b>Transport</b>                      | Proposes to seek external advice on the urban transport assessment prior to the next methodology review, including retesting the urban centre characteristics regression model.  | <b>Support</b> , with recommendations. |
| <b>Health</b>                         | Proposes to explore in detail the evidence on the relationship between the provision of health services by the private sector and the Commonwealth government, and the amount spent by state governments on health services.               | <b>Support</b>                         |
|                                       | Proposes to explore in detail the evidence on health service needs of people in similar socio-demographic groups across states to ensure that important and material differences in state circumstances are accounted for.                 | <b>Support</b>                         |
|                                       | Proposes to review of the assessment framework in preparation for the 2030 Review.   | <b>Support</b>                         |
| <b>Administrative scale</b>           | Proposes to undertake a comprehensive analysis of the assessment before the 2030 Review.   | <b>Support</b>                         |

|                                      |   |                       |
|--------------------------------------|---|-----------------------|
| <b>Socio-demographic composition</b> | Proposes to work with the states and relevant data providers to consider the basis for culturally and linguistically diverse drivers, and appropriate definitions and data, in the context of the Commission's various expense assessments. | <b>Do not oppose</b>  |
| <b>Net zero transition</b>           | Proposes to monitor policies related to net zero capital and grant expenditure, identify relevant expenses, and examine whether reliable policy neutral drivers of spending across states can be identified.                                | <b>Support</b>        |
| <b>Revenue</b>                       | Proposes to further consider how the complexities and uncertainties of elasticity effects can be addressed in preparation for the 2030 Review.  | <b>Do not support</b> |
| <b>Data collection</b>               | Proposes to work with the states and data providers, including the ABS, to explore opportunities to obtain improved data going forward.   | <b>Support</b>        |

### Queensland's priority issues for consideration during the 2030 Methodology Review

#### Assessment

#### Priority

#### Priority assessments

#### Priority Issue 1: Comprehensive review and redevelopment of remoteness indices

- Queensland **recommends** that the Commission engages and collaborates with the ABS to develop an index for remoteness that is more reflective of the practicalities of service delivery and the accessibility of services in different regions.

#### Priority Issue 2: Comprehensive review of regional costs

#### Regional costs & population dispersion

- Queensland **recommends** that the Commission undertakes a comprehensive analysis of the complete extent of regional costs and increases in use rates from the socio-demographic characteristics of remoteness.

#### Priority Issue 3: Consideration of cost weightings for certain geographic factors

- Queensland **recommends** that the Commission consider the appropriateness of cost weightings for certain geographic factors, areas in Northern Australia, regions and locations of a high Indigenous concentration, extremely remote areas, and island communities.

#### Socio-demographic composition

#### Priority Issue 1: Further investigations of PLIDA-based measures

- Queensland **welcomes** further investigations into PLIDA (noting continued advancements) and other methods which would improve the contemporaneity of socio-economic status determinants.

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**Priority Issue 2: Comprehensive review of socio-demographic composition disabilities**

- Queensland **recommends** that the Commission undertakes a comprehensive review of socio-demographic composition disabilities.

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**Priority Issue 3: Comprehensive review of compounding factors of socio-demographic disadvantage**

- Queensland **recommends** that the Commission undertakes a comprehensive review of the impact of compounding factors of socio-demographic disadvantage.

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**Priority Issue 4: Comprehensive review of Commonwealth Payments relating to socio-demographic disadvantage**

- Queensland **recommends** that the Commission comprehensively reviews their treatment of Commonwealth Payments to states in assessments where socio-demographic characteristics are assessed.

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**Priority Issue 1: Ensuring Indigenous population data is accurate**

- Queensland **recommends** that the Commission engages and collaborates with the ABS and states to ascertain issues with Indigenous population data, particularly in regional and remote areas and discrete Indigenous communities.

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**Priority Issue 2: Comprehensive review of the impact of non-demographic population changes**

- Queensland **recommends** that the Commission engages and collaborates with the ABS and states to complete a comprehensive analysis of non-demographic Indigenous population growth, and the impact non-demographic change has on assessments.

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**Priority Issue 3: Comprehensive review of the IRSEO index**

- Queensland **recommends** that the Commission undertakes a comprehensive review of the IRSEO index and work with states, the ABS, and other organisations to ensure Indigenous disadvantage indices are fit-for-purpose.

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**Other issues for consideration in 2030 Review**

**Roads**

Queensland **recommends** that the impact of rainfall, soil composition, temperature, and other physical environmental factors be further investigated as part of the 2030 Review.

**Investment**

Queensland **recommends** that the Commission undertakes a thorough review of the Rawlinsons index for the 2030 Review, including investigating alternative data sources that could be used to assess capital city construction costs.

**Mining revenue**

Queensland **strongly recommends** that the Commission works with states during the 2030 Review to develop effective methods to account for policy contamination within assessments and incorporate a more balanced view of the supporting principles.

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|--------------------------------|--|
| <b>Land tax</b>                | Queensland <b><u>recommends</u></b> that the Commission review the current value ranges these as part of its forward work program to ensure that these are appropriately capturing differences between states on an ongoing basis.   |
| <b>Housing</b>                 | Queensland <b><u>recommends</u></b> that the development of an appropriate regional and service delivery scale cost gradient should be further considered as part of the 2030 Review.  |
|                                | Queensland <b><u>recommends</u></b> that this First Nations cost weighting should be the subject to detailed review in the 2030 Review.<br>Queensland <b><u>recommends</u></b> that further investigation should occur to address these discrepancies in AIHW data as part of the 2030 Review. |
| <b>Socio-economic status</b>   | Queensland <b><u>recommends</u></b> that the Commission investigate how assessed usage rates for the remoteness, Indigenous status, and SES are driven by service accessibility.   |
| <b>Services to communities</b> | Queensland <b><u>recommends</u></b> that the Commission investigate disaggregating the other community development and amenities assessment between a remote communities assessment and an EPC assessment for the 2030 Review.   |
|                                | Queensland <b><u>recommends</u></b> that further consideration should be given to identify appropriate differential drivers of biodiversity and landscape protection need during the 2030 Review.  |
| <b>Adjusted budget</b>         | Queensland <b><u>strongly recommends</u></b> that the Commission consider reviewing the reliability and comparability of state expenses in ABS GFS data as a priority under its forward work program.  |

# Priority assessments for the 2025 Methodology Review

## 1 Coal mining revenue

Queensland notes that the Commission will provide an addendum to the mining revenue assessment, and Queensland will provide further comments when this addendum is provided to states.

### Proposed changes/positions

Based on the information provided in the draft report, the key elements of the Commission's current positions are:

- The Commission proposes to split the coal assessment, provided it can be done reliably and is material. It proposes to implement any change in all assessment years of the 2025 Review.
- Provided reliable data are available, the Commission proposes to split the coal assessment by price band because the Commission considers it provides a better measure of state coal capacities. The Commission proposes to collect state data to determine the most appropriate price to split the coal assessment.
- The Commission's preference is to split the coal assessment by price band. However, if states are unable to provide the data to support a price band approach, splitting the coal assessment by type of coal remains an option. The Commission acknowledges the concerns some states have over the reliability of the estimates used to support this approach.
- The Commission proposes to assess Victoria's coal capacity equal to the revenue it raises.

The Commission has noted its positions for the mining revenue assessment, and indicated that the preliminary positions outlined above may change based on further analysis conducted by the Commission for the addendum report.

As such, specific responses provided in this submission are subject to revision after Queensland is able to adequately and appropriately scrutinise any additional information or positions provided in the Commission's addendum report.

### Commission position

- *The Commission proposes to split the coal assessment, provided it can be done reliably and is material. It proposes to implement any change in all assessment years of the 2025 Review.*

### Queensland position

**Queensland does not support any further disaggregation of the coal mining assessment.** Previous submissions have detailed a range of strong, rational, principled and evidence-based arguments, as well as a range of practical barriers, against such a change.

A summary of Queensland's previously presented arguments is summarised below.

#### 1. ***Directly contradicts the fundamental principle of policy neutrality:***

A key principle of HFE is that assessments need to be policy neutral. In particular, the Commission's own paper discussing the impact of state revenue policy decisions and HFE, states clearly that:

*“The Commission’s policy neutrality principle seeks to ensure state policy choices have minimal effect on its assessments and, in turn, the assessments have minimal impact on state policy choices.”*

Any such change would reflect a substantial departure from the principle of policy neutrality and would amount primarily to an assessment based on the policy differences between New South Wales and Queensland.

In fact, this approach could result in almost all coal mining revenue being effectively assessed on an actual per capita (APC) basis, despite having several states that receive coal royalties and two states, New South Wales and Queensland, that are major global coal producers and exporters.

Importantly, this approach would result in a further redistribution of GST through the HFE system as a direct result of New South Wales’ policy decision to impose and retain a flat royalty rate structure, compared with the more economically sound and sustainable progressive royalty rates framework that applies in Queensland. It is this difference in policy approach that has primarily driven differences in the royalties received between the two states during the recent period of high global prices.

As such, any differential assessment as proposed could result in each states’ assessed coal royalty revenues being driven primarily by their respective policy decisions related to the design of their royalty frameworks.

The retrospectivity of the proposed change would incorporate policy decisions already made and implemented by Queensland in 2022–23, as well as impacting on assessed GST shares prior to the current policy change.

As such, this change would have substantial consequences in terms of the impact of the Commission’s treatment of previous policy decisions (i.e. to raise appropriate returns to the people of Queensland for the state’s valuable natural resources during periods of high coal prices) that were implemented cognisant of the Commission’s longstanding approach to the GST treatment of coal.<sup>1</sup>

The proposed approach could result in no recognition of states’ *actual* capacity to raise revenue, with the possibility that the assessment will be based purely on the policy differences between New South Wales and Queensland.

## ***2. Undermines and disincentivises opportunities for states to implement meaningful policy reforms that are in the national interest:***

Through the established HFE arrangements, a proportion of revenue is already redistributed to other states. As such, Queensland’s coal royalty revenue reforms have improved *other* states’ fiscal capacity and budgetary position and have been demonstratively beneficial for the national interest.

However, the Commission’s proposed change will severely and unfairly penalise Queensland for undertaking revenue reform and delivering benefits for Australians across the nation.

The nature of the proposed change, including its potential retrospective nature, will lead to substantial uncertainty in the context of states considering important policy decisions that are in the national interest, across all revenue and expenses assessments. As such, this proposed change will have substantially negative and unintended consequences in terms of disincentivising, and undermining the effectiveness of, government policies that are in the national interest.

By disincentivising consideration of potential policies that are in the national interest, this would ultimately reduce the benefits flowing to all Australians.

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<sup>1</sup> Noting that this mineral-by-mineral approach is already a breach of the policy neutrality principle and is opposed by Queensland.

**The more granular the assessment, the greater the departure from policy neutrality and the greater the risk that the Commission's assessment is actively working against the national interest by disincentivising reform.**

**3. *Adds further policy contamination when there is already significant policy contamination in other assessments (in particular, onshore gas revenue):***

The proposed change exacerbates Queensland's growing concerns around the judgment-based application of the important principle of policy neutrality. The impact of policy decisions by states which affect their fiscal capacity cannot be overlooked in this process.

This is particularly critical in the mining assessment, where state policies have a significant impact on state revenues, especially for gas.

A comparison between the gas and coal mining categories of the mining assessment highlights a disregard for policy neutrality across multiple different policy issues and inconsistent treatment of State policies.

As highlighted in substantial detail in Queensland's Tranche 1 and Tranche 2 submissions, states such as New South Wales and Victoria apply specific, deliberate policies that prohibit or limit development of a gas industry and the raising of revenues in those states (despite having substantial resources). However, the current assessment methods continue to assess these states as having no (or very limited) revenue capacity.

This severe policy contamination substantially penalises Queensland and rewards New South Wales in terms of GST redistribution.

Meanwhile, under the coal mining assessment, the Commission is proposing to change the current methodology to specifically capture and reflect differences in state policy frameworks, in particular, Queensland's policy decisions related to its royalty regime.

Both assessments should be policy neutral. For gas this would be achieved through an EPC assessment and for coal by an aggregation of minerals approach, or at the very minimum not making the existing situation worse, and maintaining the current coal assessment.<sup>2</sup>

If the Commission pursues the proposed change to the coal revenue assessment without substantially revising the gas revenue assessment there will then be two very large assessments where the Commission's treatment of revenue is clearly inconsistent and blatantly breaching policy neutrality. Both assessments will significantly penalise Queensland in terms of the revenue available and required to provide essential services and infrastructure.

Meanwhile, the Commission would be rewarding states who have made clear and deliberate policy decisions to limit or prohibit their potential revenues, either through policies to ban or limit development and production of key resources, or in designing their royalty frameworks in a way that limits the potential revenues to the state even during periods when producers are making extra-ordinary returns and profits.

**4. *Penalises and disincentivises states to undertake economically and fiscally responsible revenue reforms:***

The Commission's continued pursuance of this proposed change sets an inappropriate and damaging precedent that the Commission *can* and *will* make judgements that penalise states for their policy decisions.

This would lead to substantial uncertainty for states around the ultimate revenue impacts and GST treatment of any potential future reforms and create an environment which disincentivises meaningful state policy reform with any material revenue implications.

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<sup>2</sup> Noting that this mineral-by-mineral approach is already a breach of the policy neutrality principle and is opposed by Queensland.



Ultimately, this will reinforce state's dependence on Commonwealth grants and potentially less efficient revenue streams to deliver essential services, exacerbating the current vertical fiscal imbalance, and reducing the likelihood that states will independently pursue meaningful and appropriate revenue reform. To the extent this does impact on or disincentivise consideration of potential policies that are in the national interest, this would ultimately reduce the benefits flowing to Australians.

Additionally, this change would reward states that primarily produce thermal coal (which tends to be sold at lower prices) and penalise states that primarily produce higher quality coal used in steel making. This tilting of the playing field in favour of thermal coal is at odds with supporting the transition to a low carbon economy.

##### **5. Confidentiality concerns and limitations related to royalty returns and data:**

The Queensland Revenue Office and other states' similar bodies are bound by strict legislative confidentiality requirements that prohibit the disclosure of any personal confidential information about a taxpayer.

As such, and as highlighted by the Commission in its own paper, disaggregating the coal mining assessment into price bands could raise material confidentiality issues in many years, given it will result in a small number of producers within each band in many years, with the application of more and narrower bands significantly increasing the likelihood and incidence of this occurring.

These issues were discussed in detail in Queensland's submissions in response to the 2025 Review Mining Supplementary Paper. Overall, given the substantial nature of these risks and concerns, consideration of alternative options to the broader treatment of mining related revenues are clearly warranted.

As outlined in Queensland submissions under previous reviews and Tranche 1 submission and response to the 2025 Review Mining Supplementary Paper, Queensland continues to advocate for a greater degree of aggregation in the mining assessment with the view that this provides a superior method of achieving HFE while striking a more appropriate balance between the supporting principles.

Queensland is firmly of the view that the mining assessment with its mineral-by-mineral methodology is already too disaggregated, which is leading to significant and very real policy neutrality concerns. Additional disaggregation, such as through the adoption of the proposed price bands for the coal assessment, accentuates these concerns and increases the likelihood that the Commission's assessment is actively working against the national interest.

#### **Commission position**

- *Provided reliable data are available, the Commission's proposes to split the coal assessment by price band because the Commission considers it provides a better measure of state coal capacities. The Commission proposes to collect state data to determine the most appropriate price to split the coal assessment.*

#### **Queensland position**

Given its views on further disaggregation of the mining assessment, Queensland does not support splitting the assessment by price band.

Despite the range of issues and limitations highlighted by Queensland with any changes to further disaggregate the assessment of coal royalties, the Commission has indicated it may proceed with a split of coal mining revenue by price bands, should data prove available, and the assessment be material.

If the Commission proceeds with a proposed price band approach, Queensland considers the proposed approach outlined in the draft report to use two broad price bands (i.e. above \$200 per tonne and below \$200 per tonne) would be the least worst approach.

Queensland strongly opposes the use of any narrower price bands within this assessment as this would further exacerbate the policy neutrality and confidentiality issues outlined in detail in Queensland's response to the *Coal Mining Revenue Supplementary Paper*.

In spite of some other states downplaying confidentiality concerns, this is a significant issue for Queensland, given the likelihood of data confidentiality issues arising, in particular at higher price levels, if the price bands are narrowed, and this will prevent the Commission from being able to undertake effective assessments in different price bands in different years.

The two proposed price bands are more closely aligned with the differences between effective royalty rates in Queensland and New South Wales, and the application of two broad bands will at least partially mitigate some of the more significant policy neutrality and confidentiality issues that would be evident if more disaggregated price bands were used.

As the conceptual case for this proposed change is partly based around a supposed divergence in revenue capacities (driven by Queensland's policy choices), a price band structure based at least broadly on differences between states' effective rates rather than legislated rates makes more conceptual sense.

Given the severe violations of policy neutrality that result from disaggregation by price ranges, if the Commission introduces price bands, Queensland considers the resulting distortionary impacts on HFE should also be further mitigated through adoption of the following complementary adjustments:

- **Applying a 50% discount on all coal royalty revenue due to the impact of a policy change in a 'dominant state':**
  - The Commission initially proposed that where a state is classed as dominant, and the state changed its royalty rate, 50% of the change in royalties from the policy change would not be included in the Commission's assessed revenue calculation.
  - Given the substantial further erosion of the policy neutrality principle if a differential assessment based on price ranges is adopted, Queensland now considers it is appropriate that the proposed dominant state adjustment be applied alongside any proposed price range method change, to appropriately recognise Queensland as the dominant state for coal.
  
- **To reduce the unfair retrospective impact of any change, that any differential assessment based on price bands only be applied from the assessment of revenues in the 2025-26 single year onwards, rather than being applied retrospectively in the assessment of previous year's revenues:**
  - While Queensland strongly maintains that there should be no method changes that materially disadvantage states because of their policy decisions, any retrospective application of the assessment would further exacerbate the penalisation of Queensland and uncertainty for states.
  - If the Commission chooses to proceed with this proposed change, it should only be enacted from the single assessment year of 2025-26 onwards (thereby being initially incorporated into the three-year average assessment from 2027-28 onwards) and should not be used to assess revenue retrospectively in single assessment years prior to 2025-26.

#### *Implications of this proposed change for the gas royalties assessment*

The Commission's proposal to progress with the option of coal price bands adds even greater weight to the already overwhelmingly compelling case to revise the approach to onshore gas revenue, and adopt, as proposed in its own discussion paper, an equal per capita assessment of onshore gas revenue.

As outlined in detail in Queensland's Tranche 1 and 2 submissions, the current treatment of gas revenues is inconsistent with the principle of policy neutrality, given that some other states, despite holding

substantial proven and probable gas resources and reserves, have made clear and intentional policy decisions to ban or severely limit gas production (and, therefore, any royalties they can derive from gas). However, under the current assessment approach, and despite deliberate policy decisions which are limiting their gas royalty revenues, the Commission is assessing these other states as having limited or no gas royalty revenue raising capacity.

Therefore, the Commission is disregarding the substantial impact of those other states' different policy decisions in their gas assessment and, as a result, substantially penalising Queensland and rewarding other states in terms of GST redistribution through the HFE system.

In stark contrast, the Commission justifies its proposal for price bands for coal in the draft report based on the fact that Queensland has a price-based royalty regime (noting that New South Wales does not), thereby implying that designing the assessment approach to specifically capture the impact of state's different policy framework or decisions is appropriate.

As such, the current treatment of gas royalties, in which policy frameworks and decisions by other states are ignored and treated as inconsequential to their royalty revenue, is inconsistent with the price band approach being proposed for coal.

#### Commission position

- *The Commission's preference is to split the coal assessment by price band. However, if states are unable to provide the data to support a price band approach, splitting the coal assessment by type of coal remains an option. The Commission acknowledges the concerns some states have over the reliability of the estimates used to support this approach.*

#### Queensland position

As outlined in Queensland's response to the 2024 Update Supplementary New Issues paper (pages 6-8), Queensland does not support splitting the coal assessment by coal type under any circumstances. As was noted in that submission **there is no clear distinction between what is classified as metallurgical coal and what is classified as thermal coal.**

#### Commission position

- *The Commission proposes to assess Victoria's coal capacity equal to the revenue it raises.*

#### Queensland position

Given Queensland's position on splitting coal by type, Queensland does not support any adjustments based around Victoria's brown coal.

#### Queensland recommendations

Queensland is firmly of the view that the mining assessment with its mineral-by-mineral methodology is already too disaggregated and continues to **recommend** that the Commission consider assessing all mining revenues using an aggregated approach.

If the Commission decides to continue using a mineral-by-mineral approach, Queensland **recommends** that the Commission should not further disaggregate the coal mining revenue assessment.

If the Commission decides to disaggregate the coal mining revenue assessment, despite the clear policy neutrality and practicality issues, Queensland **recommends** that the following minimum necessary changes are made to limit the perverse impact of this proposed method change:

- Applying a 50% discount on all coal royalty revenue due to the impact of a policy change in a 'dominant state'
- Any differential assessment based on price bands only be applied from the assessment of revenues in the 2025-26 single year onwards, rather than being applied retrospectively in the assessment of previous year's revenues.

## 2 Onshore gas mining revenue

Queensland notes that the Commission will provide an addendum to the mining revenue assessment. Queensland will provide further comments when this addendum is provided to states. Positions outlined below are subject to consideration of any changes in the Commission's positions once the addendum is issued.

### Proposed changes/positions

Based on the information provided in the draft report, the Commissions positions are:

- The Commission proposes to continue its current approach to state bans and restrictions. It will not introduce an adjustment but will continue to monitor the situation.
- The Commission proposes not to assess uranium royalties equal per capita.
- Providing states can provide the required data, the Commission proposes to assess onshore oil and gas royalties on a volume of production basis.

### Commission position

- *The Commission proposes to continue its current approach to state bans and restrictions. It will not introduce an adjustment but will continue to monitor the situation.*

### Queensland position

#### **Queensland does not support continuing with the current approach to the gas mining assessment.**

In its consultation paper, the Commission proposed that coal seam gas should be assessed on an equal per capita basis. Queensland agreed with this view and recommended that such a treatment should extend to all onshore gas.

This was supported by expert advice from the Queensland Department of Resources which demonstrated that coal seam gas is indistinguishable from other forms of gas in terms of its composition and usage. **It appears that the Commission has disregarded its own rationale outlined in its initial Issues paper and also disregarded the analysis presented in Queensland's *Tranche 1 & 2 submissions* related to onshore gas mining revenue.**

As the Commission itself stated, where a revenue base is unable to be determined, as a result of restrictions or bans on production for example, and the revenue base cannot be reliably estimated, then **an EPC treatment is most appropriate**. This is clearly the case with gas royalties.

To not implement such a treatment means the Commission is disregarding the impacts of policy settings in jurisdictions that apply such restrictions, which are assessed as having little to no revenue raising capacity, and results in GST redistribution away from states that have encouraged the development of their revenue base. This directly opposes a key principle of the HFE system – policy neutrality, which requires that *“state policy choices have minimal effect on its assessments, and, in turn, the assessment have minimal impact on state policy choices.”*

A range of clear and long-standing restrictions on gas remain in place across several Australian states. Arguably the clearest example is New South Wales, which openly claims that it has the toughest coal seam gas regulations in Australia and through its 'Future of Gas Statement' has banned the granting of petroleum exploration licenses across vast areas of the state.

The Commission has now sought to inappropriately reduce the impact of these 'exclusion zones' by claiming that they are designed to protect residential areas. However, this argument is extremely tenuous

given gas exploration and production is now all but non-existent in New South Wales and confined to a single project operating in a small portion of the state.

Similarly, such restrictions in other states are not limited to just a few small areas, with the Commission itself noting that fracking was prohibited in 98 per cent of the Western Australian land mass and 49 per cent of the Northern Territory.

These are, in reality, clear policy decisions deliberately intended to create an environment that limits investor confidence and stifles development of gas production. By contrast, Queensland does not apply blanket bans or restrictions to the development of onshore gas generally or coal seam gas specifically.

To ignore these obvious policy differences is to ignore clear policy contamination in the gas assessment.

Undoubtedly, the existing assessment methodology serves to discourage states with restrictions from making policy changes, given the GST benefits flowing to those states.

The Commission in its draft report has stated that there is little evidence to support a conclusion that bans materially affect production but has provided no evidence to support this assertion. The clear view from the gas industry itself is the opposite, with the industry peak body, Australian Energy Producers (formerly Australian Petroleum Production and Exploration Association)<sup>3</sup>, stating:

*“The HFE system offers perverse incentives to prohibit or limit gas activities for non-scientific reasons, as the loss of revenue from such decisions is in part shielded by increased shares of GST revenue.”*

The impacts of these restrictions cannot be seen as insignificant either. The Australian Productivity Commission<sup>4</sup> concluded that *“distortions arising from the treatment of resource restrictions could have large financial implications for some states.”*

The Commission has often asserted that achieving HFE is its overriding objective, however it must nevertheless be noted that the Commission’s decisions on this assessment will have wider reaching consequences and be detrimental to the national interest.

The Australian Government’s recently released, Future Gas Strategy<sup>5</sup> explicitly stated that *“Gas will support our economy during the transition to net zero and will remain a critical part of the energy landscape in 2050 and beyond.”* In addition, the same report projects that gas shortfalls are likely to emerge in East Coast markets by as early as 2028 and grow over time.

In light of both the current and future outlook, in particular the clear ongoing need for gas and merging national shortfalls in supply, it is counterproductive that GST assessment methods should act as a further barrier to such a vital industry’s development.

**The Commission’s claim that there are limited reserves of unconventional gas in other jurisdictions is misleading.** A decade of policy decisions to ban or restrict gas erected substantial barriers to exploration and development which have meant that the quantity of proven and probable reserves is unknown in jurisdictions that have applied these restrictions.

The draft report refers to Geoscience Australia data and suggest this indicates that *“almost all coal seam gas production and commercially viable reserves are located in Queensland.”* To use this data and logic as a key driving factor in the decision on this assessment, as the Commission appears to have done, ignores the key fact that **reserves cannot be classified as such without pathways to commercial development** and those pathways do not exist in other states due to the policy restrictions in place.

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<sup>3</sup> APPEA submission to the Productivity Commission’s Inquiry into Horizontal Fiscal Equalisation, available through Productivity Commission, Horizontal fiscal equalisation submissions (submission 18), [Submissions - Horizontal Fiscal Equalisation - Productivity Commission \(pc.gov.au\)](https://www.pc.gov.au/submissions/horizontal-fiscal-equalisation), accessed 11 June 2024

<sup>4</sup> Productivity Commission, Inquiry Report – Horizontal Fiscal Equalisation, released May 2018, <https://www.pc.gov.au/inquiries/completed/horizontal-fiscal-equalisation/report>, accessed 11 June 2024

<sup>5</sup> Australian Government Department of Industry, Science and Resources, Future Gas Strategy, accessed 24 June 2024

As Queensland's Department of Resources highlighted to the Commission in its state visit, if a state has no or limited reserves, it does not mean that gas does not exist in that state or that the gas is not commercial. It simply means there are factors limiting the demonstration of commercial viability, factors which can include: restrictions on exploration and appraisal activities, restrictions on well completions and restrictions on the granting of new tenure or land access. These are the same range of restrictions that apply in other states.

**Other states are highly likely to have substantial resources.** For example, the Victoria Gas program noted that the state is likely to have 128-830 petajoules of onshore gas with a production value of \$300 million annually yet to be discovered<sup>6</sup>.

The Gunnedah Basin in NSW which is part of the stalled Narrabri gas project reflects another such untapped opportunity with an estimated 1,690 petajoules of contingent resources. According to the Future of Gas Statement a scaled back Narrabri project would generate \$3 billion in direct revenue and supply 50 per cent of NSW domestic demand.<sup>7</sup> These examples directly refute any and all claims made about a lack of resources in these other states.

**Given the absence of supporting evidence provided by the Commission, Queensland strongly recommends that the Commission reconsiders its commitment to the current methods and adopt an EPC treatment of all onshore gas.** Failing this, a 50 per cent discount should be applied to acknowledge the significant policy contamination issues at play in this assessment.

Failing to account for blatant policy contamination in the onshore gas assessment, while making changes clearly on policy grounds in other assessments such as coal, completely erodes confidence in the quality of the HFE system and its outcomes as a whole, and in the Commission as an independent arbiter of GST need.

#### **Commission position**

- *The Commission proposes not to assess uranium royalties equal per capita.*

#### **Queensland position**

Queensland does not support the Commission's proposal to not assess uranium on an EPC basis.

Similar to onshore gas, policy restrictions in various states have meant that the revenue base is unknown and the Commission's claim that uranium bans do not materially affect production is likewise unfounded. Given the similarities between the two assessments, and Queensland's stated position on onshore gas, an EPC treatment for both gas and uranium revenues is supported.

#### **Commission position**

- *Providing states can provide the required data, the Commission proposes to assess onshore oil and gas royalties on a volume of production basis.*

#### **Queensland position**

Queensland does not oppose the Commission moving from a capacity measure based on value of production to one based on volume of production. In Queensland, gas royalties are levied on a volume basis. Therefore, given Queensland accounts for the majority of national production, this proposed change in the Commission's methodology would reflect 'what states do' on average.

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<sup>6</sup> Geological Survey of Victoria, 'Victorian Gas Program Progress Report No 5', December 2020, [Progress reports - Resources Victoria](#), accessed 11 June 2024

<sup>7</sup> New South Wales Government, 'Future of Gas Statement', [Future of Gas Statement | NSW Government](#), accessed 11 June 2024

## Queensland recommendations

Given the severe policy neutrality issues surrounding restricted minerals, royalty revenues raised in relation to these restricted minerals cannot be assessed differentially while upholding the principles of HFE. Given this, Queensland **strongly recommends** that the Commission assess all royalty revenue related to onshore gas, uranium and any other minerals facing significant restrictions as EPC. Failing this, a 50 per cent discount should be applied to acknowledge the significant policy contamination issues at play when assessing these minerals.



### 3 COVID-19 spending

#### Proposed changes/positions

Based on the information provided in the draft report, the Commission's preliminary positions are:

##### *Health*

- The Commission considers that, for the 2025 Review, a separate assessment of state spending on COVID-19 related public hospital and public health services would result in a better assessment of state expense needs.
- The Commission proposes to treat the Commonwealth payments for public hospital and public health services under the National Partnership on COVID-19 Response as impact and assess state spending associated with the national partnership on an actual per capita basis.
- The Commission proposes to use the reconciled value of payments rather than estimates published in Commonwealth final budget outcomes.
- The National Partnership on COVID-19 Response ceased in 2022–23. The separate assessment of state spending under the national partnership will continue until the 2027 Update when 2022–23 drops out of the Commission's assessment year period.
- Victoria is seeking a retrospective adjustment to the GST distribution in the 2021–22 to 2024–25 application years, with this adjustment reflected in the GST distribution for the 2025–26 application year. The Commission does not consider it has the mandate to apply the assessment retrospectively.
- The Commission does not propose to include unpaid quarantine expenses in the assessment, as the Commission does not have the mandate to adjudicate disagreements between states on issues beyond the terms of reference.

##### *Services to industry*

- The Commission proposes to assess state spending covered by the COVID-19 business support national partnership agreements using an actual per capita treatment from 2021–22. The Commission proposes not to retrospectively adjust the GST distributions of the 2022, 2023 and 2024 updates.

## Commission position

- *The Commission considers that, for the 2025 Review, a separate assessment of state spending on COVID-19 related public hospital and public health services would result in a better assessment of state expense needs.*
- *The Commission proposes to treat the Commonwealth payments for public hospital and public health services under the National Partnership on COVID-19 Response as impact and assess state spending associated with the national partnership on an actual per capita basis.*
- *The Commission proposes to assess state spending covered by the COVID-19 business support national partnership agreements using an actual per capita treatment from 2021–22. The Commission proposes not to retrospectively adjust the GST distributions of the 2022, 2023 and 2024 updates.*

## Queensland position

**Queensland does not support changes to the current treatment of COVID-19 related payments for health or business support, with its views clearly stated in multiple previous submissions. However, responses to the specific proposed changes raised in the 2025 Review draft report are outlined below.**

Queensland does not support the Commission treating the Commonwealth payments for public hospital and public health services under the National Partnership on COVID-19 Response as impact and assessing state spending associated with the national partnership on an actual per capita basis.

For the service to industry assessment Queensland does not support the Commission proposal to assess state spending covered by the COVID-19 business support national partnership agreements using an actual per capita treatment from 2021–22 or to retrospectively adjust the GST distributions of the 2022, 2023 and 2024 updates. **The detailed case for Queensland’s positions is outlined below.**

As established in the last few CGC annual updates, Queensland’s clear position is that maintaining an equal per capita assessment for COVID-19 related expenses for health and business support is appropriate given the lack of evidence that there are verifiable differences in state need. A range of factors indicate that the substantial differences in expenditure across jurisdictions reflect **different health and business support-related policy positions by individual jurisdictions.**

Contrary to claims in the Draft Report, not all states adopted a zero-community transmission policy throughout the COVID-19 pandemic. New South Wales made clear policy choices to actively avoid imposing restrictions in mid-2021, directly resulting in significant community transmission and extended lockdowns, which may have been prevented if stringent policies similar to those in Queensland and Western Australia had been adopted.

This further reinforces the case that COVID-19 expenditure was largely policy driven and that these expenses should not impact GST shares. Should the Commission decide to undertake an actual per capita assessment, Queensland strongly recommends that these assessments should have at least a 50% discount applied, to reflect the substantial uncertainty related to any meaningful measure of verifiable differences in state need, the significant impacts of individual states’ policy settings on COVID-19 related expenditure and the significant data and methodology issues discussed in detail below.

## ***Differences in state health responses***

While it is accepted that jurisdictions incurred varying expenses, and that this, in part, reflected varying levels of need, these circumstances **were contributed to significantly by matters within the policy control of each jurisdiction.** To ignore the potential impacts of policy decisions made by individual jurisdictions, in particular in New South Wales and Victoria, in the context of COVID-19 responses would clearly violate the HFE principle of policy neutrality.

Queensland made difficult policy decisions in the early stages of the pandemic to better contain incidences of COVID-19. In March 2020, during the first COVID-19 wave, Tasmania, Northern Territory, South Australia, Western Australia and Queensland all announced strict border controls designed to

restrict the spread of the virus. **This proactive response limited its impact on the health of the population and the need for business support.** In contrast, New South Wales did not apply its first border restrictions until early July 2020, while Victoria did not implement any state border closures until 19 November 2020 when they closed the border to South Australia in response to an outbreak.

Over the following year (2021), Queensland and Western Australia maintained border controls over the entire period (365 days) while New South Wales and Australian Capital Territory had their borders locked down for considerably less time, 192 and 157 days respectively.

### ***Differences in quarantine arrangements***

Among states and territories there was a mixed use of hotel quarantine, dedicated quarantine facilities (Howard Springs in Northern Territory) and home quarantine (Australian Capital Territory). There were also differences in security arrangements with some states utilising police officers to limit quarantine breaches and others using security guards (subject to less stringent arrangements).

In terms of contact tracing, New South Wales applied a more decentralised approach using local health districts with embedded officers to manage this process. By comparison, Victoria used a more centralised model which faced significant challenges in responding to a surge in cases. Victoria also acknowledged failures in their hotel quarantine program, with Victoria's own COVID-19 Hotel Quarantine Board of Inquiry Report indicating this was inextricably linked to the second wave of cases in that state that began in May 2020.

As a further point of difference, South Australia adopted a 'double-ringed fenced' approach which involved identifying and quarantining both primary and secondary contacts.

Queensland adopted strict border controls. Under the State's border restriction directives, a mandated stay in a quarantine premises applied to any person who in the last 14 days: had been overseas; had contact with a confirmed COVID case; had been to a hotspot area; had COVID-19 symptoms; or lived in a border zone and travelled in New South Wales.

### ***Differences in lockdown responses***

Queensland applied a targeted approach to lockdowns. Between March 2020 and October 2021, Queensland implemented five lockdowns (for a total of 55 days locked down), with only one of these periods lasting 14 days or more.

New South Wales adopted a less responsive approach to the pandemic. **For example, in June 2021, as Delta cases were first identified, New South Wales restrictions still allowed travel for work and education purposes from lockdown areas. It was only after case numbers grew significantly that a state lockdown was imposed on 14 August 2021.**

Similarly, Victoria experienced community transmission of COVID during May and June 2020 but did not impose a lockdown on specific postcodes until 30 June 2020.

Queensland responded much more swiftly by comparison. Following the announcement of COVID-19 cases in Sydney and the imposition of restrictions on the 23 June 2021, Queensland declared these areas hotspots the following day and required all persons returning to Queensland from these areas to enter quarantine for a period of 14 days. Queensland closed its borders to all New South Wales visitors on 23 July 2021.

New South Wales also maintained a policy approach of lifting restrictions in December 2021 when the Omicron variant was first identified, and cases were found in Sydney. This was in spite of warnings from health officials that vaccines were likely to be less effective against the new variant and that the new strain would result in increased hospitalisations.

**These differences in lockdown and public health policies directly contributed to the severity of New South Wales' second wave outbreak in 2021 and their increase in COVID-19 expenditure.**

### ***Differences in business support***

There were substantial differences in the type, level and duration of business support provided across jurisdictions, with some states (in particular New South Wales and Victoria) providing far more generous support and for much longer duration.

For instance, New South Wales introduced the JobSaver payment (jointly funded with the Australian Government) on 13 July 2021. The payments covered the period from 18 July 2021 to 30 November 2021.

Under this approach, the employees of eligible businesses and not-for-profit organisations which experienced a 30 per cent decline in turnover initially received the equivalent of 40 per cent of their weekly payroll, with maximum payments of \$100,000 per week. Eligible large businesses in the tourism, hospitality and recreation sectors could receive up to \$500,000 per week. As such, many New South Wales businesses received payments of up to \$100,000 or even \$500,000 a week for an extended period.

Victoria introduced business support (initially state funded and then jointly funded with the Australian Government) in February 2021. The program initially provided payments of \$2,500 (later increased to \$4,800) to eligible businesses, but subsequently provided a range of further top-up payments of \$2,500, \$2,000, \$2,800, \$2,800 and \$5,600 to businesses affected through June to early September. Further top-up payments of up to \$8,400 per week were then provided to businesses affected by restrictions from 4 September for an extended period, as well as other substantial supplementary payments of up to \$7,000 for specific businesses.

In comparison, Queensland (jointly funded with the Australian Government) provided one-off payments of between \$15,000 and up to a maximum of \$30,000 for eligible businesses impacted by the lockdown. To be eligible, businesses had to have directly experienced at least 30 per cent decline in turnover. Eligible large businesses in the tourism and hospitality sectors could receive a one-off grant of up to \$50,000 based on their payroll size.

In Queensland, eligible impacted employing businesses could apply for business support grants between 16 August 2021 and 16 November 2021

### ***An APC assessment is inconsistent with HFE outcomes***

According to HFE definitions, an actual per capita assessment is only used when, in the Commission's judgement *'the policies of all States are the same and any differences in expenses or revenue per capita are due to differences in State circumstances.'* **As the examples above demonstrate, this is clearly not the case in relation to the expenses under consideration. State policies, in particular New South Wales' and Victoria's policies, significantly impacted the amount of expenditure incurred.**

Actual per capita assessments should only be used in circumstances where the spending or revenue are the driver, such as Commonwealth payments or natural disaster expenses. These few assessments operate within a strict framework of institutional rigour and a clear set of principles which prescribe the types of expenses allowed. Neither the current Health nor Service to industry assessments or the expenses included under these are assessed on an actual per capita basis or meet the strict conditions required for this assessment treatment.

The Commission's approach to assessing broader health expenses is based on a differential assessment and a set of underlying drivers - it is not based on state spending. If the Commission, having examined COVID-19 expenses, is unable to construct an expense assessment using tried and tested drivers of need, then an equal per capita assessment is the only method that can and should be used.

Similarly, business development expenses are currently assessed in the Service to industry assessment on an equal per capita basis, as the Commission has determined that population is the driver for such expenses. It would, therefore, stand to reason that the business development expenses related to COVID-

19 should be assessed using the same method. In neither case is an actual per capita treatment appropriate or consistent with the approach used to assess other expenses within these assessments.

***Additional concerns with the proposed treatment of COVID business support expenses and the Service to Industry assessment for the 2020 review period.***

Queensland is concerned that the Commission considers the need to make an actual per capita assessment for these expenses without considering the perverse impacts in the Service to industry assessment that this spending has already had in past updates.

The Service to industry assessment splits spending between business development and regulation, based on a fixed ratio set at the 2020 review. If the actual proportion of spending changes, as happened during the COVID years for business support (development), and the ratios in the current Service to industry assessment are fixed within a review period, then this would have over the course of COVID over-inflated the distributional impact of the industry regulation component of the assessment.

In essence, the current differential assessment has led to a lot of the COVID current business support spending already being assessed as industry regulation expenses. Should the commission consider it necessary to implement an actual per capita assessment for expenses which are currently equal per capita, mixed with spillage into the industry regulation component, this would result in 'double dipping' by New South Wales and Victoria in terms of the GST benefits delivered as a result of this expenditure.

Therefore, if the Commission is considering this approach, it will need to investigate unwinding the expenses that were actually for business support (development) in past years that were assessed as regulation and consider how to effectively unwind this impact to avoid double counting.

***Materiality***

While the estimates provided by the Commission indicate this change, in terms of the Health Assessment, is negatively material for Queensland and the Northern Territory, a change of this nature should more appropriately be judged on its materiality in the states where the event most directly impacted. Queensland questions the rationale for the materiality grounds for undertaking this change without consideration being given to whether it is material in New South Wales and Victoria, given these are the two key states arguing for this change and with the greatest assessed need under this proposed approach.

This change should not be made if the impact of this change is below the 2025 review material threshold of \$40 per capita in 2025 for New South Wales and Victoria. Reflecting the CGC's estimated impacts in 2024 (New South Wales \$24 per capita and Victoria \$40 per capita) and, given the substantial further dilution of this impact by 2025, as COVID-related impacts roll out of the assessment, this impact is likely to fall well below the materiality threshold for NSW and Victoria, and therefore should not proceed.

***Contemporaneity***

To implement such a change for events which occurred in 2020 and 2021 and have these result in material negative GST impacts for the first time in the 2025-26 GST year is against the principle of contemporaneity which states that: *'the distribution of GST provided to states in a year should reflect circumstances in that year.'*

The Commission's proposal to not retrospectively adjust the GST redistributions from previous updates is strongly supported as this would be entirely inappropriate and unfair. However, Queensland still argues that the Commission should maintain the current treatment of these expenses on an equal per capita basis.

Should the Commission decide an equal per capita assessment is not appropriate, then Queensland strongly considers that a 50% discount should apply to any actual per capita assessment of these COVID-related costs.

This discount reflects materiality issues discussed above, the impacts of the treatment within the current service to industry assessment which likely results in 'double dipping', and the lack of clear evidence that an APC assessment is appropriate, given the substantial policy neutrality concerns outlined above.

#### **Commission position**

- *The Commission proposes to use the reconciled value of payments rather than estimates published in Commonwealth final budget outcomes.*

#### **Queensland position**

While the use of final reconciled figures would generally be accepted as the most appropriate data to inform an assessment that is appropriate, Queensland does not support the Commission proposal to use the reconciled value of payments rather than estimates published in Commonwealth final budget outcomes as the need to make any such adjustment for any COVID expenditure, regardless of the data source, is not warranted as outlined above.

#### **Commission position**

- *The National Partnership on COVID-19 Response ceased in 2022–23. The separate assessment of state spending under the national partnership will continue until the 2027 Update when 2022–23 drops out of the Commission's assessment year period.*

#### **Queensland position**

Queensland notes that the National Partnership on COVID-19 Response ceased in 2022–23 but does not support a separate assessment of state spending under the national partnership which will continue until the 2027 Update, when 2022–23 drops out of the Commission's assessment year period.

#### **Commission position**

- *Victoria is seeking a retrospective adjustment to the GST distribution in the 2021–22 to 2024–25 application years, with this adjustment reflected in the GST distribution for the 2025–26 application year. The Commission does not consider it has the mandate to apply the assessment retrospectively.*

#### **Queensland position**

Queensland supports the Commission not retrospectively adjusting GST distributions in the 2021–22 to 2024–25 application years, with this adjustment reflected in the GST distribution for the 2025–26 application year as the Commission does not consider it has the mandate to apply the assessment retrospectively.

#### **Commission position**

- *The Commission does not propose to include unpaid quarantine expenses in the assessment, as the Commission does not have the mandate to adjudicate disagreements between states on issues beyond the terms of reference.*

## **Queensland position**

Queensland supports not including unpaid quarantine expenses in the assessment. As has been established through previous responses to new issues in previous CGC updates, quarantine measures are heavily policy contaminated.

## 4 Roads

### Proposed changes/positions

Based on the information provided in the draft report, the Commission's preliminary positions are:

- The Commission proposes to retain the 2020 Review methods for synthetic rural road network but remove the routes to mines, national parks, gas wells, and ports. The Commission will investigate the suitability of using the National Service Level Standards data when they become available.
- The Commission proposes to retain population as the driver for urban road lengths in towns of over 40,000 people, and to investigate the suitability of using the National Service Level Standards data when they become available.
- The Commission will investigate the suitability of using the National Service Level Standards data when they become available.
- The Commission will hold the current shares of urban/rural traffic for light vehicles and heavy vehicles constant until a suitable data source is found.
- The Commission proposes not to add additional cost drivers to reflect rainfall and soil composition to the roads assessment in this review.
- The Commission proposes to continue using the National Transport Commission data as it is the best available source for this dataset.
- The Commission proposes to retain the existing assessment of bridges and tunnels.
- The Commission proposes to replace the general cost gradient with the Rawlinsons construction cost gradient for rural road lengths and the bridges and tunnels component.
- The Commission proposes to retain the 50:50 no impact/impact blended treatment of national network road and rail network payments, and to continue monitoring the development of the National Service Level Standards for roads.
- The Commission considers that overall the roads assessment remains appropriate, although given its concerns with some aspects of the assessment, proposes to introduce a discount of 12.5 per cent.

### Queensland position

Queensland is disappointed that the Commission is proposing substantial changes to the roads assessment at the draft report stage of the 2025 Review when **no earlier consultation on these issues was undertaken.**

**Introducing material changes so late in the Review process, in the absence of detailed consultation papers and analysis underpinning the Commission's position, prevents states from being able to thoroughly scrutinise and respond to proposed changes.**

It is particularly concerning that the Commission now appears to have concerns regarding aspects of the synthetic road network (roads to national parks, mines, gas wells and ports) when this additional assessed road need was only developed and implemented as part of the 2020 Review. The synthetic road network was extensively scrutinised by the Commission and states at that time, with the agreed methodology including all roads necessarily maintained by states.

These roads are a necessary inclusion within the synthetic road network given their essential nature and that they generally maintained to a high standard by states. **Indeed, Queensland Department of Transport and Main Roads (DTMR) analysis of the roads the CGC has proposed removing from the**



**synthetic road network indicates that they are maintained, in Queensland, to 91 per cent of the standard of major state-controlled roads.**

Furthermore, the approach the Commission is proposing in relation to the roads assessment is inconsistent with the approach taken in other complex assessments, such as health, transport and Indigenous status. In these other complex assessments, the Commission has avoided making much needed changes or addressing any state concerns, instead placing these items on the forward work program. **No justification for this inconsistent and discriminatory approach has been provided.**

**Instead of delaying a review of the synthetic roads network and roads assessment more generally until a detailed review can be undertaken as part of the 2030 Review, as would be appropriate, the Commission has proposed to both apply a discount and make a major method change.**

**The resulting treatment proposed for the Roads assessment will substantially disadvantage Queensland while providing significant benefits to New South Wales.**

### Commission position

- *The Commission proposes to retain the 2020 Review methods for synthetic rural road network but remove the routes to mines, national parks, gas wells, and ports. The Commission will investigate the suitability of using the National Service Level Standards data when they become available.*

### Queensland position

**Queensland does not support removing routes to national parks from the synthetic rural road network.** Maintaining routes to national parks is essential for ensuring that environmental land managers, visitors and scientists have access to these important natural and cultural sites.

**Without these routes, states would be unable to meet the required commitments to protect threatened species and ecological communities as defined under the Commonwealth EPBC Act.** If states neglected this task, it could exacerbate Australia's biodiversity and extinction challenges, and would also impact access and management of UNESCO World Heritage Areas, which are protected under international agreements. These issues are discussed in further detail below.

**Additionally, these roads are maintained by Queensland at above 90 per cent of the standard of other state-controlled roads.** Queensland accounts for 45 per cent of all roads to national parks.<sup>8</sup> As such, Queensland's maintenance of these roads strongly suggests that, on average, maintaining and investing in these roads to a 90% standard is 'what states do'.

**Further Queensland considers that only assessing roads to national parks underestimates the rural road network in large geographically diverse states and recommends that the Commission include roads to and within all National parks within the synthetic road network.**

Additionally, Queensland opposes removing routes to mines, gas wells and ports from the synthetic road network. Maintaining these routes is essential for ensuring that goods, services, workers and community members can be safely and effectively transported to these locations.

Without these routes to mines and gas wells, states would be unable to conduct essential regulation and environmental monitoring activities. Meanwhile, routes to ports are vitally important to ensure that Australia can remain connected to the rest of the world, including to facilitate exports and imports.

Further, some communities, such as Palm Island and the Torres Strait, rely heavily on ports for the delivery of essential goods. Without appropriately maintained roads to the ports in these communities, states would be unable to provide essential services to the local region.

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<sup>8</sup> Commonwealth Grants Commission 2020. *2020 Methodology Review*. Australian Government: Canberra.

**Overall, the Commission's proposal to remove routes from the synthetic road network is inappropriate and will result in high-need states such as Queensland having their road costs materially underassessed compared with actual need.**

### ***Removing roads to national parks from the synthetic network***

Queensland has significant concerns with the Commission's proposal to remove roads to national parks from the synthetic network as this change will **decrease the fiscal capacity of states with an above average natural heritage protection task.**

This proposed change is particularly concerning as it appears to specifically penalise Queensland over other states and does not value conservation efforts relating to iconic Australian animals, such as the Northern Hairy-nosed Wombat, the Bilby, the Night Parrot, and the Northern Spotted-tailed Quoll.

Queensland is Australia's most biodiverse state, supporting 85 per cent of Australia's mammal species, 72 per cent of Australia's birds and over 50 per cent of Australia's reptiles and frogs. **This includes many threatened species of animals and plants with Queensland's protected area system ensuring that there are dedicated places for the protection of these threatened species.**<sup>9</sup>

This biodiversity is spread throughout the state, with some of the most ecologically important and threatened ecosystems being in isolated areas far from any towns. These areas include the Cape York Peninsula, the Gulf of Carpentaria and the Channel Country. Protecting these extremely sensitive and threatened ecosystems necessitates the maintenance and investment in isolated road networks throughout Queensland.

Indeed, large areas of Queensland are recognised as UNESCO World Heritage Sites, including the Wet Tropics, the Great Barrier Reef, and the Riversleigh Fossil Mammal Sites. Queensland is required to protect, maintain, and present these sites because of international agreements to which the Commonwealth is a signatory. **The proposed removal of national parks roads would result in thousands of kilometres of Queensland roads to these important sites being assessed as not being required by the Commission.** This is despite these roads being maintained at above 90 per cent of the level of major roads, based on DTMR analysis.

Furthermore, many of Queensland's vast national parks require a significant internal road network which is also essential for ensuring the biodiversity and conservation task can be achieved. These roads should also be included within the synthetic road network.

Overall, removing roads to national parks from the synthetic network would result in a substantial proportion of the road maintenance and investment task being completely ignored by the Commission's assessment. These roads must be maintained and are an essential component of the synthetic rural roads network.

As such, **this proposed change will prevent states having the fiscal capacity to protect their unique natural heritage**, especially in light of future challenges related to climate change. **If the Commission does not recognise this fact they will be further contributing towards Australia's biodiversity and extinction challenges.**<sup>10</sup>

To highlight the importance of protecting our remote national parks, examples of some of the species living in these areas that could be impacted through this proposed change are outlined below.

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<sup>9</sup> Department of Environment and Science 2020. *Threatened Species Program 2020-2040*. Queensland Government: Brisbane.

<sup>10</sup> The Commission already contributes to and exacerbates Australia's extinction and biodiversity crisis through their refusal to differentially assess biodiversity and landscape protection. This decision results in megadiverse and vulnerable states not having the fiscal capacity to maintain and protect these areas and be incentivised to reduce biodiversity expenditure.

### *Epping Forest National Park - 133 kilometres by road to the nearest town (Clermont)*

Epping Forest National Park is isolated and remote. The only way to access the park is by a 133 kilometre road to the near town, Clermont. Without this essential access route nobody would be able to enter, maintain, and protect the vital ecosystems Epping Forest supports. Further, without the internal road network within this large national park, essential management and conservation efforts could not occur without substantial delays and logistical issues.

This forest is the last stronghold of the world's largest burrowing herbivore, the **Northern Hairy-nosed Wombat** (*Lasiorhinus krefftii*).

Saving this species from extinction required dedicated and resource-intensive conservation efforts, including building and maintaining a large predator-exclusion fence, extensive weed & fire management within the park, and establishing an insurance population.<sup>11</sup> **None of this would have been possible without dedicated biodiversity and landscape protection funding for the Queensland Parks & Wildlife Service and funding for TMR to maintain and invest in the critical road infrastructure enabling access to and within Epping Forest National Park.**

This species, while slowly recovering thanks to Queensland's efforts, is still critically endangered, which requires substantial investment and maintenance of both Epping Forest National Park and the roads connecting it to the rest of the state to ensure its continued survival.

### *Astrebla Downs National Parks - 449 kilometres by road to the nearest town (Winton)*

The Bilby is an Australian icon. Their continued existence is only as a result of sustained conservation efforts in some of the most remote and isolated natural reserves in Australia, including Astrebla Downs, which is more than 400 kilometres from the nearest town.

In the 1700s, two bilby species were found across 70 per cent of Australia's landmass. However, by the 1950s the Lesser Bilby (*Macrotis leucura*) had become extinct, and the Greater Bilby (*Macrotis lagotis*) could only be found at a handful of sites in Queensland and Western Australia.<sup>12</sup>

A major threat cause of this decline was feral cat predation. Saving the bilby involved establishing a feral cat management and exclusion program at Astrebla Downs. These efforts were successful, and Queensland's exemplary management of these parks was recognised when Astrebla Downs was named among the top 10 reserves of the decade by the World Wildlife Fund.<sup>13</sup>

These conservation efforts were possible thanks to the maintenance and investment in essential road links to this remote region. Additionally, the internal road network within this large national park, and other neighbouring parks such as Diamantina, have been essential for management and conservation.

Feral cat management in Astrebla Downs has not just helped the bilbies. Other important species found here include the **Kowari** (*Dasyuroides byrnei*), a tiny carnivorous marsupial almost predated to extinction by cats.<sup>14</sup>

Also protected in Astrebla Downs is one of last remaining **Night Parrot** (*Pezoporus occidentalis*) populations and one of only four stable populations of the **Plains-wanderer** (*Pedionomus torquatus*).<sup>15</sup> Both birds are critically imperilled because of feral cat predation and their protection within Queensland's

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<sup>11</sup> D. Taggart, R. Martin, & A. Horsup 2016. *Lasiorhinus krefftii*. *The IUCN Red List of Threatened Species*.

<sup>12</sup> A. Burbridge & J. Woinarski 2016. *Macrotis lagotis*. *The IUCN Red List of Threatened Species*; A. Burbridge & J. Woinarski 2016. *Macrotis leucura*. *The IUCN Red List of Threatened Species*

<sup>13</sup> L. Nelson-Carr 2007. "Queensland parks recognised as among best in Australia." *Queensland Government Media Statements*. Accessed 16 July 2024. Available at <https://statements.qld.gov.au/statements/46089>.

<sup>14</sup> M. McKnight, P. Canty, A. Robinson, & M. Watson 2019. *Dasyuroides byrnei*. *The IUCN Red List of Threatened Species*.

<sup>15</sup> BirdLife International 2022. *Pezoporus occidentalis*. *The IUCN Red List of Threatened Species*; BirdLife International 2022. *Pedionomus torquatus*. *The IUCN Red List of Threatened Species*.

national parks is essential for their survival.<sup>16</sup> Without well-maintained roads to national parks such as Astrebla Downs access would be impeded and these conservation efforts stymied.

### *Wet Tropics UNESCO World Heritage Area - Over 1,000 kilometres of roads essential for conserving protected areas*

Across Queensland's Wet Tropics there are dozens of mountaintops which are cooler than the surrounding lowlands. These mountaintops cradle dozens of vulnerable ecosystems, creating "islands" of habitat for unique cold-adapted specialists. These ecosystems are the most vulnerable in Australia, with marginal temperature and precipitation changes having a significant impact on community composition and species survival.<sup>17</sup> With the effects of climate change already being felt, these communities are slowly being pushed higher and higher up these mountains, until they simply have nowhere to go.

Among these species is the **Northern Spotted-tailed Quoll** (*Dasyurus maculatus gracilis*), Australia's largest mainland marsupial carnivore. Even now, the quoll's range is becoming fragmented as individuals get trapped on their ever-diminishing mountaintop islands. Less than 250 Quolls remain, making them critically endangered and at risk of local extinction.<sup>18</sup>

The 2022-23 *State of the Wet Tropics* report found that the only way to save the quolls and other species facing the existential threat of climate change-induced extinction is to increase active management within protected areas.<sup>19</sup> Conservation biology research has found that the most successful ways to do this include invasive species (particularly cats, dogs, and pigs) management, the establishment of threatened species monitoring programs, and the building of an extensive network of predator-exclusion fencing.<sup>20</sup>

**These interventions are expensive, heavily resource and labour intensive, and require substantial government investment. Likewise, it is essential that roads into and within these protected areas are adequately maintained so that access to maintain and implement these protections is possible.**

Some of the few remaining outposts for mountaintop specialists such as the Northern Spotted-tailed Quoll include Girrigun National Park (63kms from the nearest town, Ingham), Kirrama National Park (63kms from the nearest town, Cardwell), Koombooloomba National Park (52kms from the nearest town, Ravenshoe), and Tully Gorge National Park (40kms from the nearest town, Tully).

**Indeed, across the dozens of national parks within the UNESCO World Heritage Area, over 1,000kms of roads need to be maintained to enable essential access for the protection and management of these threatened and fragile ecosystems.**

**The Commission's proposed changes to the roads assessment and their current assessment of biodiversity protection would mean that Queensland needs are not being adequately assessed and increase the risk to these already vulnerable ecosystems.**

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<sup>16</sup> BirdLife International 2022. *Pezoporus occidentalis*. *The IUCN Red List of Threatened Species*; BirdLife International 2022. *Pedionomus torquatus*. *The IUCN Red List of Threatened Species*.

<sup>17</sup> Wet Tropics Management Authority 2023. *State of Wet Tropics 2022-23: Rescue and recovery of threatened Wet Tropics species and ecological communities*. Queensland Government: Cairns.

<sup>18</sup> J. Rowland, C. Hoskin, & S. Burnett 2023. "Camera-trapping density estimates suggest critically low population sizes for the Wet Tropics subspecies of the spotted-tailed quoll (*Dasyurus maculatus gracilis*)." *Austral Ecology*. 48(2): 399-417.

<sup>19</sup> Wet Tropics Management Authority 2023. *State of Wet Tropics 2022-23: Rescue and recovery of threatened Wet Tropics species and ecological communities*. Queensland Government: Cairns.

<sup>20</sup> J. Rowland, C. Hoskin, & S. Burnett 2020. "Distribution and diet of feral cats (*Felis catus*) in the wet tropics of north-eastern Australia, with a focus on the upland rainforest." *Wildlife Research* 47: 649–65; D. Smith, K. Waddell, & B. Allen 2020. "Expansion of Vertebrate Pest Exclusion Fencing and Its Potential Benefits for Threatened Fauna Recovery in Australia." *Animals*. 10(9): 1550.

Among the dozens of other Wet Tropics species are the **Gulbaru Gecko** (*Phyllurus gulbaru*), the **Mahogany Glider** (*Petaurus gracilis*), the **Northern Bettong** (*Bettongia tropica*), the **Victoria's Riflebird** (*Ptiloris victoriae*), and the **Mountain-top Nursery-frog** (*Cophixalus monticola*).<sup>21</sup>

*Cape York Peninsula Wilderness Area (Tentative UNESCO World Heritage Area) - Over 1,000kms of roads essential for conserving protected areas*

The Cape York Peninsula is one of the last great wildernesses in the world and has been placed on the tentative UNESCO World Heritage List.<sup>22</sup> More than 260 plant species and 40 vertebrate species found here can be seen nowhere else in the world, including Queensland's state floral emblem, the vulnerable **Cooktown Orchid** (*Dendrobium bigibbum* var. *superbum*).<sup>23</sup>

The most significant threat to this wilderness is invasive species, notably feral cats and feral pigs.<sup>24</sup> Both of these species require active management, and it is essential that landowners and rangers can get to every corner of the peninsula to be able to prevent these species from destroying the landscape. **This requires maintained roads to and within protected areas across the Cape.**

However, in Cape York, national parks only make up a small proportion of the protected areas network. Across the peninsula there are millions of hectares of nature refuges and Indigenous protected areas which are also managed solely for the conservation and protection of species.<sup>25</sup>

**Providing road access to and within these sites is also essential for preventing extinctions and protecting biodiversity.** The Commission's current synthetic road network excludes these essential roads to other protected areas, thus substantially underestimating Queensland's rural roads need and preventing proper investment and protections for several endangered species.

Among the species most threatened are the **Golden-shouldered Parrot** (*Psephotellus chrysopterygius*), a species that nests in termite mounds and is extremely vulnerable to habitat destruction from feral pigs and predation from feral cats.<sup>26</sup> Protecting these parrots and their nests from invasive requires constant, ongoing land management from rangers and dedicated infrastructure such as predator-exclusion fencing.<sup>27</sup> Without these interventions, this species is at risk of becoming extinct, a fate already suffered by its closest relative, the **Paradise Parrot** (*Psephotellus pulcherrimus*).<sup>28</sup>

Given this, access roads to national parks and other protected areas within the Golden-shouldered Parrot's range, including the Olkola Indigenous Protected Area, Muundhi National Park, and Harkness Nature Refuge, are critical to support and enable conservation activity.

Other threatened species that rely on these protected areas include the **Buff-breasted Buttonquail** (*Turnix olivii*), the unique freshwater **Speartooth Shark** (*Glyphis glyphis*), Australia's rarest bird-of-prey the **Red Goshawk** (*Erythrotriorchis radiatus*), the **Cape York Rock-wallaby** (*Petrogale coenensis*), the **Palm**

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<sup>21</sup> C. Hoskin 2018. *Phyllurus gulbaru*. *The IUCN Red List of Threatened Species*; S. Burnett, J. Winter, & R. Martin 2016. *Petaurus gracilis*. *The IUCN Red List of Threatened Species*; A. Burbidge & J. Woinarski 2016. *Bettongia tropica*. *The IUCN Red List of Threatened Species*; BirdLife International 2022. *Lophorina victoriae*. *The IUCN Red List of Threatened Species*; IUCN SSC Amphibian Specialist Group 2022. *Cophixalus monticola*. *The IUCN Red List of Threatened Species*.

<sup>22</sup> UNESCO 2024. *Cultural Landscapes of Cape York Peninsula*. Accessed 16 July 2024. Available at <https://whc.unesco.org/en/tentativelists/6775/>.

<sup>23</sup> Queensland Museum 2000. *Wildlife of Tropical North Queensland*. Queensland Government: Brisbane.

<sup>24</sup> Cape York Natural Resource Management 2019. *Threats to priority species of the Cape York Peninsula region*. Cape York Natural Resource Management: Cooktown.

<sup>25</sup> Cape York Natural Resource Management 2019. *Threats to priority species of the Cape York Peninsula region*. Cape York Natural Resource Management: Cooktown.

<sup>26</sup> BirdLife International 2022. *Psephotellus chrysopterygius*. *The IUCN Red List of Threatened Species*.

<sup>27</sup> BirdLife International 2022. *Psephotellus chrysopterygius*. *The IUCN Red List of Threatened Species*.

<sup>28</sup> BirdLife International 2023. *Psephotellus pulcherrimus*. *The IUCN Red List of Threatened Species*

**Cockatoo** (*Probosciger aterrimus macgillivrayi*), and Queensland's iconic **Southern Cassowary** (*Casuarius casuarius*).<sup>29</sup>

The examples outlined above highlight the vast conservation task facing Queensland and the immense road maintenance task required to meet this essential task. **Indeed, only assessing roads to national parks does not adequately assess biodiversity and conservation need, and the Commission should be including all roads to protected areas in the synthetic rural network**, including those to state forests, nature refuges, Indigenous protected areas, and special wildlife reserves.

**All of these protected areas are essential for Queensland's efforts to protect threatened species and ensure our vast biodiversity can be enjoyed for generations to come. Likewise, it is therefore essential to ensure that roads to these areas are well maintained and the source of constant investment.**

Furthermore, many of Queensland's national parks and other protected areas are extremely large and require substantial internal road networks. Maintaining these internal roads is also essential for protecting Queensland's unique ecosystems and threatened species.

**Queensland recommends that all gazetted internal roads within national parks are also included within the synthetic road network.** Including these roads within the synthetic road network would more adequately assess which roads states need to invest in and maintain to protect species and ecosystems during Australia's biodiversity and extinction challenge.

**At a minimum, the Commission must not remove roads to national parks from the synthetic road network.** If this change is implemented, it would signal that the Commission does not recognise states' ethical duty to protect our natural heritage. Furthermore, removing these roads ignores 'what states do', given that roads the Commission is proposing to remove are maintained at 91 per cent of the level of major state-controlled roads.

#### Commission position

- *The Commission proposes to retain population as the driver for urban road lengths in towns of over 40,000 people, and to investigate the suitability of using the National Service Level Standards data when they become available.*

#### Queensland position

Queensland does not oppose the Commission retaining population as the driver for urban road lengths in towns of over 40,000 people.

#### Commission position

- *The Commission will investigate the suitability of using the National Service Level Standards data when they become available.*

#### Queensland position

Queensland does not oppose the Commission investigating the suitability of using the National Service Level Standards data when they become available, so long as states are adequately consulted and able to scrutinise the data. However, Queensland **does not support** the Commission introducing this data source into the roads assessment prior to the 2030 Review. Major data updates should only occur during Methodology Reviews, when states should be afforded a better opportunity to scrutinise data.

<sup>29</sup> P. Kyne, C. Digby, W. Darwall, I. Grant, & C. Simpfendorfer 2021. *Glyphis glyphis*. *The IUCN Red List of Threatened Species*; BirdLife International 2022. *Erythrorchis radiatus*. *The IUCN Red List of Threatened Species*; A. Burbidge & J. Woinarski 2020. *Petrogale coenensis*. *The IUCN Red List of Threatened Species*; DCCEEW 2015. *Probosciger aterrimus macgillivrayi* — Palm Cockatoo (Australian); DCCEEW 2009. *Casuarius casuarius johnsonii* — Southern Cassowary, Australian Cassowary, Double-wattled Cassowary; BirdLife International 2022. *Turnix olivii*. *The IUCN Red List of Threatened Species*.

### Commission position

- *The Commission will hold the current shares of urban/rural traffic for light vehicles and heavy vehicles constant until a suitable data source is found.*

### Queensland position

Queensland does not oppose the Commission holding the current shares of urban/rural traffic for light vehicles and heavy vehicles constant for the life of the 2025 Review. Queensland does not oppose the Commission investigating the suitability of data sources, so long as states are adequately consulted and able to scrutinise the data. However, Queensland **does not support** the Commission introducing any identified data sources into the roads assessment prior to the 2030 Review.

### Commission position

- *The Commission proposes not to add additional cost drivers to reflect rainfall and soil composition to the roads assessment in this review.*

### Queensland position

Queensland notes that the Commission proposes not to add additional cost drivers to reflect rainfall and soil composition to the roads assessment in this review. Queensland notes there is a strong conceptual case that these variables will materially impact costs and recommends that this be further investigated as part of the 2030 Review.

### Commission position

- *The Commission proposes to continue using the National Transport Commission data as it is the best available source for this dataset.*

### Queensland position

Queensland supports the Commission continuing to use the National Transport Commission data. This is the best available data source for roads and provides suitable, reliable, and robust data to inform the assessment.

### Commission position

- *The Commission proposes to retain the existing assessment of bridges and tunnels.*

### Queensland position

Queensland supports retaining the existing assessment of bridges and tunnels. The current assessment adequately assesses differences in state need for maintaining and investing in bridges and tunnels.

### Commission position

- *The Commission proposes to replace the general cost gradient with the Rawlinsons construction cost gradient for rural road lengths and the bridges and tunnels component.*

### Queensland position

Queensland does not support replacing the general cost gradient with the Rawlinsons construction cost gradient for rural road lengths and the bridges and tunnels component given that Queensland holds concerns that the Rawlinsons construction cost gradient is underestimating actual construction costs in Brisbane relative to other capital cities. These issues are discussed in detail in *Section 7: Investment*.

Queensland therefore recommends that the Commission undertakes a thorough review of the Rawlinsons index as part of the 2030 Review.

#### Commission position

- *The Commission proposes to retain the 50:50 no impact/impact blended treatment of national network road and rail network payments, and to continue monitoring the development of the National Service Level Standards for roads.*

#### Queensland position

Queensland supports the Commission retaining the 50:50 no impact/impact blended treatment of national network road and rail network payments. This treatment is appropriate and ensures that Commonwealth spending to cover their own share of responsibility for roads is not impacting GST allocations.

#### Commission position

- *The Commission considers that overall the roads assessment remains appropriate, although given its concerns with some aspects of the assessment, proposes to introduce a discount of 12.5 per cent.*

#### Queensland position

Queensland does not support the Commission's proposal to introduce a 12.5 per cent discount for the assessment.

The Commission appears to be suggesting this discount will be introduced because of general uncertainty about the assessment, rather than specific data issues or methodological shortcomings. This is despite the Commission's position on discounts established in the *Consultation paper on fiscal equalisation, supporting principles and assessment guidelines*, which stated:

*"The Commission has not used discounts to address ... general uncertainty...applying a discount [for general uncertainty] is likely to lead to an inferior assessment of fiscal capacity."<sup>30</sup>*

**The Commission is, therefore, proposing to apply a discount despite it not meeting the established criteria for a discount during the 2025 Review, a position which was settled in consultation with states over a year ago.**

**As such, making this change would be in direct opposition to the established scope of discounts in this Review, with a clear lack of appropriate consultation by the Commission.**

Even more concerning is that the Commission appears to have reached the conclusion that there is general uncertainty in the roads assessment based on analysis of real state expenditure data. Using real data to imply uncertainty is highly misleading, especially considering the excessive capital expenditure in Victoria and New South Wales in recent years.

Queensland's concerns that the actual expenses data for roads has been heavily policy influenced is further supported by the Commission's own data showing a significant increase in New South Wales' actual to assessed ratio for roads expenses over recent years.

As has been discussed in detail in Queensland's previous submissions, the likelihood and potential that certain states have (and will continue to) substantially overspend on services and capital in general compared to actual need will be **exacerbated if the Commission provides further perverse incentives through inappropriate changes to the GST assessment process**. Applying a discount to the roads

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<sup>30</sup> Commonwealth Grants Commission 2023. *Consultation paper on fiscal equalisation, supporting principles and assessment guidelines*. New South Wales Government: Canberra.



assessment is clearly a case that could further incentivise inappropriate levels of roads investment in certain states.

Queensland also has broad concerns that, like with many other assessments, the proposed approach is designed to move the roads assessment to become closer to an APC assessment. This movement of key assessments to more in line with APC is highly inappropriate and appears to be specifically benefitting New South Wales at the expense of Queensland.

### **Queensland comments on positions raised by other states**

New South Wales' *Tranche 2 submission* erroneously claimed that many of Queensland's rural roads are not essential. These claims are not defensible and are not evidence based.

One of the erroneous claims raised by New South Wales was that roads to national parks need not be maintained. As discussed above, this is false **Removing roads to national parks from the synthetic road network would result in a substantial proportion of the task being ignored and could further exacerbate Australia's biodiversity and extinction crises.** Indeed, the exclusion of roads to other protected areas already significantly underestimates the rural roads task in large and biodiverse states such as Queensland.

New South Wales' submission also proposes that the Commission's synthetic road network is not representative of state-type roads, referencing Geoscience Australia data for primary and secondary roads.

The Geoscience Australia data for primary and secondary roads excludes a significant proportion of highly important state-managed routes in remote and very remote areas, as well as local roads of regional significance. The exclusion of these routes is misrepresentative of the state task.

Firstly, while many of these routes experience lower traffic volumes than major highways, they are still an essential connector so that remote communities can have access to services such as healthcare and education, and get essential goods delivered, including food.

Additionally, these remote and very remote communities are some of the most disadvantaged in Australia. Many local councils have no revenue raising capacity or are very sparsely populated. As such, roads, including local roads, in these areas inevitably become a state responsibility as councils do not have the fiscal capacity to maintain these roads. **Maintaining and investing in these roads, even if they are not "state type" roads as defined by Geoscience Australia, is essential to ensure that every Queenslanders can access essential services such as healthcare and education.**

New South Wales' submission also contends that some remote Northern Australian communities, particularly in Cape York, do not need to be serviced by roads. This appears to be based on a misconception that these areas are primarily serviced by privately funded cargo operators. While this is the case for islands in the Torres Strait, it is false for most Cape York communities.

Road transportation in these areas remains essential, with transport supported through air and sea transport, often heavily subsidised by the government and not assessed as need by the Commission, during periods when roads are inaccessible, such as during monsoons.

**Indeed, New South Wales' argument that these communities do not require or deserve to have roads appropriately maintained displays a complete lack of understanding of the significant service delivery challenges facing more remote states, especially in tropical areas.**

### **Queensland recommendations**

There is a significant road length maintained by states to enable access to protected areas other than national parks (including Indigenous Protected Areas, State Forests, and Nature Refuges). Maintaining and investing in these roads is essential to ensure that states can service and protect the unique and

threatened ecosystems supported by within these protected areas. As such, Queensland recommends that the Commission should update the synthetic road network to include all roads to all protected areas (including Indigenous Protected Areas, State Forests, and Nature Refuges).

Likewise, there is a significant road network within state protected areas that is states must maintain to enable the protection of their unique natural heritage. As such, Queensland recommends that all internal roads within national parks and all other protected areas are also included within the synthetic road network.

Queensland notes there is a strong conceptual case that these variables will materially impact costs and recommends that this be further investigated as part of the 2030 Review. This will be further discussed in *Section 38: Other issues for the 2030 Review*.

## 5 Transport

Queensland notes that the Commission has provided states with an addendum to the Transport expense assessment. It is further noted that the addendum proposes some important and substantial changes from positions presented in the draft report.

Therefore, Queensland will provide its full response to the Commission's positions on all aspects of the transport assessment, including transport-related investment, both for the draft report and the addendum, in the one response to the addendum in late August 2024.

## 6 Health and the health non-state sector adjustment

Queensland's response below to the Commission's initial positions in relation to the health assessment is in response to the positions in the draft paper other than the COVID-19 expenses, which are dealt with in a separate COVID expense assessment.

### Proposed changes/positions

Based on the information provided in the draft report, the Commission's positions are:

- The Commission considers there are no ongoing implications from the COVID-19 pandemic for the health assessment.
- For the 2025 Review, the Commission considers it better to maintain the existing approach, which minimises data revisions between updates. The Commission could switch to using state-provided year 3 data when a relevant shock has occurred. This has been done for the past 3 updates in the services to industry assessment in response to the large increase in state spending on COVID-19 business support.
- The Commission will continue to explore other options to improve the responsiveness of the health assessment, including by reducing reliance on proxy indicators of activity.
- The Commission proposes to introduce a direct measure of the use and cost of specialised community mental health activity for ambulatory services only. It will become a sub-component of the community and public health assessment. In the absence of any information on how ambulatory community mental health service costs vary with remoteness, the Commission will take a conservative approach and apply the general regional cost gradient and service delivery scale adjustments to the activity data on specialised community mental health services.
- The Commission proposes to broaden the proxy indicator of community and public health activity (outside of ambulatory community mental health) to include a combination of emergency department triage category 4 and 5 plus a subset of non-admitted patient allied health services similar to community health services.
- For the 2025 Review the Commission proposes to use a hospital-based proxy for public health activity rather than an equal per capita assessment.
- The reliance on a proxy measure of activity for a significant share of community and public health expenses justifies a continuation of the 12.5 per cent discount.
- The Commission considers that the current approach underpinning the non-state sector adjustment, while pragmatic, remains appropriate for the 2025 Review. The broad range of comments by states on the factors influencing the non-state sector adjustment, along with the evidence presented by New South Wales in its supplementary submission of no relationship between state and non-state health service provision, problems with the data used by the Commission, and the significance of the non-state sector adjustment on GST distribution, suggest that more detailed consideration of this element of the health assessment is warranted between reviews.
- For the emergency departments component, the Commission proposes to update the substitutability level using the Australian Institute of Health and Welfare's method for measuring substitutable services.
- The Commission proposes to use expenses measured by benefits paid by private health insurance funds as the proxy indicator of private patient activity.

- For non-admitted patients, the Commission uses the mid-point of 2 methods to determine the non-state sector substitutability level.
  - **Method 1: comparable state services.** This method first estimates ‘comparable’ services based on the similarity of services undertaken in public hospitals and the non-state sector. The amount of comparable services that are likely to be ‘substitutable’ are then estimated based on the likelihood of patients choosing to use non-state services rather than state services.
  - **Method 2: affordable services.** The Commission considers that the cost of services in the non-state sector is a relevant factor in determining the level of substitutable services. To get a sense of the extent that non-state services are affordable, the proportion of similar non-state services (private operations and specialist services) that are bulk billed is calculated.
- The Commission proposes to continue to include the Commonwealth-funded services provided by First Nations community health organisations in the separate adjustment for Community Controlled Health Services. The use of these services is not included in the broader non-state services adjustment.
- The COVID-19 pandemic has distorted state spending on community and public health. As such, the Commission proposes to use 2019–20 data to update the calculation of the substitutability level rather than data for more recent years. The non-state sector substitutability level for the community and public health component for the 2025 Review is proposed to remain at 60 per cent.
- The Commission will continue to use socio-demographic cohort-averaged national weighted activity units in the health assessment for the 2025 Review.
- The Commission considers there is a conceptual case that people from different cultures have different use rates of state health services. However, the Commission does not propose to separately assess state spending on multicultural and language services in the 2025 Review as it is unlikely to result in a material impact on GST distribution.
- The Commission proposes to maintain the existing age groups for the 2025 Review as splitting the oldest age group does not have a material impact. This will be retested in the next review.
- The Commission will continue applying remoteness weights to national weighted activity units. The Independent Health and Aged Care Pricing Authority applies cost weights for patients travelling from regional and remote areas to major cities for treatment because states incur additional costs in providing services to these people, and therefore it is appropriate to recognise these costs in the assessments.
- If the Commonwealth and states can agree that a portion of the National Health Reform Agreement Commonwealth payment funds hospital services that are not a state responsibility, and that share of the payment is specified in the agreement, then the Commission will treat that amount as a no impact payment. The share of spending that is funded by states on hospital services that are a Commonwealth responsibility will continue to be assessed by the usual drivers of need.
- Given the uncertainty about the extent that activity associated with patient transport are included in the admitted patient national weighted activity units, the costs associated with aeromedical services and the Patient Assistance Transport Scheme will be kept separate and assessed using the current method for the 2025 Review. The Commission will continue to engage with the Independent Health and Aged Care Pricing Authority between reviews to determine whether an alternative approach is appropriate in future.

- The Commission proposes to continue to use cross-border data to apply cross-border adjustments to the National Health Reform Agreement Commonwealth payments.

#### **Commission position**

- *For the 2025 Review, the Commission considers it better to maintain the existing approach, which minimises data revisions between updates. The Commission could switch to using state-provided year 3 data when a relevant shock has occurred. This has been done for the past 3 updates in the services to industry assessment in response to the large increase in state spending on COVID-19 business support.*
- *The Commission considers there are no ongoing implications from the COVID-19 pandemic for the health assessment.*

#### **Queensland position**

Notwithstanding its position on other elements of the health assessment, discussed below and in *Section 3: COVID 19 spending*, Queensland supports that the hospital and patient transport assessments remain fit for purpose in a post-pandemic environment.

Queensland agrees that COVID-19 had an impact on the health assessment, but that this impact was temporary. Accordingly, Queensland does not support the Commission's proposed actual per capita assessment of COVID-related expenses. This is discussed further in *Section 3: COVID-19 spending*.

#### **Commission position**

- *The Commission will continue to explore other options to improve the responsiveness of the health assessment, including by reducing reliance on proxy indicators of activity.*

#### **Queensland position**

Queensland supports responsiveness in the community and public health assessment, just as it supports responsiveness in the health assessment generally. Queensland also supports the reduction in reliance on proxy indicators of activity, including in the admitted patients assessment, as discussed below. Queensland notes that increased responsiveness must not come at the cost of accurately assessing state needs. To that end, Queensland welcomes the Commission pursuing a more responsive community and public health assessment, as part of a more thorough review of the health assessment that prioritises accurately assessing state needs.

#### **Commission position**

- *The Commission proposes to introduce a direct measure of the use and cost of specialised community mental health activity for ambulatory services only. It will become a sub-component of the community and public health assessment. In the absence of any information on how ambulatory community mental health service costs vary with remoteness, the Commission will take a conservative approach and apply the general regional cost gradient and service delivery scale adjustments to the activity data on specialised community mental health services.*

## Queensland position

Queensland does not support the Commission's proposed introduction of a direct measure of the use and cost of specialised community mental health activity for ambulatory services only – while continuing to rely on a proxy for the balance of the assessment.

As discussed in Queensland's *Tranche 1 submission*, although the use of actual data over proxy measures is generally preferred, the proposed AIHW data set has significant limitations. Specifically, the lack of cost weightings in the AIHW data means that there is no way to delineate services by their complexity or their location.

The Commission acknowledges both the importance and the difficulty of making these delineations. As cost weightings are applied in other areas of the health assessment, to ensure increased regional costs are appropriately captured, Queensland encourages the Commission to explore a similar approach during the 2030 review for the entire health assessment.

## Commission position

- *The Commission proposes to broaden the proxy indicator of community and public health activity (outside of ambulatory community mental health) to include a combination of emergency department triage category 4 and 5 plus a subset of non-admitted patient allied health services similar to community health services.*

## Queensland position

Queensland supports the Commission's proposal to broaden the proxy indicator of community and public health activity (outside of ambulatory community mental health) to include a combination of emergency department triage category 4 and 5 plus a subset of non-admitted patient allied health services similar to community health services.

Queensland still contends the non-admitted patient services proportion of the proposed split is too high, considering the lack of evidence demonstrating the linkage to service usage, particularly in rural and remote communities. However, Queensland acknowledges and appreciates the additional analysis completed by the Commission in investigating this issue. Queensland supports the Commission in continuing to better understand the similarities in usage and cost profiles for community and public health services and non-admitted patient services. Queensland is eager to work with the Commission on this issue as part of the 2030 Methodology Review.

## Commission position

- *For the 2025 Review the Commission proposes to use a hospital-based proxy for public health activity rather than an equal per capita assessment.*

## Queensland position

Queensland supports the Commission's proposal to continue using a hospital-based proxy for public health activity rather than an equal per capita assessment. Queensland believes that the Commission should exploit available datasets to the extent these are reliable proxies of activity. The hospital-based proxy provides a more accurate estimation of the variation in usage and spend across different groups than an equal per capita assessment.

### Commission position

- *The reliance on a proxy measure of activity for a significant share of community and public health expenses justifies a continuation of the 12.5 per cent discount.*

### Queensland position

Queensland notes the Commission decision to continue using the 12.5 per cent discount for community and public health expenses.

### Commission position

- *The Commission considers that the current approach underpinning the non-state sector adjustment, while pragmatic, remains appropriate for the 2025 Review. The broad range of comments by states on the factors influencing the non-state sector adjustment, along with the evidence presented by New South Wales in its supplementary submission of no relationship between state and non-state health service provision, problems with the data used by the Commission, and the significance of the non-state sector adjustment on GST distribution, suggest that more detailed consideration of this element of the health assessment is warranted between reviews.*

### Queensland position

Queensland supports the Commission reviewing the non-state-sector adjustment in detail before the next methodology review. Queensland agrees with the Commission that significant problems exist with the non-state-sector adjustment, from data issues to its conceptual foundations, but concedes that the significance of the adjustment warrants a considered reappraisal, which is not feasible before the finalisation of the 2025 review.

### Commission position

- *For the emergency departments component, the Commission proposes to update the substitutability level using the Australian Institute of Health and Welfare's method for measuring substitutable services.*

### Queensland position

Queensland supports the Commission's decision to retain the current substitutability rate of 15 per cent for the emergency department component of the non-state sector adjustment. As noted in Queensland's *Tranche 1 submission*, the Commission's decision to rely upon the Australian College of Emergency Medicine (ACEM) method for lower urgency presentations is appropriate. However, as there is no data available to review the updated substitutability level output based on the ACEM method, Queensland agrees with the Commission that using the AIHW data as a proxy would be appropriate – and much better than the alternative of relying upon outdated data. Therefore, updating the substitutability level using the AIHW method is the most appropriate approach.

### Commission position

- *The Commission proposes to use expenses measured by benefits paid by private health insurance funds as the proxy indicator of private patient activity.*

### Queensland position

Queensland supports the Commission's decision to retain the current substitutability of 15 per cent and to update the proxy indicator of private patient activity to use expenses measured by benefits paid by private health insurance for the admitted patient component of the non-state sector adjustment. Queensland supports the Commission's draft position which proposes to use benefits paid by private



health insurance (PHI) funds as the proxy indicator of private patient activity, recognising it is an improvement on the current method. The Commission's analysis into private hospital benefits paid per separation by state clearly shows that benefit paid by PHI funds is a more accurate estimation of the reduced burden on state services as a result of the non-state sector.

### Commission position

- *For non-admitted patients, the Commission uses the mid-point of 2 methods to determine the non-state sector substitutability level.*
  - *Method 1: comparable state services. This method first estimates 'comparable' services based on the similarity of services undertaken in public hospitals and the non-state sector. The amount of comparable services that are likely to be 'substitutable' are then estimated based on the likelihood of patients choosing to use non-state services rather than state services.*
  - *Method 2: affordable services. The Commission considers that the cost of services in the non-state sector is a relevant factor in determining the level of substitutable services. To get a sense of the extent that non-state services are affordable, the proportion of similar non-state services (private operations and specialist services) that are bulk billed is calculated.*

### Queensland position

Queensland supports the Commission's decision to retain the current substitutability rate of 30 per cent for the non-admitted patient component of the non-state sector adjustment. Although Queensland supported the proposed reduction in the substitutability rate from 30% to 25%, the additional analysis completed by the Commission in efforts to improve the reliability of the assessment are noted. Queensland considers the Commission's decision to retain the current substitutability rate of 30% is appropriate. Queensland supports the Commission's 'mid-point' approach between Method 1 (comparable state services) and Method 2 (affordable services) as an interim measure ahead of the 2030 Review of the health assessment.

### Commission position

- *The Commission proposes to continue to include the Commonwealth-funded services provided by First Nations community health organisations in the separate adjustment for Community Controlled Health Services. The use of these services is not included in the broader non-state services adjustment.*

### Queensland position

Queensland supports the Commission's decision to continue to include the Commonwealth-funded services provided by First Nations community health organisation in the separate adjustment for Community Controlled Health services.

### Commission position

- *The COVID-19 pandemic has distorted state spending on community and public health. As such, the Commission proposes to use 2019–20 data to update the calculation of the substitutability level rather than data for more recent years. The non-state sector substitutability level for the community and public health component for the 2025 Review is proposed to remain at 60 per cent.*

## Queensland position

Queensland agrees that the COVID-19 pandemic distorted state spending on community and public health, and as a result supports the use of older (2019-20) data for the calculation of the substitutability level, rather than newer, pandemic-affected data.

Queensland supports the Commission's decision to retain the current substitutability rate of 60 per cent for the community and public health component of the non-state sector adjustment.

### Commission position

- *The Commission will continue to use socio-demographic cohort-averaged national weighted activity units in the health assessment for the 2025 Review.*

## Queensland position

Queensland does not support the Commission's decision to continue to use socio-demographic cohort-averaged national weighted activity units in the health assessment. **Queensland notes and agrees with the Commission's view that the issues identified are fundamental to the reliability of the health assessment.**

The Commission argues that differences between states' hospital activity, as measured by actual National Weighted Activity Units (NWAU), can occur due to differences in the complexity of procedures performed, differences in the share of higher cost patients treated, and/or differences in the number of procedures performed. The actual number of procedures performed can potentially be influenced by policy choices, for example the resourcing decisions of states. As such, actual state NWAUs are not a policy-neutral measure of assessed GST needs.

In addition to the arguments made in Queensland's *Tranche 2 submission*, challenging the Commission's assessment, Queensland contends that NWAU funding caps (targets), as negotiated through the NHRA and calculated by the Commonwealth Contribution Model (CCM), **are** policy-neutral measures of assessed need.

These activity targets consider the underlying health need of a state's population and are funded accordingly – to incentivise effective and efficient health service delivery. Should a state make the resourcing decision to 'overservice' its population and deliver additional services over and above what is agreed in the national targets, this is reflected in the activity being unfunded from the Commonwealth perspective, requiring the state to fund 100 per cent of that additional activity. It is this additional activity that Queensland considers is policy contaminated.

The actual NWAU up to and including the national cap should be considered policy-neutral and used as the volume indicator in the calculation of assessed need. The NWAU over and above the national caps should be assessed using the current method of NWAU averaging.

As acknowledged by the Commission, the socio-demographic cohort-averaged NWAU method of assessing need is fundamental to the health assessment and extremely material to states in the redistribution of GST. Queensland strongly encourages the Commission to continue examining this issue in its 2030 Review of the health assessment and consider a change in method as proposed above.

### Commission position

- *The Commission considers there is a conceptual case that people from different cultures have different use rates of state health services. However, the Commission does not propose to separately assess state spending on multicultural and language services in the 2025 Review as it is unlikely to result in a material impact on GST distribution.*

### Queensland position

Queensland does not oppose the Commission's decision to not separate assess state spending on multicultural and language services in the 2025 Review as it is unlikely to result in a material impact on GST distribution.

### Commission position

- *The Commission proposes to maintain the existing age groups for the 2025 Review as splitting the oldest age group does not have a material impact. This will be retested in the next review.*

### Queensland position

Queensland supports the Commission's decision to maintain the existing age groups for the 2025 Review as splitting the oldest age group does not have a material impact on the redistribution of GST. Given likely trends in population and health services demand, Queensland also supports the Commission retesting at the next review whether this split has a material impact.

### Commission position

- *The Commission will continue applying remoteness weights to national weighted activity units. The Independent Health and Aged Care Pricing Authority applies cost weights for patients travelling from regional and remote areas to major cities for treatment because states incur additional costs in providing services to these people, and therefore it is appropriate to recognise these costs in the assessments.*

### Queensland position

Queensland supports the Commission's decision to continue applying remoteness weights to national weighted activity units. Queensland is acutely aware of the additional costs associated with delivering services in remote and regional locations and believes the Independent Health and Aged Care Pricing Authority's approach to recognising these costs is robust.

### Commission position

- *If the Commonwealth and states can agree that a portion of the National Health Reform Agreement Commonwealth payment funds hospital services that are not a state responsibility, and that share of the payment is specified in the agreement, then the Commission will treat that amount as a no impact payment. The share of spending that is funded by states on hospital services that are a Commonwealth responsibility will continue to be assessed by the usual drivers of need.*

### Queensland position

Queensland does not support the Commission's decision to not apply a no impact assessment to a proportion of the National Health Reform Agreement Commonwealth payment. It appears that the Commission may have misunderstood the rationale for Queensland's proposed method change.

As discussed in Queensland's *Tranche 1 submission*, different levels of government share responsibility for the operation, management and funding of the health system. The delivery of these services is inextricably linked through the continuum of patient care (i.e. an integrated healthcare system of primary, secondary and tertiary healthcare services). Issues in parts of the continuum of care result in both upstream and downstream impacts.

A good example of this is aged care patients waiting placement in an aged care facility (Commonwealth-supported service) and occupying a hospital bed due to delays in placement (state supported service). These complexities have been defined as interface issues. Because of these complexities, a significant

proportion of the NHRA Commonwealth Payment goes towards managing services that should be provided by the Commonwealth. Further examples and the estimated impact of these interface issues on Queensland's health services are outlined in Queensland's *Tranche 1 submission*.

Queensland understands the Commission's interpretation of the proposed change as states are providing Commonwealth services, and if these services can be identified and specified in the new NHRA, they will be assessed as no impact. However, the services referenced above are in fact state services (e.g., hospital services), so would be difficult to identify and specify in the new NHRA. While these are state services, the demand for these services is inappropriately created by failings in Commonwealth-supported sectors (e.g. primary care, aged care and disability sectors). The need for state-supported services to support these sectors, and the associated cost of service delivery, would not exist if these failings were rectified. **The Commission does not assess differential need to provide state services because of failings of Commonwealth-supported sectors. As such, the proportion of the NHRA payment which goes towards managing services that exist because of failings of Commonwealth-supported sectors should also not be assessed.**

In addition, the Commission appears to have misinterpreted the cost identified by Queensland, with the impact cost having already factored in the Commonwealth/state funding split (45:55) in the calculation. Overall, between 20.8 and 23.6 per cent of Queensland's FY2022 NHRA Commonwealth payment was required to deliver state-services arising because of failing in Commonwealth-supported sectors. **This represents \$1.1 billion to \$1.3 billion from the NHRA Commonwealth payment which could not be used to provide essential health services for Queenslanders.**

Given these interface issues, Queensland strongly encourages the Commission to re-consider their position on the NHRA Commonwealth Payment. Queensland continues to recommend that the Commission treat a proportion of the NHRA Commonwealth Payment as no impact.

At a minimum, to better align with the principles of HFE, Queensland recommends that the NHRA Commonwealth Payment should be assessed according to a 12.5:87.5 no impact/impact blended treatment.

#### Commission position

- *Given the uncertainty about the extent that activity associated with patient transport are included in the admitted patient national weighted activity units, the costs associated with aeromedical services and the Patient Assistance Transport Scheme will be kept separate and assessed using the current method for the 2025 Review. The Commission will continue to engage with the Independent Health and Aged Care Pricing Authority between reviews to determine whether an alternative approach is appropriate in future.*

#### Queensland position

Queensland supports the Commission's decision to retain the current method of assessing aeromedical and the Patient Assistance Transport Scheme separately and supports the Commission's proposal to engage with the Independent Health and Agreed Care Pricing Authority further between reviews to determine whether an alternative approach is appropriate.

#### Commission position

- *The Commission proposes to continue to use cross-border data to apply cross-border adjustments to the National Health Reform Agreement Commonwealth payments.*

## **Queensland position**

Queensland supports the Commission's rationale for retaining the current cross-border adjustment. Queensland recognises that mechanisms already exist within the NHRA that fully account for cross border expenses, but supports the Commission to use available cross-border data to adjust these payments as appropriate.

## **Queensland recommendations**

Queensland recommends that the Commission treat a proportion of the NHRA Commonwealth Payment as no impact. At minimum, Queensland recommends that the NHRA Commonwealth Payment should be assessed according to a 12.5:87.5 no impact/impact blended treatment.

As discussed above, there are a range of health interface issues which result in a significant proportion of the NHRA Commonwealth Payment being used to provide Commonwealth-like health services in state-operated hospitals. Assessing the Commonwealth Payment using a blended no-impact/impact approach would ensure that payments supporting Commonwealth-like service delivery do not affect state GST shares.

## 7 Investment

### Proposed changes/positions

Based on the information provided in the draft report, the Commissions positions are:

- The Commission proposes not to smooth user population growth.
- The Commission proposes to retain the 2020 Review method and not freeze component shares.
- The Commission proposes to retain the 2020 Review method while continuing to monitor the appropriateness of Rawlinson's cost indices.
- The Commission proposes not to introduce a brownfields assessment.
- The Commission proposes that capital stock requirements in health include mental health assessed expenses and in welfare capital needs to include homeless services expenses but exclude National Disability Insurance Scheme expenses.
- For the remaining investment components, the Commission proposes to retain the approaches from the 2020 Review.

### Note on the transport investment assessment

The Commission has provided an addendum to the transport investment assessment with updated analysis and positions.

Given the substantial changes between positions presented in the draft report and the addendum report, Queensland will not provide a response to the transport investment assessment in this current submission.

**Queensland's positions and comments on both the transport expense and investment assessments will be provided to the Commission in Queensland's supplementary submission responding directly to the transport addendum.**

#### Commission position

- *The Commission proposes not to smooth user population growth.*
- *The Commission proposes to retain the 2020 Review method and not freeze component shares.*

#### Queensland position

Queensland supports not smoothing user population growth and not freezing component shares. As discussed in Queensland's *Tranche 2 submission*, making either of these changes would have unacceptably reduced the contemporaneity of the investment assessment and could have produced outcomes significantly different to 'what states do', while driving GST redistributions against actual need.

#### Commission position

- *The Commission proposes to retain the 2020 Review method while continuing to monitor the appropriateness of Rawlinson's cost indices.*

#### Queensland position

Queensland supports retaining the current methods for the investment assessment. Queensland also supports the Commission's decision to continue monitoring the appropriateness of Rawlinson's cost

indices, noting that there are significant reliability issues with these indices, particularly in assessing relative capital city infrastructure costs.

Queensland has concerns that the Rawlinsons capital city index is materially underestimating actual construction costs in Brisbane relative to other capital cities. Queensland therefore recommends that the Commission undertakes a thorough review of the Rawlinsons index for the 2030 Review, including investigating alternative data sources that could be used to assess capital city construction costs. **In the interim, Queensland recommends that the Commission apply a large (50 per cent) discount to the Rawlinsons capital city index to account for the unreliability of this data source.**

### **Issues with the Rawlinsons construction cost gradient**

Queensland is concerned that the Rawlinsons capital city index is unreliable and materially underassessing construction costs in Brisbane. Indeed, the Rawlinsons index is a highly inconsistent outlier when compared to other relative construction cost indices. For example, while Rawlinsons assesses Brisbane to be the cheapest major city in Australia, **other construction costs indices consistently assess Brisbane as one of the two most expensive major cities.**<sup>31</sup> Table 7.1 compares the Rawlinsons index with Turner & Townsend, RLB, and Arcadis indices, showing the significant difference between Rawlinsons and other indices:

**Table 7.1: Rawlinsons capital city index compared to other construction cost indices.**<sup>32</sup>

|                                 | Sydney        | Brisbane      | Melbourne     | Perth       | Adelaide    |
|---------------------------------|---------------|---------------|---------------|-------------|-------------|
| Arcadis                         | 1.09          | 1.02          | 1.00          | 0.89        | 0.81        |
| RLB                             | 1.04          | 1.07          | 0.96          | 0.95        | 0.94        |
| Turner & Townsend               | 1.08          | 1.01          | 0.95          | 0.97        | 0.89        |
| <b>Average of other indices</b> | <b>1.07</b>   | <b>1.03</b>   | <b>0.97</b>   | <b>0.93</b> | <b>0.88</b> |
| Rawlinsons                      | 1.05          | 0.93          | 0.96          | 1.04        | 1.03        |
| <b>Difference</b>               | <b>(0.02)</b> | <b>(0.09)</b> | <b>(0.02)</b> | <b>0.11</b> | <b>0.15</b> |

Source: Commonwealth Grants Commission; Arcadis; RLB; Turner & Townsend; Rawlinsons.

Additionally, there is a low level of variance between the RLB, Turner & Townsend, and Arcadis indices, with all producing relatively comparable relative costs across all five major cities. In stark comparison, Rawlinsons produces substantially different relative costs for Brisbane, Perth, and Adelaide than any of the other measures. Indeed, overall variance increases by more than two times when Rawlinsons is included in the sample for Perth and Adelaide and more than three times for Brisbane. **The consistent results given and low variance between other indices further suggest that the Rawlinson index is unreliable.**

Furthermore, Turner & Townsend indicate that construction costs in coming years are expected to increase at a faster rate in Brisbane compared to all other cities surveyed.<sup>33</sup> This implies that the elevated construction costs experienced in Brisbane (and Queensland as a whole) will remain, at least for the medium term.

This is also consistent with ABS producer price index data, which has indicated cost inflation for construction has been significantly higher in Queensland than the Australian average since 2011, as shown in Table 7.2.<sup>34</sup> **The ABS assessed trend has not been reflected in the Rawlinsons capital city construction cost index.**

<sup>31</sup> Rider Levett Bucknall (RLB) 2024. *Global Annual Report 2024*. RLB: London; Arcadis 2024. *International Construction Costs 2024*. Arcadis: Amsterdam; J. Kerwood 2024. *Regional Overview: Australia and New Zealand 2024*. Turner & Townsend: Leeds.

<sup>32</sup> For consistency, Rawlinsons rescaled values were recalculated and are therefore different to those provided in the 2024 Update Report. All indices are calculated based on population-weighted averages.

<sup>33</sup> J. Kerwood 2024. *Regional Overview: Australia and New Zealand 2024*. Turner & Townsend: Leeds.

<sup>34</sup> Australian Bureau of Statistics 2024. *Producer Price Indexes, Australia*. Accessed 26 July 2024. Available at <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release>.

**Table 7.2: Producer Price Index increase by state from Q1 2011/12 to Q3 2023/24 (%).**

|                      | NSW  | VIC  | QLD  | SA   | WA   | Australia |
|----------------------|------|------|------|------|------|-----------|
| Producer Price Index | 61.8 | 42.1 | 60.3 | 38.6 | 45.2 | 50.3      |

Source: Australian Bureau of Statistics.

As can be observed by the evidence presented above, there is a significant discrepancy between Rawlinsons and construction cost data from other indices and the ABS.

Queensland strongly contends that this demonstrates that the Rawlinsons index has been significantly underestimating costs in Brisbane and that it is an unreliable data source.

Given the unreliability of the Rawlinsons index, Queensland recommends that the Commission apply a large (50 per cent) discount to the Rawlinsons capital city index.

Queensland does not support any discounting of regional costs in any assessment on a conceptual basis. Construction costs for essential infrastructure are substantially higher in regional and remote areas compared to major cities. Given this, it is extremely important that the Commission continues to assess regional costs in the investment assessment.

Queensland agrees that calculating a state-specific regional cost gradient is the most appropriate method that most adequately recognises that different regions of the same remoteness, especially tropical areas, can have significantly elevated costs. As such, Queensland views the current method of calculating the state-specific regional cost gradient (comparing Rawlinson assessed regional costs to the relevant capital city cost) as the most robust and defensible method available, and recommends that this method is maintained.

Given specific data unreliability concerns, Queensland does not oppose the Commission using a general regional cost gradient calculated from Rawlinsons data. **Discounting regional costs in any way would severely underestimate actual need in more dispersed states and should not be undertaken in any assessment.**

#### Commission position

- *The Commission proposes not to introduce a brownfields assessment.*

#### Queensland position

Queensland supports the Commission's preliminary decision to not introduce a brownfields assessment. Such an assessment would face significant practical and policy neutrality issues while adding unnecessary levels of complexity to the assessment.

#### Commission position

- *The Commission proposes that capital stock requirements in health include mental health assessed expenses and in welfare capital needs to include homeless services expenses but exclude National Disability Insurance Scheme expenses.*

#### Queensland position

Noting Queensland's concerns with the proposed mental health expenses assessment, if the Commission decides to make these changes, Queensland supports the Commission altering capital stock requirements in the health assessment to include mental health assessed expenses as this will maintain consistency between the expenses and investment assessments. Likewise, to maintain consistency between the expense and investment assessments, Queensland supports alterations to the assessed capital stock requirements in the welfare assessment.



## Commission position

- *For the remaining investment components, the Commission proposes to retain the approaches from the 2020 Review.*

## Queensland position

Queensland supports retaining the approaches from the 2020 Review for the remaining investment components, excluding transport. Again, retaining these methods is important to ensure that expense and investment assessments are consistent.

## Queensland recommendations

The population-squared variable is not fit for purpose and is perversely incentivising investment in public transport infrastructure in New South Wales and Victoria. Given this, Queensland recommends that the population squared variable is replaced by urban population in the urban transport investment assessment. This will be further discussed in Queensland's response to the addendum report.

The Rawlinsons capital city construction cost index produces materially different results compared with other construction cost indices, all of which are mostly consistent. This indicates that the Rawlinsons index is unreliable. Given this unreliability, Queensland recommends that the Commission undertakes a thorough review of the Rawlinsons index for the 2030 Review, including investigating alternative data sources that could be used to assess capital city construction costs. This is discussed in more detail in *Section 38: Other issues for the 2030 Review*. In the interim, given the significant level of unreliability, Queensland recommends that the Commission apply a large (50 per cent) discount to the Rawlinsons capital city index.

# Revenue assessments

## 8 Mining revenue (other than coal and gas)

### Proposed changes/positions

Based on the information provided in the draft report, the Commissions positions are:

- The Commission proposes to continue to assess mining revenue capacity using a mineral-by-mineral approach.
- The Commission proposes not to introduce a dominant state adjustment and consult with states on how it could be addressed in preparation for the next review. The Commission will engage with states on the appropriate definition of a dominant state.

### Commission position

- *The Commission proposes to continue to assess mining revenue capacity using a mineral-by-mineral approach.*

### Queensland position

Queensland **does not support** a mineral-by-mineral approach and continues to maintain that aggregation of minerals in the mining assessment provides a superior HFE outcome and strikes a better balance between ‘what states do’ and policy neutrality. As outlined in detail in Queensland’s previous submission, a mineral-by-mineral approach means that some states can have significant influence on average policy as the Commission acknowledges in its consultation paper, resulting in effective actual per capita assessment.

### Commission position

- *The Commission proposes not to introduce a dominant state adjustment and consult with states on how it could be addressed in preparation for the next review. The Commission will engage with states on the appropriate definition of a dominant state.*

### Queensland position

The Commission had previously proposed that where a state is classified as dominant and the state changed its royalty rate, 50 per cent of the change in royalties from the policy change would not be included in the assessed revenue calculation.

While Queensland had previously objected to the arbitrary definition of a dominant state and the appropriateness of this approach, it is now clear that, with the material changes being considered to the coal assessment methodology, that such an adjustment is required to mitigate the substantial erosion in the policy neutrality principle.

Queensland therefore **does not support** the Commission’s decision not to introduce a dominant state adjustment and instead **recommends** a dominant state adjustment should be applied as recommended, and retrospectively up to the 2022-23 single year.

## 9 Land tax

### Proposed changes/positions

Based on the information provided in the draft report, the Commissions positions are:

- The Commission proposes to retain the 12.5% discount to recognise a low level of comparability concerns with the state provided data used in the assessment.
- The Commission proposes to retain the existing value ranges. It considers this provides the best balance between appropriately capturing the progressivity of state tax rates and avoiding the need for frequent changes to those ranges in response to state changes to their tax scales.
- The Commission proposes not to introduce an elasticity adjustment in the land tax assessment for the 2025 Review.
- The Commission proposes to remove its adjustment to the ACT's taxable land values on materiality grounds.
- The Commission proposes to distribute the Northern Territory's estimated land values across the value ranges using the average distribution of South Australia, Tasmania and the ACT.
- The Commission proposes not to change to the assessment method for recent changes in states' Foreign Owner Land Tax Surcharges and the introduction of a COVID-19 Debt Recovery Surcharge in Victoria.

### Commission position

- *The Commission proposes to retain the 12.5% discount to recognise a low level of comparability concerns with the state provided data used in the assessment.*

### Queensland position

New South Wales made significant unsubstantiated claims in their *Tranche 1 submission* that state provided data, particularly the data provided by Queensland, used in the land tax assessment was unreliable and had deteriorated in quality since the 2020 Review. These claims are unfounded and Queensland contends that data has become significantly more comparable since the 2020 Review as state revenue offices have become more practised in making the requisite adjustments to improve comparability for the Commission.

**There is no justification to increase the discount and, instead, there is a strong case to maintain the current discount level, or even consider the removal of any discount.** However, Queensland notes the Commission's view that a low-level discount continues to remain necessary, despite improvements in data. This discount aims to recognise comparability concerns given the adjustments made to data by state revenue offices.

Queensland agrees with the Commission that the analysis and arguments presented by New South Wales are flawed. State taxable land values are not comparable to ABS land values, given the inclusion of principal places of residence in the ABS data. This means land values in the two datasets will grow at significantly different rates based on the share of investor and owner-occupier owners in individual states.

Additionally, New South Wales' comparisons of growth in land tax revenue and growth in land tax values are illogical. Revenue growth is affected by multiple factors, including the frequency of land parcel revaluation and the impact of three-year averaging for Queensland's land tax revenue. As such land tax revenue growth in an individual year is not fully comparable to total taxable land value growth.

These comparability issues were exacerbated by New South Wales analysing data from COVID-impacted years when significant and extraordinary policy initiatives were implemented.

Furthermore, New South Wales' direct critique of Queensland's state-provided data appears to have been based on the incorrect assumption that Queensland has comparable taxable land values to New South Wales and Victoria. This is not the case, with Queensland having a much lower proportion of taxable land holding in the highest value ranges.

#### **Commission position**

- *The Commission proposes to retain the existing value ranges. It considers this provides the best balance between appropriately capturing the progressivity of state tax rates and avoiding the need for frequent changes to those ranges in response to state changes to their tax scales.*

#### **Queensland position**

Queensland supports the Commission retaining the existing value ranges in the current Review. As the Commission noted these have been set in such a way as to capture tax settings while avoiding frequent adjustments. However, Queensland would also recommend that the Commission review these as part of its forward work program to ensure that these are appropriately capturing differences between states on an ongoing basis.

#### **Commission position**

- *The Commission proposes not to introduce an elasticity adjustment in the land tax assessment for the 2025 Review.*

#### **Queensland position**

Queensland supports the Commission not introducing an elasticity adjustment to the assessment, such an adjustment would be overly complex and provide questionable benefits to the assessment.

#### **Commission position**

- *The Commission proposes to remove its adjustment to the ACT's taxable land values on materiality grounds.*

#### **Queensland position**

Queensland supports the Commission removing its adjustment to ACT taxable land values given the CGC's testing of materiality.

#### **Commission position**

- *The Commission proposes to distribute the Northern Territory's estimated land values across the value ranges using the average distribution of South Australia, Tasmania and the ACT.*

#### **Queensland position**

Queensland supports the Commission assessing Northern Territory land values based on the average of smaller states, rather than the national average, as this approach should be more appropriate to assess the Northern Territory's tax base.

### **Commission position**

- *The Commission proposes not to change to the assessment method for recent changes in states' Foreign Owner Land Tax Surcharges and the introduction of a COVID-19 Debt Recovery Surcharge in Victoria.*

### **Queensland position**

Queensland supports the Commission not changing the assessment method for recent changes in states' Foreign Owner Land Tax Surcharges and the introduction of a COVID-19 Debt Recovery Surcharge in Victoria.

# 10 Stamp duty on conveyances

## Proposed changes/positions

Based on the information provided in the draft report, the Commission draft positions are:

- The Commission proposes to continue the stamp duty on conveyances assessment in its current form, taking into consideration the adjustments outlined below.
- The Commission proposes that New South Wales property tax be assessed with land tax.
- The Commission proposes not to adjust New South Wales' value of property transferred for the effects of its First Home Buyer Choice scheme because an adjustment would not be material.
- The Commission proposes not to adjust the ACT's value of property transferred for the effects of its stamp duty on conveyances reform.
- The Commission proposes not to make an elasticity adjustment for the Victorian property tax reform. It will, however, continue to monitor for any potential elasticity effects after the tax is introduced. The Commission will not introduce a new assessment of Victoria's commercial and industrial property tax since Victoria will not receive revenue from the tax until 2034-35.
- Given the significant complexities and uncertainties involved in implementing an elasticity adjustment, the Commission proposes not to introduce an elasticity adjustment in any revenue assessment for the 2025 Review. Following the 2025 Review, the Commission will continue to consider how the complexities and uncertainties associated with an elasticity adjustment might potentially be addressed. This would be in preparation for the next methodology review as well as being consistent with Victoria's proposal that the Commission provide guidance on how stamp duty assessments could include elasticity adjustments if state policy reforms became material.
- The Commission proposes to continue assessing duties on non-real property transfers equal per capita in the other revenue category.
- The Commission proposes to retain the existing value ranges. It considers this provides the best balance between appropriately capturing the progressivity of state tax rates and avoiding the need for frequent changes to those ranges following changes to states' rates and thresholds (which would be impractical for state data providers).

### Commission position

- *The Commission proposes to continue the stamp duty on conveyances assessment in its current form, taking into consideration the adjustments outlined below.*
- *The Commission proposes that New South Wales property tax be assessed with land tax.*
- *The Commission proposes not to adjust New South Wales' value of property transferred for the effects of its First Home Buyer Choice scheme because an adjustment would not be material.*
- *The Commission proposes not to adjust the ACT's value of property transferred for the effects of its stamp duty on conveyances reform.*

### Queensland position

Queensland supports all of the Commission's positions above related to stamp duty on conveyances, in line with the rationale outlined below.

Queensland supports the continuation of the stamp duty assessment in its current form, including the current treatment of New South Wales property taxes, and to not make an adjustment for ACT's reforms. This treatment is appropriate for the duration of the 2025 methodology review.

#### **Commission position**

- *The Commission proposes not to make an elasticity adjustment for the Victorian property tax reform. It will, however, continue to monitor for any potential elasticity effects after the tax is introduced. The Commission will not introduce a new assessment of Victoria's commercial and industrial property tax since Victoria will not receive revenue from the tax until 2034-35.*
- *Given the significant complexities and uncertainties involved in implementing an elasticity adjustment, the Commission proposes not to introduce an elasticity adjustment in any revenue assessment for the 2025 Review. Following the 2025 Review, the Commission will continue to consider how the complexities and uncertainties associated with an elasticity adjustment might potentially be addressed. This would be in preparation for the next methodology review as well as being consistent with Victoria's proposal that the Commission provide guidance on how stamp duty assessments could include elasticity adjustments if state policy reforms became material.*

#### **Queensland position**

Queensland supports the Commission position to not make an elasticity adjustment for the Victorian property tax reform as Victoria will not receive revenue from the tax until 2034-35. Queensland also supports not adjusting for elasticity effects in this or any of the revenue assessments, given that such an adjustment would add substantial complexity to the assessment with any results of an elasticity adjustment unlikely to have the same rigour as the main revenue assessment components.

#### **Commission position**

- *The Commission proposes to continue assessing duties on non-real property transfers equal per capita in the other revenue category.*

#### **Queensland position**

Queensland continues to support the Commission assessing non real property transfer duty on an equal per capita basis in the other revenue category as it is on average not what states do, and it is not practical for the Commission to estimate a tax base for this component for states who do not tax these transactions.

#### **Commission position**

- *The Commission proposes to retain the existing value ranges. It considers this provides the best balance between appropriately capturing the progressivity of state tax rates and avoiding the need for frequent changes to those ranges following changes to states' rates and thresholds (which would be impractical for state data providers).*

#### **Queensland position**

Queensland supports the Commission maintaining the existing value ranges given the Commission considers that any adjustments are below the materiality threshold.

# 11 Insurance duty

## Proposed changes/positions

Based on the information provided in the draft report, the Commissions positions are:

- The Commission proposes to continue to assess states' capacities to raise insurance tax using the value of general insurance premiums paid in each state, excluding workers' compensation premiums, compulsory third-party insurance premiums and insurance-based fire and emergency services levies.
- The Commission proposes not to introduce an elasticity adjustment in the category for the 2025 Review.
- On practicality grounds, the Commission proposes to leave these revenues in the insurance tax category (third party insurance).

### Commission position

- *The Commission proposes to continue to assess states' capacities to raise insurance tax using the value of general insurance premiums paid in each state, excluding workers' compensation premiums, compulsory third-party insurance premiums and insurance-based fire and emergency services levies.*

### Queensland position

Queensland supports the Commission continuing the current insurance duty assessment. In the absence of any new and conceptually sound data sources for the Commission to estimate states insurance tax bases, continuing to use the APRA data remains appropriate.

### Commission position

- *The Commission proposes not to introduce an elasticity adjustment in the category for the 2025 Review.*

### Queensland position

Queensland supports the Commission not introducing an elasticity adjustment for the insurance tax assessment as it would add an overly complex adjustment with potentially questionable benefits.

### Commission position

- *On practicality grounds, the Commission proposes to leave these revenues in the insurance tax category (third party insurance).*

### Queensland position

Queensland supports the Commission leave revenue from third party insurance in the insurance tax category, as this is the appropriate category for this revenue.



# 12 Motor taxes

## Proposed changes/positions

Based on the information provided in the draft report, the Commissions positions are:

- The High Court decision means states are unable to impose electric vehicle road user charges. Therefore, it is not relevant for the Commission to include a separate assessment for electric vehicle charges as part of the motor taxes category.
- The Commission proposes to assess revenue from emissions-based registration fees using the number of light vehicles.
- The Commission proposes to assess electric vehicle incentives where they are classified in Government Finance Statistics data (rebates as expenses and tax concessions as reduced revenue). The Commission will continue to monitor the concessions provided by states.
- The Commission does not propose to reintroduce a differential assessment of stamp duty on motor vehicle transfers. However, the Commission will continue to monitor the materiality of these duties for the purpose of future reviews.

### Commission position

- *The High Court decision means states are unable to impose electric vehicle road user charges. Therefore, it is not relevant for the Commission to include a separate assessment for electric vehicle charges as part of the motor taxes category.*

### Queensland position

Queensland supports the Commission continuing with the current motor taxes assessment, in light of the recent High Court decision.

### Commission position

- *The Commission proposes to assess revenue from emissions-based registration fees using the number of light vehicles.*

### Queensland position

Queensland supports the use of number of light vehicles as a suitable proxy measure for emissions-based registration fees. The average policy is based on imposing registration fees per vehicle and this does not change regardless of the characteristics of the vehicle or its use.

### Commission position

- *The Commission proposes to assess electric vehicle incentives where they are classified in Government Finance Statistics data (rebates as expenses and tax concessions as reduced revenue). The Commission will continue to monitor the concessions provided by states.*

### Queensland position

Queensland supports the Commission assessing electric vehicle incentives where they are classified in the Government Finance Statistics data, as this is the most appropriate data set to utilise.

### **Commission position**

- *The Commission does not propose to reintroduce a differential assessment of stamp duty on motor vehicle transfers. However, the Commission will continue to monitor the materiality of these duties for the purpose of future reviews.*

### **Queensland position**

Queensland supports the Commission not reintroducing a differential assessment for motor vehicle duties, as they continue to be under the materiality threshold.

# 13 Payroll tax

## Proposed changes/positions

Based on the information provided in the draft report, the Commission positions are:

- The Commission proposes to assess revenue from payroll tax surcharges on the same basis as payroll tax.
- The Commission proposes to retain the 2020 Review assessment method for the 2025 Review, including the ABS data sources. The Commission will continue to monitor developments in ABS data sources including BLADE/PLIDA and Single Touch Payroll.
- The Commission proposes to continue to investigate the potential for an assessment based on linked data from BLADE and/or PLIDA but not to implement an alternative assessment method using those data sources before the next review.

### Commission position

- *The Commission proposes to assess revenue from payroll tax surcharges on the same basis as payroll tax.*

### Queensland position

Queensland supports the Commission continuing to assess revenue from payroll tax surcharges on the same basis as payroll tax. There is a relevant nexus between payroll tax surcharges and payroll tax for the purpose of HFE, given these surcharges are levied on taxable wages paid by an employer, like payroll tax.

### Commission position

- *The Commission proposes to retain the 2020 Review assessment method for the 2025 Review, including the ABS data sources. The Commission will continue to monitor developments in ABS data sources including BLADE/PLIDA and Single Touch Payroll.*

### Queensland position

Queensland supports the Commission continuing with the current payroll tax assessment. Without any reasonable, practical and robust alternative data source, the current assessment remains appropriate.

### Commission position

- *The Commission proposes to continue to investigate the potential for an assessment based on linked data from BLADE and/or PLIDA but not to implement an alternative assessment method using those data sources before the next review.*

### Queensland position

Queensland supports the Commission continuing to investigate developing an assessment using BLADE and or PLIDA data, however, any payroll tax method change should only be done in consultation with states and introduced during a Methodology Review.

## 14 Other revenue (including gambling revenues)

### Proposed changes/positions

Based on the information provided in the draft report, the Commission positions are:

- The Commission proposes to retain the composition of the revenues (including gambling) classified to this category.
- The Commission proposes to assess the revenues in this category using an equal per capita assessment method.

### Commission position

- *The Commission proposes to retain the composition of the revenues (including gambling) classified to this category.*
- *The Commission proposes to assess the revenues in this category using an equal per capita assessment method.*

### Queensland position

Queensland fully supports retaining the composition of the other revenues category and assessing other revenue as EPC. According to the Commission's consultation paper, an EPC treatment should apply where *"reliable data cannot be found to make an assessment or an assessment method cannot be developed"*.

All states agreed with this position.

This is clearly the case in gambling. However, Queensland considers there is a very strong rationale for the same treatment applying to gas mining revenue.

In the case of gas mining, policy restrictions have meant that the resource base (gas reserves) is largely unknown and data from available sources such as Geoscience Australia heavily reflect state policy decisions to restrict gas exploration and development. However, the Commission has determined that an EPC treatment should not apply in that case.

It is also noteworthy to contrast the inconsistency given to policy neutrality between the two assessments. The Commission noting in its gambling consultation paper that *"the influence of state policies that affect the level of gambling has meant that the Commission has not been able to develop a reliable method to differentially assess gambling taxes."* However, in its views on assessing unconventional gas, where state restrictions are similarly influential, the Commission significantly downplays the impacts of policy restrictions and determined without evidence that bans have a limited effect. Policy neutrality impacts are not mentioned at all by the Commission in this section.

The Commission needs to explain why it considers such a significant inconsistency is appropriate.

Queensland would therefore stress that the Commission should review its decision on gas mining. To apply an EPC treatment would be the most appropriate approach and would ensure consistency across assessments. To uphold the current gas mining methods in spite of this would be to perpetuate unexplained and arbitrary inconsistencies within the HFE system.

# Expenses assessments

## 15 Justice

Queensland notes that the Commission intends to apply the changes noted below in the 2026 Update, once data unaffected by COVID-19 impacts were available. Queensland supports the Commission undertaking this approach and maintaining the 2020 Review methods for the Justice assessment in the interim.

Given this proposed approach, Queensland notes that the Commission must provide a detailed addendum report for the Justice assessment during the 2026 Update, and provide states with adequately time to consider and scrutinise any additional information or data provided at this time. Queensland will provide further comments when this addendum is provided to states.

### Proposed changes/positions

Based on the information provided in the draft report, the Commission's positions are:

- The Commission proposes to broadly retain the 2020 Review model for the justice assessment, with some changes.
- The Commission proposes to:
  - not apply any new equal per capita assessments or discounts due to data concerns
  - update the justice assessment method in the 2026 Update with data from 2022–23 and 2023–24 and maintain the 2020 Review method for GST distribution in 2025–26
  - not request justice data from states on an ongoing annual basis.
- The Commission proposes to include a cost weight for juvenile detainees in the prisons assessment, if material. The cost weight would be derived using juvenile detainee data from the Report on Government Services data. If material, the assessment will be implemented in the 2026 Update and updated each year for the remainder of the review period.
- The Commission does not propose to change the prisons assessment to account for proposed increases in the age of criminal responsibility.
- The Commission proposes to retain the 2020 Review method for assessing police expenses, based on the socio-demographic composition of offenders, population and their associated costs.
- Further analysis of state data and consultation is required to determine whether there should be an additional cost weight for remote offenders. If the outcome of this analysis and consultation supports inclusion of an additional cost weight, it will be implemented in the 2026 Update.
- Further analysis of state data and consultation is required to form a view on the treatment for central costs in the police assessment. The outcome of this analysis will be incorporated in the 2026 Update.
- Further analysis of state data and consultation is required to determine whether certain police costs are unique to major cities and should be included in the police assessment. The outcome of this analysis will be incorporated in the 2026 Update.
- The Commission proposes to consider how cultural and linguistic diversity affects state service costs as part of its proposed forward work program.
- The Commission does not propose to make changes to the police assessment due to potential barriers for policy reform.
- The Commission proposes to continue to exclude traffic and breach of bail offence data from the police assessment.

- The Commission proposes to continue to use proceedings data in the calculation of assessed offenders as it considers they are an appropriate measure of offenders in the assessment.
- The Commission proposes to continue to apply the socio-economic status approach for First Nations people that best reflects a linear relationship with offence rates. Further analysis of state data and consultation is required to determine an appropriate socio-economic structure for First Nations people. The outcome of this analysis will be included in the 2026 Update.
- The Commission proposes not to apply a discount to the police assessment to account for the inability of the assessment to recognise different costs for different offence types or inconsistencies in data reporting.
- The Commission proposes to continue to use the number of finalised defendants as it considers it remains the most appropriate driver of criminal court expenses and is a suitable measure for determining state spending needs.
- The Commission proposes to use data from all states in the criminal courts component. Further analysis of state data and consultation is required to determine the socio-demographic composition calculation for the regional cost gradient in the criminal courts assessment. The outcome of this analysis will be included in the 2026 Update.
- The Commission proposes to attribute Indigenous status to not-stated finalised defendants by the proportion of the stated defendant responses for inclusion in the 2026 Update. This means all justice components will now use the same approach to attributing not-stated responses.
- The Commission proposes to continue to apply a cost gradient when assessing regional and service delivery scale costs in the criminal courts assessment. Updated data has been requested from states for the 2025 Review. Analysis of the updated state data and consultation is required to determine an appropriate cost gradient. The outcome of this analysis will be included in the 2026 Update.
- The Commission proposes to continue to use data provided by states for the 2025 Review to split other legal services and criminal courts expenses.
- Further analysis of state data and consultation is required to determine an approach to regional and service delivery scale costs for the prisons assessment. The outcome of this analysis will be included in the 2026 Update.
- The Commission proposes to continue to use defendant socio-economic status as a proxy for prisoner socio-economic status in the prisons assessment without applying a discount.
- The Commission proposes to include an assessment of community correction orders in the prisons assessment if it is material in the 2026 Update.

The Commission has not finalised its positions for the justice assessment, with finalised draft positions to be provided during the 2026 Update. Queensland notes that the above preliminary positions may change based on any further analysis conducted by the Commission for the 2026 Update. Responses provided in this submission may be revised based on further Commission consideration.

#### **Commission position**

- *The Commission proposes to broadly retain the 2020 Review model for the justice assessment, with some changes.*

#### **Queensland position**

In Queensland's previous submissions to the methodology review, it outlined a range of limitations and issues related to the Justice assessment. Further clarification provided by Commission staff have addressed to some degree Queensland's concerns. However, Queensland continues to have material

issues with key elements of the Justice assessment model and the Commissions proposed positions as discussed in the following sections.

As such, Queensland does not support broadly retaining the commissions 2020 review model for the justice assessment, without addressing these key issues.

### Commission position

- *The Commission proposes to:*
  - *not apply any new equal per capita assessments or discounts due to data concerns*
  - *update the justice assessment method in the 2026 Update with data from 2022–23 and 2023–24 and maintain the 2020 Review method for GST distribution in 2025–26*
  - *not request justice data from states on an ongoing annual basis.*

### Queensland position

Queensland supports the Commission:

- not applying any new equal per capita assessments or discounts due to data concerns. The data used in the justice assessment is of high quality and supplied by states themselves or by national data repositories such as the Australian Bureau of Statistics or the Productivity Commission.
- updating the justice assessment method in the 2026 Update with data from 2022–23 and 2023–24 and maintaining the 2020 Review method for GST distribution in 2025–26. Queensland acknowledges data from 2020–21 and 2021–22 may be distorted due to the impact of COVID-19. The use of data from 2022–23 and 2023–24 to inform the assessment is appropriate.
- not requesting justice data from states on an ongoing annual basis. Annual data collection from states and its additional manipulation by the Commission are impractical and time intensive for states and the Commission, respectively.

Queensland supports updating the justice assessment in 2026 to allow time for data free from the effects of COVID-19 to be supplied and analysed. However, Queensland notes that states submit police data to the Commission, which is high level police district costing data, not identifiable data. The data is then manipulated and regressed to inform cost weights applied in the policing model, but the methodology applied in manipulating the data is unclear.

Queensland requests that the Commission strive for transparency with all data manipulation and analysis within the Justice assessment update in 2026. In particular, Queensland requests the Commission provide states with the police data, along with the policing regression, to better inform states in preparing their positions for future reviews.

### Commission position

- *The Commission proposes to include a cost weight for juvenile detainees in the prisons assessment, if material. The cost weight would be derived using juvenile detainee data from the Report on Government Services data. If material, the assessment will be implemented in the 2026 Update and updated each year for the remainder of the review period.*

### Queensland position

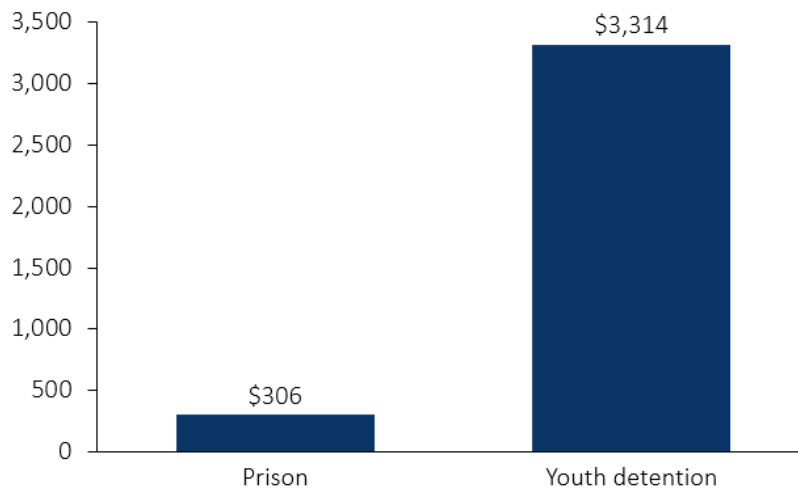
Queensland supports the Commission including a cost weight for juvenile detainees in the prisons assessment using the Productivity Commission’s Report on Government Services (RoGS) data to derive an

appropriate weight. There is a noted difference in the costs of detainment for adult prisoners and juvenile detainees as seen in Figure 15.1 below.

Queensland welcomes the CGC’s use of the average daily number of young people in detention-based services in this calculation. This daily metric better reflects the shorter stay of juvenile detainees relative to adult prisoners, where an average annual measure would not.

However, Queensland notes the CGC uses juvenile detainee data from Table 17A.21 of the RoGS 2024 data and would suggest the CGC examine the implications of using juvenile detainee data from Table 17A.1 to ensure the appropriate measure is selected.

**Figure 15.1: Cost of detainment per night for prison and youth detention, 2022-23 (\$).**



The difference in cost weights is due to Queensland using **daily average juvenile detention and prison population** numbers and a **cost per bed night** metric, compared with the Commission’s use of an **annual average cost per juvenile detainee and prisoner**. Queensland contends that the cost per bed night is a more accurate and appropriate cost weight for detention services. Cost per bed night accounts for the shorter average length of stay of juvenile detainees compared to adult prisoners, which annual average cost fails to do. A cost per bed night can be derived using Productivity Commission data.

**Commission position**

- *The Commission does not propose to change the prisons assessment to account for proposed increases in the age of criminal responsibility.*

**Queensland position**

Queensland supports the Commission in not changing the prisons assessment to account for proposed increases in the age of criminal responsibility. Queensland notes that accounting for changes to the minimum age of criminal responsibility would be policy contaminated.

**Commission position**

- *The Commission proposes to retain the 2020 Review method for assessing police expenses, based on the socio-demographic composition of offenders, population and their associated costs.*

**Queensland position**

Queensland does not support the Commission retaining the 2020 Review method for assessing police expenses, based on the socio-demographic composition of offenders, population and their associated costs. Queensland maintains that the Commission’s decision to divide police expenses between criminal



and community policing is inappropriate, as the two areas of policing are inextricably linked, and driven by the common factors of crime and crime propensity.

The Commission's current methodology yields a split of 31:69 between the criminal component (which the Commission calls 'offenders') and the residual component (which the Commission calls the 'regional cost of policing'). The split is unnecessarily complex and does not reflect what states do in delivering police services.

**Expenses relating to the so-called regional cost of policing** – including community policing, providing a visible police presence and community safety and support – **are driven by explicit sociodemographic factors of crime and crime propensity, rather than by population.** If the level of spending on community and preventative policing is not driven by the propensity for crime, then this is a clear policy choice, as opposed to spending required to meet policing need.

Preventative police programs are generally targeted at high-risk settings or directed at the early identification and subsequent intervention in the lives of people or groups at risk of engaging in criminal activity or becoming victims of crime (secondary prevention). It can also be targeted at the prevention of recidivism among those people who have already engaged in offending behaviour. Additionally, provision of police services to the general community includes protection from those population groups that are more likely to commit crime.

**Overall, the level and amount of community policing needed in a state is directly determined by the same socio-demographic drivers as the need for criminal policing.**

Queensland has highlighted in its previous Tranche 1 and 2 submissions that all of the socio-demographic drivers should be applied to the entire assessment. In its response, and in officer level meetings the Commission and staff have suggested that the steep gradient of the regional cost gradient within the community policing expense component reflects the impact of other underlying cost drivers such as socio-economic status, Indigeneity proportions and crime rate. These drivers of police need, while likely correlating with regionality, are entirely separate. Attributing around 70 per cent of policing costs to a population-driven component, which only adjusts explicitly for regionality and assumes other drivers of police expense are represented – while not being explicitly accounted for – is not reflective of 'what states do.'

Queensland recommends that all policing be assessed as a single component, with socio-demographic characteristics determined by offender rates as the key volume driver of need and regional costs applied to all policing costs.

#### **Commission position**

- *Further analysis of state data and consultation is required to determine whether there should be an additional cost weight for remote offenders. If the outcome of this analysis and consultation supports inclusion of an additional cost weight, it will be implemented in the 2026 Update.*

#### **Queensland position**

Queensland supports an additional cost weight for remote offenders but notes that the addition of a remote cost weight would be inferior to a wholesale review of the policing model. Queensland has outlined a strong rationale in previous submissions that the policing model should be a singular, offender driven model, accounting for socio-demographic characteristics and regionality. Queensland supports the Commission reviewing the policing assessment in the context of the 2026 update and would be pleased to assist the Commission in this review.

### Commission position

- *Further analysis of state data and consultation is required to form a view on the treatment for central costs in the police assessment. The outcome of this analysis will be incorporated in the 2026 Update.*

### Queensland position

Queensland does not support the proposed separation of central policing services costs in the police assessment. Victoria and New South Wales both submitted that the model does not appropriately allocate centrally provided police spending across police districts<sup>35</sup>. Queensland maintains that the proposed change is in direct breach of the CGC principles of practicality, policy neutrality, what states do, and the change would lead to redistribution of GST inconsistent with horizontal fiscal equalisation.

Separating central policing costs from other policing costs is extremely difficult and costs are not specifically allocated in that way at the state level, with any allocation likely to be undertaken differently across states, resulting in distorted measurements of assessed expenses.

The separation of central policing costs, and their differential weighting to other police costs, may either penalise or reward a particular state based on their respective police force operating model, which is clearly a policy decision of the individual jurisdiction.

Regional and remote police districts rely more heavily on central policing services as they lack the capability of metropolitan police stations.

Central policing costs are not detached from other police spending. Central policing need and cost are driven by actual policing need, which in turn is driven by offence rates, socio-demographic factors and remoteness.

Therefore, central policing costs are directly influenced by the size and complexity of the policing task experienced by each state and should not be separated and treated differently within the policing assessment.

### Commission position

- *Further analysis of state data and consultation is required to determine whether certain police costs are unique to major cities and should be included in the police assessment. The outcome of this analysis will be incorporated in the 2026 Update.*

### Queensland position

Queensland does not support certain other states' positions on the alleged uniqueness of police costs to major cities. New South Wales proposes recognising the costs related to addressing crime in major cities. New South Wales suggests that major cities face complex crime such as terrorism, organised crime, cybercrime, financial crime, that may drive additional policing expense.

The policing of these crimes is not unique to major cities and is commonly dealt with by the Australian Federal Police (AFP) and other Commonwealth-funded agencies. The AFP acknowledges that "terrorism can happen anywhere in Australia" and further acknowledge that they play a lead role in keeping Australians safe from terrorism, as opposed to jurisdictional police forces<sup>36</sup>. The AFP are supported by another Commonwealth-funded agency, namely the Australian Security and Intelligence Organisation

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<sup>35</sup> Central police costs have been defined in New South Wales's tranche 1 submission as selected police force commands including Counter Terrorism and Special Tactics, State Intelligence, State Crime, Forensic Evidence and Technical Services, Marine Area, and Aviation.

<sup>36</sup> Australian Federal Police. Terrorism. [Terrorism | Australian Federal Police \(afp.gov.au\)](https://www.afp.gov.au/terrorism)

(ASIO), in monitoring terrorism threats, and in questioning and detaining suspects accused of terrorism-related offences<sup>37</sup>.

Organised crime is transnational in nature, technology-enabled and no longer is driven by criminal networks within certain geographic boundaries<sup>38</sup>. Organised criminal networks pose risks to all Australian jurisdictions, not merely those with 'major cities'. The Queensland Police Service's Serious and Organised Crime group, for instance, is responsible for homicides, organised crime, major drug problems and rural and stock crimes but in recent years has also extended its reach to address financial and cybercrimes, and outlaw motorcycle gangs.<sup>39</sup>

The AFP investigates and prosecutes money laundering and serious financial crimes that affect the Commonwealth. The Australian Securities and Investments Commission (ASIC) regulates and enforces laws within financial services and consumer credit and authorised financial markets operating in Australia<sup>40</sup>.

Technological advances mean that cybercriminal groups can target thousands of people across Australia, at once, from anywhere in the world. No single jurisdiction is necessarily more at risk than another.

The AFP, rather than jurisdictional police forces, takes the lead role in investigating cybercrime, working alongside other Commonwealth-funded government bodies, including the Australian Criminal Intelligence Commission, Australian Cyber Security Centre, Commonwealth Director of Public Prosecutions, and Department of Home Affairs.<sup>41</sup>

Complex crime could also be argued to include environmental crime, to which Queensland, with diverse environmental areas and extensive coastline, is likely to be at greater risk.

**Once these issues are considered, it becomes clear that the proposed change to accommodate for 'major cities' does not warrant its own cost weight.**

#### Commission position

- *The Commission proposes to consider how cultural and linguistic diversity affects state service costs as part of its proposed forward work program.*

#### Queensland position

Queensland does not oppose further investigation of whether cultural and linguistic diversity affect state service costs as part of its forward work program. However, Queensland considers that there is a lack of evidence to suggest that there is greater cultural and linguistic diversity in major city prisons. Additionally, there is a lack of evidence to suggest that cultural and linguistic diversity in prisons impacts the cost of service delivery or that it would materially impact the GST distribution.

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<sup>37</sup> Australian Government. Australian National Security. [Current National Terrorism Threat Level \(nationalsecurity.gov.au\)](https://www.nationalsecurity.gov.au/current-national-terrorism-threat-level); Law Council of Australia. Australian Security Intelligence Organisation. [Australian Security Intelligence Organisation \(ASIO\) - Law Council of Australia](https://www.asio.gov.au/)

<sup>38</sup> The Australian Criminal Intelligence Commission suggest up to 70 per cent of Australia's serious and organised crime threats are based offshore or have strong offshore links; Australian Criminal Intelligence Commission. (2017). Organised Crime in Australia. [oca\\_2017\\_230817\\_1830.pdf \(acic.gov.au\)](https://www.acic.gov.au/oca_2017_230817_1830.pdf)

<sup>39</sup> Australian institute of Criminology. (2018). Organised Crime Research. Page 105. [Organised crime research in Australia 2018 \(aic.gov.au\)](https://www.aic.gov.au/organised-crime-research-in-australia-2018)

<sup>40</sup> Australian Securities and Investments Commission. [Our role | ASIC](https://www.asic.gov.au/our-role)

<sup>41</sup> Australian Federal Police. Cybercrime. [Cybercrime | Australian Federal Police \(afp.gov.au\)](https://www.afp.gov.au/cybercrime)

### Commission position

- *The Commission does not propose to make changes to the police assessment due to potential barriers for policy reform.*

### Queensland position

Queensland supports the Commission in not changing the police assessment due to potential barriers for policy reform. The Commission's assessments are designed to be based on national average policies. States implementing policies that reduce their offender numbers are unlikely to materially affect the national average use rates; therefore, any state that implemented policies that reduced offender numbers below the national average would not see a reduction in their GST share.

### Commission position

- *The Commission proposes to continue to exclude traffic and breach of bail offence data from the police assessment.*

### Queensland position

Queensland supports the Commission continuing to exclude traffic and breach of bail offence data from the police assessment. The Australian Bureau of Statistics has indicated that traffic and breach of bail offence data across states has quality and comparability issues. Furthermore, the exclusion of these offences is not expected to material impact assessment results.

### Commission position

- *The Commission proposes to continue to use proceedings data in the calculation of assessed offenders as it considers they are an appropriate measure of offenders in the assessment.*

### Queensland position

Queensland supports the Commission continuing to use proceedings data in the calculation of assessed offenders as it considers they are an appropriate measure of offenders in the assessment. The use of proceedings data within the police assessment more accurately reflects the costs associated with investigating and charging an offender, as it accounts for single offenders who are charged for multiple offences within a year.

Use of the Australian Bureau of Statistics offender count will not recognise the costs associated with any subsequent offences by an offender within the given year, which will considerably underestimate the actual level of offending. **The potential for underestimation of offending using offender count data is significant, given the Commission's own analysis of Australian Bureau of Statistics proceedings data for 2022–23 indicated that 27 per cent of offenders have more than one proceeding against them.**

### Commission position

- *The Commission proposes to continue to apply the socio-economic status approach for First Nations people that best reflects a linear relationship with offence rates. Further analysis of state data and consultation is required to determine an appropriate socio-economic structure for First Nations people. The outcome of this analysis will be included in the 2026 Update.*

### Queensland position

Queensland supports the Commission continuing to apply the socio-economic status approach for First Nations people that best reflects a linear relationship with offence rates. A simplified three-tiered approach was found to assess the socio-economic status of the First Nations populations as accurately as

the available data allowed. The alternative of adopting a socio-economic structure that does not show a linear relationship with offence rates may mean that the measure is capturing the effects of factors unrelated to socio-economic status.

#### **Commission position**

- *The Commission proposes not to apply a discount to the police assessment to account for the inability of the assessment to recognise different costs for different offence types or inconsistencies in data reporting.*

#### **Queensland position**

Queensland supports the Commission not applying a discount to the police assessment to account for the assessment not recognising different offence types or inconsistencies in data reporting. There is no evidence suggesting different offence types or inconsistencies in data reporting are having a material impact on estimates of states' police expense needs.

#### **Commission position**

- *The Commission proposes to continue to use the number of finalised defendants as it considers it remains the most appropriate driver of criminal court expenses and is a suitable measure for determining state spending needs.*

#### **Queensland position**

Queensland supports the Commission continuing to use the number of finalised defendants as the driver of criminal court expenses as there are no other appropriate sources of data that could be used as an alternative to finalised defendants. While the Productivity Commission provides data on court lodgements, which are an indicator of community demand for court services, the number of lodgements does not always equal the number of finalisations in the same year as not all matters lodged in one year will be finalised in the same year.

#### **Commission position**

- *The Commission proposes to use data from all states in the criminal courts component. Further analysis of state data and consultation is required to determine the socio-demographic composition calculation for the regional cost gradient in the criminal courts assessment. The outcome of this analysis will be included in the 2026 Update.*

#### **Queensland position**

Queensland supports the Commission using data from all states in the criminal courts component and further analysing this data to determine the socio demographic composition calculation for the regional cost gradient in the criminal courts assessment. The use of data from all states is important for modelling and national average purposes. In the 2020 review, data from Victoria, Tasmania and the ACT were excluded due to quality issues. States must report their data with accurate distribution of costs across locations to support remote and non-remote comparisons. Additionally, states must provide data that includes the Indigenous status of finalised defendants. Queensland supports the Commission's further analysis of quality data provided by states in the context of the 2026 update. Queensland stands ready to supply this data and to support the Commission in reappraising the criminal courts assessment.

### **Commission position**

- *The Commission proposes to attribute Indigenous status to not-stated finalised defendants by the proportion of the stated defendant responses for inclusion in the 2026 Update. This means all justice components will now use the same approach to attributing not-stated responses.*

### **Queensland position**

Queensland supports the Commission attributing Indigenous status to not-stated finalised defendants by the proportion of the stated defendant responses for inclusion in the 2026 Update. This approach is practical and consistent with other components of the justice assessment, and attributing Indigenous status to not-stated finalised defendants by shares of stated defendant responses is not expected to overestimate the number of First Nations finalised defendants.

### **Commission position**

- *The Commission proposes to continue to apply a cost gradient when assessing regional and service delivery scale costs in the criminal courts assessment. Updated data has been requested from states for the 2025 Review. Analysis of the updated state data and consultation is required to determine an appropriate cost gradient. The outcome of this analysis will be included in the 2026 Update.*

### **Queensland position**

Queensland supports the Commission continuing to apply a cost gradient when assessing regional and service delivery scale costs in the criminal courts assessment. This is intended to take into account the relative costs of court services between regions, the propensity to travel to attend court and that magistrate courts represent about half of all court costs and higher courts rarely travel to remote areas.

### **Commission position**

- *The Commission proposes to continue to use data provided by states for the 2025 Review to split other legal services and criminal courts expenses.*

### **Queensland position**

Queensland supports the Commission continuing to use data provided by states for the 2025 Review to split other legal services and criminal courts expenses. Queensland agrees with the Commission's previous conclusion that RoGS data is unsuitable for this purpose due to its exclusion of non-court expenditure (such as the costs of running state departments of justice and legal aid) and some criminal court expenses related to specialised courts.

### **Commission position**

- *Further analysis of state data and consultation is required to determine an approach to regional and service delivery scale costs for the prisons assessment. The outcome of this analysis will be included in the 2026 Update.*

### **Queensland position**

Queensland does not support an alternative approach to regional and service delivery scale costs for the prisons assessment. Remoteness is a key cost driver within the prisons model and adds considerable explanatory power to the assessment model. Regional and remote prisons have greater operating costs

due to greater transport costs, food costs, and staff wages costs.<sup>42</sup> Queensland Corrective Services aims to place incarcerated people in prisons close to their communities. Given Queensland's disperse population and vast area, there is a need to provide appropriate criminal justice facilities in regional areas.

There is a significant body of research suggesting that in-person visitation and contact with family and friends is significantly beneficial for incarcerated persons, reducing recidivism, and improving health and behaviour.<sup>43</sup> Additionally, supportive social networks and access to family and similar ethnic groups has been found to be critical for Indigenous people making a successful transition back into the community and reduced recidivism.<sup>44</sup>

**The need for regional and remote cost weights is directly determined by the population dispersion and remoteness characteristics of a state.**

### Commission position

- *The Commission proposes to continue to use defendant socio-economic status as a proxy for prisoner socio-economic status in the prisons assessment without applying a discount.*

### Queensland position

Queensland supports the Commission continuing to use defendant socio-economic status as a proxy for prisoner socio-economic status in the prisons assessment without applying a discount. This approach is the most practical given the unavailability of data about prisoner socio economic status.

The socio-economic status of defendants and prisoners is closely linked. A discount would introduce a bias to the assessment, which may operate in the opposite direction to any real world difference between the socio-economic status of defendants and prisoners. Indeed, the cost of legal representation may mean that lower socio-economic status has greater representation within prisoner populations, as opposed to defendants. Thus, if anything, the impact of socio-economic status could be underestimated, rather than overestimated as implied by the argument for a discount.

### Commission position

- *The Commission proposes to include an assessment of community correction orders in the prisons assessment if it is material in the 2026 Update.*

### Queensland position

Queensland does not support the Commission including an assessment of community correction orders in the prisons assessment. This is considered to be policy-contaminated and impractical. The number of non-custodial sentences is driven by legislation in each jurisdiction. It is therefore not appropriate for inclusion as a driver in a Commission assessment.

New South Wales has suggested the national share of people in community-based corrections has grown since the last review. This trend largely has been driven by policy decisions in New South Wales. The New South Wales Bureau of Crime Statistics and Research found that sentencing reforms passed in 2018

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<sup>42</sup> The daily cost to house a prisoner in Broome, WA is four times greater than a maximum-security facility in Perth, and seven times greater than a medium security facility in Perth; The West Australian. (2016). More WA prisoners, with big price tag, WA jails more at a higher cost. [More WA prisoners, with big price tag, WA jails more at a higher cost | The West Australian](#)

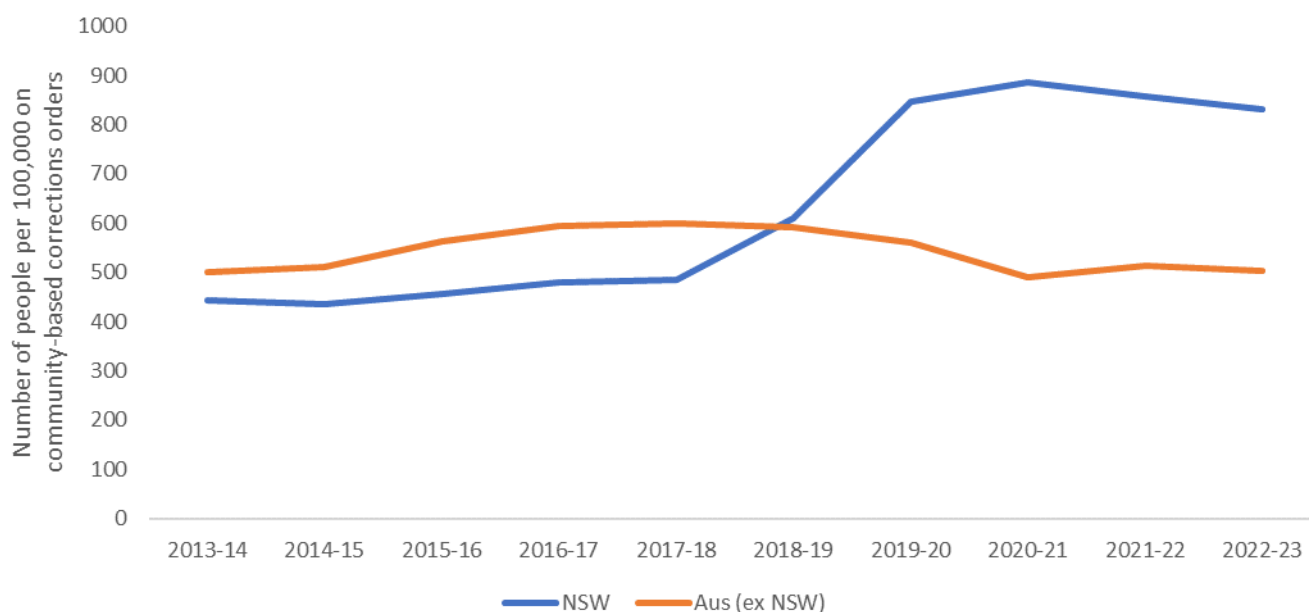
<sup>43</sup> Bales and Mear's (2008) conducted a study of 7,000 people released from state prisons in Florida and found that each additional visit received during incarceration lowered the odds of two-year recidivism by 3.8 per cent; Bales, W, & Mears, D. (2008). Inmate Social Ties and the Transition to Society: Does Visitation Reduce Recidivism? [Inmate Social Ties and the Transition to Society: Does Visitation Reduce Recidivism? | Office of Justice Programs \(ojp.gov\)](#); Prisons Policy Initiative. [Research roundup: The positive impacts of family contact for incarcerated people and their families | Prison Policy Initiative](#)

<sup>44</sup> PWC. [Indigenous incarceration: Unlock the facts \(pwc.com.au\)](#); [Turning points : a study of related factors related to the successful reintegration of Aboriginal offenders / Doug Heckbert, Douglas Turkington. - Trove \(nla.gov.au\)](#)

significantly increased the proportion of adult offenders in the Local Court receiving a supervised community order in that state, from 14.6 per cent to 22.0 per cent.<sup>45</sup>

As highlighted below in Figure 15.2, the number of people per 100,000 on community based corrections orders in New South Wales increased by 72 per cent between 2017-18 and 2022-23, while other jurisdictions have recorded a 16 per cent fall in the number of people on community based corrections orders over the same period.

**Figure 15.2: Number of people per 100,000 on Community based corrections orders**



The inclusion of community-based correction orders would also unduly complicate the data reporting requirements of states.

Additionally, the Commission has not proposed how community-based corrections will be included as part of the prisons assessed expense. Community-based corrections represent a proportionally small expense, compared with prisons and juvenile detention, and there is a risk that without a clear implementation plan, the inclusion of community-based corrections will drive inappropriate outcomes.<sup>46</sup>

Given community-based corrections are policy-contaminated, their inclusion should be driven by sociodemographic drivers and adjusted for costs associated with regional and remote service delivery.

### Queensland recommendations

Expenses relating to preventative policing – including community policing, providing a visible police presence and community safety and support – are driven by the explicitly sociodemographic factors of crime and crime propensity, rather than population. **If the level of spending on community and preventative policing is not driven by the propensity for crime, then this is a clear policy choice, as opposed to spending required to meet policing need.**

As such, **need for community policing is directly correlated to need for criminal policing, with both components having identical drivers.** Given this, **Queensland recommends that the Commission**

<sup>45</sup> NSW Bureau of Crime statistics and Research. [More NSW offenders supervised in the community](#)

<sup>46</sup> Productivity Commission. (2024). Report on Government Services – 8 Corrective Services. [8 Corrective services - Report on Government Services 2024 - Productivity Commission \(pc.gov.au\)](#)



**consolidates the policing component of the justice assessment, with 100 per cent of costs assessed using socio-demographic characteristics based on offender rates.**

Likewise, providing policing, both preventative and criminal, faces significantly increased costs in regional and remote areas. This is a result of multiple factors, including, but not limited to:

- The requirement for greater resources in sparsely populated areas to ensure community safety in the event of criminal offending,
- The increased complexity of responding to criminal offending in more sparsely populated areas,
- The increased difficulty of patrolling and conducting police activities over vast distances and difficult-to-access locations in sparsely populated areas,
- Police provide a more permanent presence in a much wider range of locations compared to other State service delivery staff and in some communities police represent the primary face of government service delivery, thus providing a wider range of services than just policing.

Given these factors, **Queensland recommends that the Commission apply the regional cost gradient to 100 per cent of costs in the policing component, rather than the community policing component currently covered.** This change will better assess the actual policing task – both criminal policing and community policing – facing states with more dispersed and remote populations.

# 16 Schools

## Proposed changes/positions

Based on the information provided in the draft report, the Commissions positions are:

- The Commission proposes to include variables in the schools regression reflecting the differential cost of primary and secondary schools and primary and secondary school students.
- The Commission considers that the Nationally Consistent Collection of Data on School Students with Disability is not yet sufficiently consistent across states to use in the Commission's regression model. The Commission will monitor this dataset, with a view to incorporating it into the regression in a future review if it becomes comparable.
- In the meantime, the Commission considers the regression-based model is likely to better reflect actual needs of states for special schools than an equal per capita assessment. It proposes to apply the model, calculated only on mainstream schools, to state spending on both mainstream and special schools.
- States do not use the Schooling Resource Standard for their total funding level, or their allocation to schools. As such, the Commission proposes to continue to use a regression to reflect what states do in their funding of schools.
- The Commission proposes to use the lowest decile of socio-educational advantage for government schools. For non-government schools, the Commission proposes to use the most disadvantaged half of students.
- The Commission proposes applying the First Nations cost weight to the non-government schools regression.
- The Commission considers the proposed 2025 Review methods incorporate the additional costs of First Nations students. The precise specification of this in its regression model may adapt to changes in state funding and changes in Indigenous status identification. The Commission proposes to run regressions each year that will include variables reflecting First Nations concentrations and interaction between First Nations students and remoteness or other variables. Any changes in the specification of the regression model will be made in consultation with states.
- The Commission proposes not to include a variable for students who speak a language other than English. The Commission proposes to consider how cultural and linguistic diversity affects state service costs as part of its proposed forward work program.
- The Commission proposes to continue to include spending on early childhood education with school spending. It will continue to monitor state spending in this area.
- The Commission proposes to retain the ABS' classification of remoteness as the basis for its assessment of the impact of remoteness on state expenses. As in the 2020 Review, the Commission has grouped remote and very remote schools into a single remote grouping and has a cost weight for outer regional schools.

### Commission position

- *The Commission proposes to include variables in the schools regression reflecting the differential cost of primary and secondary schools and primary and secondary school students.*

### Queensland position

Queensland supports the change to separately assess primary and secondary students in the schools expense assessment, including variables to reflect the differential costs for schools and school students. There is a conceptual case supporting this change and additional variables were found to improve the explanatory power of the schools regression model. Also, as all states have now transitioned to a standard classification of year 7 students, there are no longer any impediments to making this change.

### Commission position

- *The Commission considers that the Nationally Consistent Collection of Data on School Students with Disability is not yet sufficiently consistent across states to use in the Commission's regression model. The Commission will monitor this dataset, with a view to incorporating it into the regression in a future review if it becomes comparable.*
- *In the meantime, the Commission considers the regression-based model is likely to better reflect actual needs of states for special schools than an equal per capita assessment. It proposes to apply the model, calculated only on mainstream schools, to state spending on both mainstream and special schools.*

### Queensland position

Queensland supports the Commission delaying the inclusion of the Nationally Consistent Collection of Data on School Students with Disability as it is not yet sufficiently consistent across states to use in the Commission's regression model. This is apparent in the results of testing which show there are significant differences in the level of support required by states, with the level of extensive support in Victoria for example 40 per cent higher than the national average. Given that the Commission would be unable to ensure that using this data would robustly capture state needs, it is appropriate to not use it at this time. Queensland supports the Commission continuing to monitor this dataset, with a view to incorporating it into the regression in a future review if it becomes comparable.

Queensland does not support assessing spending for students with a disability equal per capita as recommended by Victoria. Given that there is a higher incidence of disability among First Nations students such an approach would not reliably assess state needs.

The Commission proposes to continue using the current schools regression for all school spending, and Queensland does not oppose this approach. However, should a variable for students with disability eventually be included as data quality improves, further investigation into whether a separate special schools component is required should be considered.

### Commission position

- *States do not use the Schooling Resource Standard for their total funding level, or their allocation to schools. As such, the Commission proposes to continue to use a regression to reflect what states do in their funding of schools.*

### Queensland position

Queensland supports not using Schooling Resource Standard (SRS). It has been demonstrated that this is not 'what states do' in determining school funding, with states variously funding to different levels of the

SRS. Therefore, Queensland considers that the current regression model used in the schools assessment remains the best approach for assessing state need.

#### Commission position

- *The Commission proposes to use the lowest decile of socio-educational advantage for government schools. For non-government schools, the Commission proposes to use the most disadvantaged half of students.*

#### Queensland position

Queensland supports the conceptual case that the lowest decile of socio-educational advantage for government schools will have significantly increased costs compared to other government school students. However, Queensland contends that only assessing the lowest decile will fail to adequately capture the additional need related to socio-educational disadvantage. **Therefore, Queensland recommends that the Commission assess socio-educational disadvantage cost-weightings for government schools using two categories, assessing both severe and moderate socio-educational disadvantage.**

The first category would assess a cost-weighting for the lowest decile of student, as proposed by the Commission. This category would assess the additional costs associated with severe socio-educational disadvantage.

**Queensland also recommends a second category assessing a cost-weighting for the next three lowest deciles of students. This category would assess the additional costs associated with moderate socio-educational disadvantage.** Queensland believes that assessing needs for both the most disadvantaged students and moderately disadvantaged students will better capture differences in state need compared to only assessing need for the lowest decile of students.

For non-government schools, Queensland supports the Commission using the most disadvantaged half of students to assess cost-weightings for socio-educational disadvantage.

#### Commission position

- *The Commission proposes applying the First Nations cost weight to the non-government schools regression.*
- *The Commission considers the proposed 2025 Review methods incorporate the additional costs of First Nations students. The precise specification of this in its regression model may adapt to changes in state funding and changes in Indigenous status identification. The Commission proposes to run regressions each year that will include variables reflecting First Nations concentrations and interaction between First Nations students and remoteness or other variables. Any changes in the specification of the regression model will be made in consultation with states.*

#### Queensland position

Queensland supports the Commission proposal to apply the First Nations cost weight to the non-government schools regression as there is a valid conceptual case of higher costs for First Nations students, regardless of the school sector.

Queensland is concerned over recent changes to the First Nations cost weight, highlighted particularly by the decline from 46 per cent in 2019 to 24 per cent in 2021. Such changes are seen to be a result of the results of changes in Indigenous identification rather than changes in actual need.

While Queensland supports the Commission monitoring the regression used in the schools assessment to ensure that First Nations schooling needs are accurately reflected, states should be consulted before any changes are made.

#### **Commission position**

- *The Commission proposes not to include a variable for students who speak a language other than English. The Commission proposes to consider how cultural and linguistic diversity affects state service costs as part of its proposed forward work program.*

#### **Queensland position**

Queensland does not oppose the Commission not including a variable for students who speak a language other than English. As the Commission has identified, students speaking a language other than English is not a homogenous group, with some of this need already captured through the Indigenous status variable. Furthermore, only one of the sub-groups tested was found to contribute positively to the model but was not material.

#### **Commission position**

- *The Commission proposes to continue to include spending on early childhood education with school spending. It will continue to monitor state spending in this area.*

#### **Queensland position**

Queensland notes that the Commission will continue to include spending on early childhood education with school spending. While funding in this area is rapidly growing and may be expected to grow to a point at which a separate assessment is warranted, there is currently a lack of available, comparable data. Queensland supports the Commission continuing to monitor this in its forward work program.

#### **Commission position**

- *The Commission proposes to retain the ABS' classification of remoteness as the basis for its assessment of the impact of remoteness on state expenses. As in the 2020 Review, the Commission has grouped remote and very remote schools into a single remote grouping and has a cost weight for outer regional schools.*

#### **Queensland position**

Queensland notes that the Commission will retain the ABS' classification of remoteness as the basis for its assessment of the impact of remoteness on state expenses. Queensland's position on this is discussed in *Section 25: Geography*.

#### **Queensland recommendations**

Queensland supports assessing socio-demographic composition factors that contribute to increased need for state government expenditure on schooling. Given this, Queensland supports adopting an assessment of the lowest decile of socio-educationally disadvantaged students. However, assessing only the bottom decile of students would underestimate the increased task facing states with an above average share of moderately disadvantaged students.

As such, **Queensland recommends that the Commission assess socio-educational disadvantage cost-weightings for government schools using two categories, assessing both severe and moderate socio-educational disadvantage.** Queensland recommends the first category assess severe socio-educational disadvantage based on the lowest decile of students and the second category assess moderate socio-educational disadvantage based on the next three lowest deciles of students.

# 17 Post-secondary education

## Proposed changes/positions

Based on the information provided in the draft report, the Commissions positions are:

- The Commission proposes not to introduce a course mix driver in the 2025 Review.
- The Commission proposes that the variables used in the socio-demographic assessment be retained.
- In each assessment year, the Commission proposes to use data that reflect the amount of cross-border training not covered by alternative funding arrangements. This means that adjustments can be made between reviews to account for changing cross-border arrangements.

### Commission position

- *The Commission proposes not to introduce a course mix driver in the 2025 Review.*

### Queensland position

Queensland supports the Commission not introducing a course mix driver in the 2025 review given that this is likely to reflect a variety of factors, including state policy choices. As has been previously demonstrated such a change would also not be material.

### Commission position

- *The Commission proposes that the variables used in the socio-demographic assessment be retained.*

### Queensland position

Queensland supports the view that the current socio demographic variables should be retained as this accounts for important differences between states which impact post-secondary education need.

### Commission position

- *In each assessment year, the Commission proposes to use data that reflect the amount of cross-border training not covered by alternative funding arrangements. This means that adjustments can be made between reviews to account for changing cross-border arrangements.*

### Queensland position

Queensland supports the assessment using data that reflects the amount of cross border training not covered by funding arrangements. As this is a data related change and not a methodology change, Queensland would support these adjustments being made in future updates.

## Queensland recommendations

Queensland recommends that the undiscounted general service delivery scale gradient is applied to the post-secondary education assessment in addition to the component specific regional costs gradient. Applying the general SDS gradient would recognise the significant additional fixed costs associated with providing post-secondary education services in regional and remote localities. This issue is further discussed in *Section 25: Geography*.

# 18 Housing

## Proposed changes/positions

Based on the information provided in the draft report, the Commissions positions are:

- The Commission proposes to use an individual-based assessment instead of a household assessment to better reflect the drivers of state spending. This approach addresses the underestimation of use for social housing due to overcrowding.
- The Commission does not propose to include housing stress as a driver of need as reliable data are not available to establish a relationship between housing stress and the provision of social housing. The Commission proposes to continue to use household income as the measure of socio-economic status as this is what states use to determine eligibility for social housing.
- The Commission proposes to continue with a combined assessment of state spending on public and community housing.
- The Commission proposes not to pursue the development of a high-cost tenant cost gradient for the 2025 Review because reliable data are not available.
- The Commission proposes to retain the 2020 Review regional costs assessment method for housing due to a lack of data to support the calculation of a housing specific regional cost gradient.
- Taking into consideration the updated data provided by 3 states and data produced by the Productivity Commission in its Report on Government Services 2024, the Commission proposes to retain a First Nations cost weight of 1.2 for the 2025 Review. For the calculation of the capital stock factor, the Commission proposes to continue to use the national average share of First Nations people living in First Nations-specific housing as it is policy neutral.
- For the 2025 Review the Commission proposes not to include a cost weight for cultural and linguistic diversity or include cultural and linguistic diversity as a driver of need in this assessment. The Commission proposes to consider how cultural and linguistic diversity affects state service costs as a part of its proposed forward work program.
- For the 2025 Review the Commission proposes not to incorporate an aged-based cost weight. The Commission will pursue this issue between reviews in consultation with states.
- For the 2025 Review the Commission proposes not to develop a driver of need for using private rental properties to meet social housing demand as reliable data are not available. The Commission will pursue this issue between reviews in consultation with states.
- The Commission agrees that states are supporting the housing needs of their residents in additional ways and the assessment of spending on housing support may need to reflect these developments. Following the 2025 Review, the Commission will continue to monitor developments in affordable housing support and explore, in consultation with states, whether a differential assessment of support for people in private accommodation should be implemented in the next review.
- To address concerns with the accuracy with which tenants categorise their landlord type in the census, the Commission proposes to rebalance the social housing/non-social housing split using the Australian Institute of Health and Welfare data on social housing households. This change will not affect the assessment of recurrent spending on social housing because shares of the socio-demographic groups in social housing are being adjusted by the same proportion. However, it will affect the assessment of needs for investment in social housing via a change to the capital stock factor.
- The assessment of state social housing needs requires the estimation of social housing use rates based on all households, not just those in rental properties. As such, the Commission proposes to continue to apportion the 'not applicable' and 'not stated' responses to relevant groups.



### Commission position

- *The Commission proposes to use an individual-based assessment instead of a household assessment to better reflect the drivers of state spending. This approach addresses the underestimation of use for social housing due to overcrowding.*

### Queensland position

Queensland does not support introducing an individual-based housing assessment in place of the current household-based approach. While we accept that there is a conceptual case that a household approach does not adequately reflect issues of overcrowding, Queensland maintains that further changes add to the complexity in an assessment which already has very low redistributions.

Such a change would also likely be unwarranted on materiality grounds as seen in analysis provided in the draft report, in which the differences between an estimated resident population approach and a household approach were examined. The results showed that the difference would only be significant in Northern Territory and only in very remote areas.

### Commission position

- *The Commission does not propose to include housing stress as a driver of need as reliable data are not available to establish a relationship between housing stress and the provision of social housing. The Commission proposes to continue to use household income as the measure of socio-economic status as this is what states use to determine eligibility for social housing.*

### Queensland position

Queensland supports the Commission not including housing stress as a driver of need, as it is clear that there are substantial data limitations with using housing stress as an indicator. Estimates provided by sources such as the Australian Institute of Health and Welfare were noted to have a high margin of error and it was recommended that these be used with caution. It was also identified that the proposed (and often cited) definition of low-income households spending more than 30 per cent of income did not show a strong relationship to state spending.

### Commission position

- *The Commission proposes to continue with a combined assessment of state spending on public and community housing.*

### Queensland position

Queensland supports the Commission not undertaking a separate assessment for public and community housing. The extent to which total spending in individual states is split between public and community housing will be largely dependent on housing policy settings between states, and the Commission noted that this change would be immaterial outside of the Northern Territory.

### Commission position

- *The Commission proposes not to pursue the development of a high-cost tenant cost gradient for the 2025 Review because reliable data are not available.*

### Queensland position

Queensland supports the Commission not pursuing a cost gradient for high-cost tenants, with most states noting a lack of available data to support this change.

### Commission position

- *The Commission proposes to retain the 2020 Review regional costs assessment method for housing due to a lack of data to support the calculation of a housing specific regional cost gradient.*

### Queensland position

While the use of a housing specific cost gradient is considered preferable, in the absence of available data Queensland considers that the current general cost gradient should be retained and supports its use in this Review. Queensland recommends that the development of an appropriate cost gradient should be further considered as part of the 2030 Review to ensure that housing costs in remote areas are appropriately captured.

### Commission position

- *Taking into consideration the updated data provided by 3 states and data produced by the Productivity Commission in its Report on Government Services 2024, the Commission proposes to retain a First Nations cost weight of 1.2 for the 2025 Review. For the calculation of the capital stock factor, the Commission proposes to continue to use the national average share of First Nations people living in First Nations specific housing as it is policy neutral.*

### Queensland position

Queensland supports the Commission retaining a First Nations cost weight, with the current level based on data provided by states and corroborated by data from the Report on Government Services. Similar to the general cost weight applied, Queensland recommends that this should also be the subject of detailed review in the 2030 Review.

### Commission position

- *For the 2025 Review the Commission proposes not to include a cost weight for cultural and linguistic diversity or include cultural and linguistic diversity as a driver of need in this assessment. The Commission proposes to consider how cultural and linguistic diversity affects state service costs as a part of its proposed forward work program.*
- *For the 2025 Review the Commission proposes not to incorporate an aged-based cost weight. The Commission will pursue this issue between reviews in consultation with states.*
- *For the 2025 Review the Commission proposes not to develop a driver of need for using private rental properties to meet social housing demand as reliable data are not available. The Commission will pursue this issue between reviews in consultation with states.*
- *The Commission agrees that states are supporting the housing needs of their residents in additional ways and the assessment of spending on housing support may need to reflect these developments. Following the 2025 Review, the Commission will continue to monitor developments in affordable housing support and explore, in consultation with states, whether a differential assessment of support for people in private accommodation should be implemented in the next review.*

### Queensland position

Queensland does not oppose the Commission not including drivers or cost weights for cultural and linguistic diversity, age, and head leasing costs, and investigating these further as part of its forward work program.

Queensland notes that for the 2025 Review the Commission proposes not to incorporate an aged-based cost weight and that the Commission will pursue this issue between reviews in consultation with states.

Queensland agrees that current market pressures have increased the importance of affordable housing programs and as such Queensland supports the Commission continuing to monitor developments of alternative support arrangements. Consideration of whether a separate assessment is required should be undertaken in consultation with states as part of the 2030 Methodology Review.

#### Commission position

- *To address concerns with the accuracy with which tenants categorise their landlord type in the census, the Commission proposes to rebalance the social housing/non-social housing split using the Australian Institute of Health and Welfare data on social housing households. This change will not affect the assessment of recurrent spending on social housing because shares of the socio-demographic groups in social housing are being adjusted by the same proportion. However, it will affect the assessment of needs for investment in social housing via a change to the capital stock factor.*

#### Queensland position

Queensland notes that the Commission proposes to rebalance the social housing/non-social housing split using the Australian Institute of Health and Welfare (AIHW) data on social housing households. While the Commission has stated that AIHW data appears to provide a better count of number of social housing households given this data is collected directly from service providers rather than self-reported ABS Census data, Queensland has concerns about AIHW data reliability and does not support a change at this time.

As the Commission itself notes, AIHW data is collected for administrative purposes and is noted to contain inaccuracies and missing data. Most concerningly, while there is a difference between the total count of households between the two datasets, it is in remote and very remote areas that the differences are most pronounced. **For example, the Census data in Queensland shows 6,205 social housing households in remote or very remote areas, while AIHW data shows that there are only 2,154 households in the same remoteness categories.** While it is claimed that this will not affect recurrent spending, the Commission notes that this will impact the assessment of need for investment in social housing.

Given the data quality issues, Queensland would recommend that further investigation should occur to address these discrepancies, and that this should be more appropriately considered as part of a future body of work, which would include many of the other proposed housing changes flagged for consideration by the Commission. Queensland is concerned that to do otherwise may potentially understate future housing needs.

#### Commission position

- *The assessment of state social housing needs requires the estimation of social housing use rates based on all households, not just those in rental properties. As such, the Commission proposes to continue to apportion the 'not applicable' and 'not stated' responses to relevant groups.*

#### Queensland position

Queensland notes that the Commission will continue to apportion the 'not applicable' and 'not stated' responses to relevant groups. Queensland supports this approach and does not consider this to be a significant issue as imputations based on 'not stated' responses comprise only a small proportion of total households. Furthermore, non or partial responses are common challenges across many survey and data collections and there is no evidence to suggest that this is a greater issue in this instance. Queensland therefore does not agree with Victoria's assertion that the assessment should be discounted for this reason.

## Queensland recommendations

In addition to the responses given above, Queensland recommends that the Commission remove the medium (25 per cent) discount for the general gradient for the social housing expenses assessment. This discount is conceptually flawed and resulting in an underestimation of actual state need. This issue is further discussed in *Section 25: Geography*.

Additionally, Queensland recommends that the Commission also apply undiscounted service delivery scale costs based on the general gradient to the social housing expenses assessment. This would recognise the inherent increased fixed costs associated with service delivery in regional and remote localities.

Further, Queensland recommends that the following issues are subject to further and more detailed review during the 2030 Review:

- The development of an appropriate, housing-specific regional and service delivery scale cost gradient.
- The First Nations cost weighting.
- Investigations to address these discrepancies in AIHW data related to social housing.

These issues are further discussed in *Section 38: Other issues for the 2030 Review*.

# 19 Welfare

## Proposed changes/positions

Based on the information provided in the draft report, the Commissions positions are:

### *National Disability Insurance Scheme*

- The Commission proposes to collect state contributions to the NDIS from the Commonwealth Department of Social Services Portfolio Budget Statement. The Commission proposes to derive state spending on non-NDIS disability services as the difference between total state spending on disability services and state NDIS spending from the Commonwealth Department of Social Services Portfolio Budget Statement.
- The Commission proposes to maintain the current method of assessing state contributions to the NDIS.

### *Homelessness services*

- The Commission proposes to include a homelessness services assessment using data on specialist homelessness services use from the Australian Institute of Health and Welfare in the 2025 Review method.
- To support the new assessment method, the Commission proposes a new annual data request to obtain state expenses on homelessness services by COFOG classification, using the definition used by the Productivity Commission for the Report on Government Services. If states are unable to provide data to the Commission, the Commission will use state expenditure data from the Report on Government Services and allocate the funding 50/50 between the social housing and welfare COFOGs.
- The Commission proposes to include a differential assessment of homelessness services spending using the drivers identified in the consultation paper (age, Indigenous status, socio-economic status, remoteness). The Commission agrees with states that mental health conditions, family and domestic violence, disability, and housing affordability are potential drivers of state spending. However, data limitations prevent the Commission from including these drivers in the proposed assessment for the 2025 Review.

### *Other welfare*

- The Commission proposes to combine the other welfare assessment and the non-NDIS disability services, aged-care and national redress scheme assessment into a single other welfare assessment.
- The Commission proposes to stop collecting state spending on the National Redress Scheme from the states because it is not material.

### *Child protection and family services*

- The Commission proposes to consider how cultural and linguistic diversity affects state service costs as part of its proposes forward work program.
- The Commission proposes to continue to use the general regional cost gradient.
- The Commission will continue to apply the service delivery scale factor to child protection and family services expenditure based on the persisting conceptual case.
- The Commission will continue to monitor the availability of evidence regarding service delivery scale, including working with states to estimate how the scale of service delivery affects the costs of service provision in regional and remote areas.

- The Commission proposes not to include a First Nations cost weight in the child protection and family services assessment.

### *National Disability Insurance Scheme*

#### **Commission position**

- *The Commission proposes to collect state contributions to the NDIS from the Commonwealth Department of Social Services Portfolio Budget Statement. The Commission proposes to derive state spending on non-NDIS disability services as the difference between total state spending on disability services and state NDIS spending from the Commonwealth Department of Social Services Portfolio Budget Statement.*
- *The Commission proposes to maintain the current method of assessing state contributions to the NDIS.*

#### **Queensland position**

Queensland supports the Commission collecting the NDIS contributions from Commonwealth budget papers rather than from the states. This would ensure that the data used is on a consistent basis and would be available in a timelier manner.

The Commission proposes to derive state spending on non-NDIS services as the difference between total state spending on disability services and state NDIS spending from Commonwealth data. While there were noted to be slight differences (due to in-kind contributions) between NDIS contributions as reported by states compared to NDIS contributions reported by the Commonwealth and using two different data sources in this calculation may give rise to quality concerns, the impacts of this are perceived to be minor and therefore Queensland would support this approach.

Queensland supports the current assessment of NDIS state expenses as being fit-for-purpose. However as is standard practice, should the NDIS be renegotiated in the near term, the Commission, through its usual annual consultation process, should review and ensure the assessment method remains fit-for-purpose.

### *Homelessness services*

#### **Commission position**

- *The Commission proposes to include a homelessness services assessment using data on specialist homelessness services use from the Australian Institute of Health and Welfare in the 2025 Review method.*
- *To support the new assessment method, the Commission proposes a new annual data request to obtain state expenses on homelessness services by COFOG classification, using the definition used by the Productivity Commission for the Report on Government Services. If states are unable to provide data to the Commission, the Commission will use state expenditure data from the Report on Government Services and allocate the funding 50/50 between the social housing and welfare COFOGs.*

#### **Queensland position**

Queensland does not oppose the Commission's proposal to introduce a separate homelessness services assessment, however there are issues with a homelessness assessment which would need to be addressed.

State spending on homelessness services is already likely encapsulated in other assessments including housing, welfare and health, with the drivers similarly reflected. To ensure that spending is not being

double counted, it would be necessary to identify and remove any relevant spending from other assessments, which could in turn affect the materiality of those assessments.

There are also significant data challenges. Within the Government Finance Statistics (GFS) framework, housing spending is categorised broadly. Spending related to homelessness services is included with other forms of housing spending and there is currently **no specific GFS code** which would satisfy the collection of spending for homelessness for GST distribution. This was noted in the *Tranche 2 submission* and remains a significant limitation despite the fact that the Commission intends to release an annual data request for this information.

#### **Commission position**

- *The Commission proposes to include a differential assessment of homelessness services spending using the drivers identified in the consultation paper (age, Indigenous status, socio-economic status, remoteness). The Commission agrees with states that mental health conditions, family and domestic violence, disability, and housing affordability are potential drivers of state spending. However, data limitations prevent the Commission from including these drivers in the proposed assessment for the 2025 Review.*

#### **Queensland position**

If the Commission decided to proceed with a homelessness assessment, Queensland does not oppose using the drivers proposed (Indigenous status, age, socio-economic status and remoteness) noting their correlation with increased usage rates of homelessness services.

Queensland supports the Commission's decision not to include mental health services as a driver for homelessness spending, noting significant data limitations. The feasibility of a number of other drivers has also been considered by the Commission (overcrowding, housing affordability, family and domestic violence, drug and alcohol use) and these have been similarly omitted for the same reason. Furthermore, it was noted that the inclusion of a larger number of drivers may increase the risk of releasing sensitive unit record data, and for this reason Queensland agrees with the approach of selecting a more targeted small number of drivers.

#### *Other welfare*

#### **Commission position**

- *The Commission proposes to combine the other welfare assessment and the non-NDIS disability services, aged-care and national redress scheme assessment into a single other welfare assessment.*

#### **Queensland position**

Queensland does not oppose the Commission combining the other welfare, non-NDIS aged care and National Redress Scheme components and assessing spending using current methods. As previously noted by the Commission, this would reduce complexity in the assessment, without materially affecting distributions. Queensland also supports the Commission continuing to monitor other non-NDIS foundational supports subject to any potential changes agreed to by States and the Commonwealth.

#### **Commission position**

- *The Commission proposes to stop collecting state spending on the National Redress Scheme from the states because it is not material.*

## Queensland position

Queensland supports the Commission ceasing to collect state spending on the National Redress Scheme. Given the proposed change to collect data directly from the Australian Government, this renders a state data request unnecessary. This change in approach would also ensure more consistency in the data.

### *Child safety and family services*

#### Commission position

- *The Commission proposes to consider how cultural and linguistic diversity affects state service costs as part of its proposed forward work program.*

#### Queensland position

Similar to its views on the inclusion of a possible cultural and linguistic diversity driver in the housing assessment, Queensland notes further work will be undertaken to investigate this as part of a forward work program. Queensland does not oppose the Commission further investigating the inclusion of cultural and linguistic diversity drivers as part of a forward work program.

#### Commission position

- *The Commission proposes to continue to use the general regional cost gradient.*
- *The Commission will continue to apply the service delivery scale factor to child protection and family services expenditure based on the persisting conceptual case.*
- *The Commission will continue to monitor the availability of evidence regarding service delivery scale, including working with states to estimate how the scale of service delivery affects the costs of service provision in regional and remote areas.*

#### Queensland position

Queensland supports the Commission continuing to use the general regional & SDS cost gradients for welfare assessment components. However, Queensland recommends that the Commission remove the medium (25 per cent) discount for all assessments using the general gradient.<sup>47</sup> **This discount is conceptually flawed and resulting in an underestimation of actual state need.** This issue is further discussed in *Section 25: Geography*.

Additionally, Queensland recommends that the Commission also apply undiscounted service delivery scale costs based on the general gradient to all components with assessed regional costs.<sup>48</sup> This would recognise the inherent increased fixed costs associated with service delivery in regional and remote localities. Queensland supports working with the Commission on any attempts to better estimate the costs of service provision in regional and remote areas.

Queensland supports the continued assessment of service delivery scale costs for the child safety component. Fixed costs materially increase the cost-of-service delivery for all services, including child safety. It is essential to assess all costs associated with remoteness to ensure that states do not have their actual need grossly underestimated. As such, Queensland recommends that the discount on the general service delivery scale gradient in the child safety and family services component is removed.

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<sup>47</sup> In the welfare assessment, the removal of the medium discount (25 per cent) is recommended for the components of child safety and family services, homelessness services and other welfare including non-NDIS disability care, aged care, and National Redress Scheme.

<sup>48</sup> In the welfare assessment, the application of service delivery scale costs general gradient is recommended for the components of homelessness services and other welfare including non-National Disability Insurance Scheme, aged care, and National Redress Scheme. Service delivery scale costs are already applied to the child safety and family services component.



Noting this, Queensland is concerned about the socio-demographic assessment of remoteness in the child safety component, with further comments and recommendations related to this issue outlined below.

#### *Addressing inaccuracies in the child protection and family service component*

Queensland does not support that the current socio-demographic assessment of remoteness in the child safety component results in remote children being assessed as having a lower need than non-remote children across all categories. This is illogical and is resulting in children in inner-city areas being assessed as having as much need as high-risk children in very remote areas and materially redistributing GST.

Increased usage in non-remote areas is a factor of service accessibility and a concentration of out-of-home care being in service centres. **This is not a reflection of actual need, with children in very remote areas almost four times as likely to suffer maltreatment compared with children in a major city.**<sup>49</sup>

Given the non-intuitive results, Queensland recommends that the Commission more appropriately assess remoteness as a disability in the child safety and family services assessment.

#### **Commission position**

- *The Commission proposes not to include a First Nations cost weight in the child protection and family services assessment.*

#### **Queensland position**

Queensland does not support the Commission's proposal not to include a First Nations cost weight in the child protection and family services assessment.

Not applying a First Nation cost weight accentuates the need for removing the medium discount on relevant aspects of the welfare assessment.

#### **Queensland recommendations**

As discussed above, Queensland recommends that the Commission remove the medium (25 per cent) discount for the general gradient for the relevant components of the welfare assessment. The components where this discount on the general gradient should be removed are:

- Child safety and family services
- Homelessness services<sup>50</sup>
- Other welfare, including non-NDIS disability services, aged care, and the NRS.

This discount is conceptually flawed and resulting in an underestimation of actual state need. This issue is further discussed in *Section 25: Geography*.

Queensland supports maintaining the general service delivery scale gradient for the child safety and family services component. Queensland recommends that this gradient should also be undiscounted on conceptual grounds.

Additionally, Queensland recommends that the Commission also apply undiscounted service delivery scale costs based on the general gradient to the relevant components of the welfare assessment. These components are:

- Homelessness services<sup>51</sup>

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<sup>49</sup> Australian Institute of Health and Welfare 2024. *Child protection Australia 2021–22*. Australian Government: Canberra.

<sup>50</sup> If this differential assessment is introduced.

<sup>51</sup> If this differential assessment is introduced.

- Other welfare, including non-NDIS disability services, aged care, and the NRS.

Applying service delivery scale costs would recognise the inherent increased fixed costs associated with service delivery in regional and remote localities.

## 20 Natural disaster relief

### Proposed changes/positions

Based on the information provided in the draft report, the Commission position is:

- The Commission sees no case to change the long-standing treatment of natural disaster expenses in the GST distribution arrangements. The current approach is consistent with the objectives of horizontal fiscal equalisation. The Commission is not aware of any evidence that the GST distribution arrangements are creating a disincentive for states to reduce their exposure to natural disasters.
- The Commission will continue to monitor developments and explore in consultation with states whether a differential assessment of natural disaster *mitigation* expenses is appropriate.

### Commission position

- *The Commission sees no case to change the long-standing treatment of natural disaster expenses in the GST distribution arrangements. The current approach is consistent with the objectives of horizontal fiscal equalisation. The Commission is not aware of any evidence that the GST distribution arrangements are creating a disincentive for states to reduce their exposure to natural disasters.*

### Queensland position

Queensland supports the continuation of the natural disaster relief assessment in its current form.

State spending on natural disasters is not policy influenced and, as such, an actual per capita assessment is the most appropriate assessment method.

States have no ability to control the impact of natural disasters and associated relief expenses, and a Commonwealth-state funding agreement (the DRFA) governs spending according to a clear set of criteria and principles and with specifically prescribed allowable expenses.

Natural disaster relief expenses have been subject to considerable scrutiny and investigations as part of previous Commission Methodology Reviews and Updates. These reviews have confirmed that an APC assessment is the only appropriate approach to assessing state needs for natural disaster relief and recovery.

### Commission position

- *The Commission will continue to monitor developments and explore in consultation with states whether a differential assessment of natural disaster mitigation expenses is appropriate.*

### Queensland position

Queensland supports the Commission continuing to monitor natural disaster *mitigation* expenses to determine an appropriate treatment. This is discussed in further detail in *Section 22: Services to communities*.

## 21 Native Title & land rights

### Proposed changes/positions

Based on the information provided in the draft report, the Commission positions are:

- The Commission considers that an actual per capita assessment of Native Title expenditure remains appropriate. The Commission will continue to monitor approaches to Native Title compensation and associated expenditure patterns.
- The Commission considers recent developments in Treaty negotiation mechanisms do not warrant a move away from an actual per capita assessment at this time. It will monitor the impact of Treaty negotiations on Native Title and land rights expenditure in updates.
- The Commission proposes not to include Treaty-related costs in the Native Title and land rights assessment.

#### Commission position

- *The Commission considers that an actual per capita assessment of Native Title expenditure remains appropriate. The Commission will continue to monitor approaches to Native Title compensation and associated expenditure patterns.*

#### Queensland position

Queensland supports the continuation of the native title and land rights assessment in its current form.

States are required to respond to native title claim and compensation applications within the framework of national legislation and the High Court's Timber Creek decision established a legal precedent around calculating the economic value component to compensation claims.

As such, any differences between states should be seen to be due to the specific circumstances of each claim rather than state policy or influence.

#### Commission position

- *The Commission considers recent developments in Treaty negotiation mechanisms do not warrant a move away from an actual per capita assessment at this time. It will monitor the impact of Treaty negotiations on Native Title and land rights expenditure in updates.*

#### Queensland position

While treaty processes may have an impact on native title claims, and this may ultimately require a reassessment of the current APC treatment, the implications at this point are unclear. Queensland supports the Commission continuing to monitor developments and consult with states on this issue.

#### Commission position

- *The Commission proposes not to include Treaty-related costs in the Native Title and land rights assessment.*

#### Queensland position

Queensland supports Treaty-related costs not being assessed on an actual per capita basis as these expenses are subject to different states policy settings.

## 22 Services to communities

### Proposed changes/positions

Based on the information provided in the draft report, the Commission positions are:

#### *Disaster mitigation*

- 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.
- The Commission proposes to monitor developments, including any relevant recommendations that come from the Independent Review of Commonwealth Disaster Funding, and consult with states on the definition and measurement of natural disaster mitigation expenses.
- The Commission will use the information provided by states on the classification of natural disaster mitigation expenses to monitor changes in spending.
- 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.

#### *Subsidies for utilities*

- 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.
- 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).
- 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.
- For remote community electricity subsidies, a cost weight of 3.0 is proposed for very remote communities.
- 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*

- 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*

- 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.

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

#### *Transition to net zero emissions*

- The Commission will continue to monitor state spending to support the transition to net zero emissions.

#### *Disaster mitigation*

##### **Commission position**

- *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.*
- *The Commission proposes to monitor developments, including any relevant recommendations that come from the Independent Review of Commonwealth Disaster Funding, and consult with states on the definition and measurement of natural disaster mitigation expenses.*
- *The Commission will use the information provided by states on the classification of natural disaster mitigation expenses to monitor changes in spending.*
- *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.*

##### **Queensland position**

Queensland notes that the Commission was unable to develop an assessment of disaster mitigation spending for the 2025 Review but supports ongoing efforts to design and introduce an assessment.

There is likely to be a significant and increasing need, supported by studies such as the Australian Government's *Intergenerational Report 2023: Australia's future to 2063*. Furthermore, Queensland as a state with a high level of exposure to natural disasters will likely have a far greater than average need for mitigation spending as evidenced by Queensland receiving over 40 per cent of the first round of funding under the Disaster Ready Fund.

It is important that any assessment is based on a consistent definition for disaster mitigation spending. The Commission through the draft report has proposed to base this around the definition used in the National Partnership on Disaster Risk Reduction. Queensland considers that this would likely be appropriate, though we note the limitations around other aspects of the national partnership agreement, including significant contemporaneity issues (it is based on costs of natural disasters from 1967 to 1999) and a lack of clarity in the calculation of the cost of disasters.

State responses to the consultation paper have indicated that there are challenges in identifying mitigation spending within the current GFS framework. While Queensland has noted that this spending is being captured, it is essential for any assessment that the full scope of mitigation spending is included and provided on a consistent basis by all states. Queensland would recommend that the Commission consider this further and decide on how to appropriately address these issues before utilising mitigation expenses data.

Given the likely significance and materiality of a disaster mitigation assessment, Queensland supports working with the Commission further on the design of any assessment leading in to and as part of the 2030 Review.

Queensland supports the Commission monitoring developments, including any relevant recommendations that come from the Independent Review of Commonwealth Disaster Funding, and consulting with states on the definition and measurement of natural disaster mitigation expenses.

### *Subsidies for utilities*

#### **Commission position**

- *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.*

#### **Queensland position**

Queensland does not support the Commission's criteria used to define small communities for water subsidies. The inclusion of communities in inner regional and outer regional areas was an arbitrary decision made during the 2020 Review and is not a reflection of 'what states do'.

Communities in inner regional and outer regional areas do not have significantly increased water subsidy needs. Indeed, some of these "small communities" are located very close to major cities and have minimal additional service needs. Their inclusion within the small community water subsidies assessment materially and unfairly redistributes GST away from more remote states, particularly Western Australia.

**Queensland recommends the criteria used to define small communities for water subsidies is updated so that only communities in remote and very remote areas are included.**

#### **Commission position**

- *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).*

#### **Queensland position**

Queensland supports assessing water subsidies provided to residents outside of remote and very remote small communities as EPC. Residents of inner regional and outer regional small communities should be included in this assessment.

#### **Commission position**

- *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.*

#### **Queensland position**

Queensland supports simplifying the criteria used to define remote and small communities to remove the minimum population threshold and minimum density threshold. Queensland supports the continued use of an upper population threshold of 3,000 to define a small community. Queensland would not oppose the Commission also applying this upper population threshold of 3,000 for electricity subsidies.

### Commission position

- *For remote community electricity subsidies, a cost weight of 3.0 is proposed for very remote communities.*

### Queensland position

Queensland supports the Commission using a cost weight for the remote electricity subsidy assessment for very remote communities. However, given the unweighted regional cost gradient is actually 20 times for the new criteria and was 10 times for the previous criteria, the Commission should strongly consider if a factor of 3 is most likely not appropriate and the Commission should consider a higher cost weight for very remote communities.

### Commission position

- *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.*

### Queensland position

Queensland does not oppose retaining the 2020 Review regional cost gradient for small community water subsidies due to data limitations, noting that Queensland does not support the inclusion of inner regional and outer regional small communities in this assessment.

### *First Nations community development*

### Commission position

- *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.*

### Queensland position

Queensland supports retaining the current assessment for First Nations community development. Expenses related to community development are significantly higher in Discrete Indigenous communities compared to other communities. As such, the current differential assessment appropriately assesses need for states with above average shares of Discrete Indigenous communities.

However, Queensland recommends that the Commission remove the medium (25 per cent) discount on the general regional costs gradient for Indigenous community development. This discount is conceptually flawed and results in an underestimation of actual state need. This issue is further discussed in *Section 25: Geography*.

Additionally, Queensland recommends that the Commission also apply undiscounted service delivery scale costs based on the general gradient to this assessment. This would recognise the inherent increased fixed costs associated with service delivery for First Nations communities in regional and remote localities.

### *Drivers of spending on environmental protection*

### Commission position

- *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.*



## Queensland position

The Commission's draft report notes that state spending on environmental protection is impacted by a range of features and is highly policy contaminated. Queensland agrees that there are policy contamination and data issues with the overall environmental protection component, particularly given that total expenses are calculated as a residual of other expenses.

As such, an EPC assessment of some environmental protection expenditure may be appropriate and Queensland notes this decision by the Commission. However, further consideration should be given to identify appropriate differential drivers of biodiversity and landscape protection need during the 2030 Review.

## Commission position

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

## Queensland position

Queensland supports maintaining the regional cost weight based on the general gradient for spending on biodiversity and landscape protection. However, **Queensland recommends that the Commission remove the medium (25 per cent) discount on the general gradient and apply undiscounted service delivery scale costs based on the general gradient.**

Expenses for biodiversity and landscape protection are not related to population, with a large bulk of spending for these services in remote and very remote areas. As such, the general gradients substantially underestimate total increased fixed and operational costs, resulting in states having their need underassessed. This issue is further discussed in *Section 25: Geography*.

## Transition to net zero emissions

## Commission position

- *The Commission will continue to monitor state spending to support the transition to net zero emissions.*

## Queensland position

Queensland supports the Commission continuing to monitor state spending to support the transition to net zero emissions. Queensland notes that expenditure on net zero, both in operational and capital expenses, is likely to increase significantly in coming years, in particular in states facing a more difficult task for reducing emission compared to other states.

## Queensland recommendations

Queensland notes the Commission's position to maintain the other community development and amenities assessment as EPC. However, Queensland contests that a much larger proportion of this expenditure per capita is for residents of remote and very remote communities (that are not Indigenous communities) compared to other residents.

As such, Queensland recommends that the Commission look into disaggregating this assessment (similar to the water and electricity subsidy assessments) as part of the 2030 Review. This issue is further discussed in *Section 38: Other issues for the 2030 Review*.

As discussed above, Queensland recommends that the Commission remove the medium (25 per cent) discount for the general gradient for the relevant components of the services to communities assessment. The components where this discount on the general gradient should be removed are:

- First Nations community development
- Other community development and amenities
- Environmental protection

**This discount is conceptually flawed and resulting in an underestimation of actual state need.** This issue is further discussed in *Section 25: Geography*.

Additionally, Queensland recommends that the Commission also apply undiscounted service delivery scale costs based on the general gradient to the relevant components of the services to communities assessment. These components are:

- First Nations community development
- Other community development and amenities
- Environmental protection

Applying service delivery scale costs would recognise the inherent increased fixed costs associated with service delivery in regional and remote localities.

Furthermore, Queensland recommends that the Commission investigate disaggregating the other community development and amenities assessment as part of the 2030 Review. This issue is further discussed in *Section 38: Other issues for the 2030 Review*.

## 23 Services to industry including transition to net zero

Queensland's response below to the Commissions initial positions in relation to the service to industry assessment is in response to the positions in the draft paper other than the COVID 19 expenses which are dealt with in a separate COVID expense assessment.

### Proposed changes/positions

Based on the information provided in the draft report, the Commission positions are:

- The Commission proposes to replace total factor income as a measure of industry size with the aggregate measures of industry output, provided by the ABS. This measure does not require rebasing for each update. The Commission proposes to update the aggregate measures of state industry output using the percentage change in chain volume of industry value added published annually by the ABS, consistent with ABS national and state account methods.
- The Commission proposes not to assess business counts when assessing state government spending on regulatory activities because of the limitations of the ABS business count data, particularly the treatment of multi-site businesses.
- The Commission will work with states and Commonwealth agencies, including the ABS and the Net Zero Economy Authority, following the 2025 Review to develop a consistent definition of net-zero spending, identify drivers of state spending and identify and monitor net-zero business development (and non-business development) spending to consider the potential for assessing state spending needs.
- The Commission proposes to continue to assess business development expenses as equal per capita with a wage cost adjustment.

### Commission position

- *The Commission proposes to replace total factor income as a measure of industry size with the aggregate measures of industry output, provided by the ABS. This measure does not require rebasing for each update. The Commission proposes to update the aggregate measures of state industry output using the percentage change in chain volume of industry value added published annually by the ABS, consistent with ABS national and state account methods.*

### Queensland position

As one of the stated reasons for implementing this change was to address volatility, Queensland previously objected to the use of a chain volume measure as this was seen to substitute one source of volatility for another (commodity price fluctuations v rebasing effects). The Commission now intends to adopt an aggregate measure of industry output, updated annually using the percentage change in an ABS chain volume measure. It is claimed that this will not require rebasing of the indicator. As such, Queensland does not oppose the use of this measure and proposed method of update.

### Commission position

- *The Commission proposes not to assess business counts when assessing state government spending on regulatory activities because of the limitations of the ABS business count data, particularly the treatment of multi-site businesses.*

## Queensland position

While Queensland does not oppose re-introducing number of businesses as a driver for regulatory spending, our view is that other additional or alternative measures would also need to be considered if this was done. Regardless of this, the Commission has decided not to adopt a business counts driver due to significant limitations in the underlying data. Therefore, Queensland supports not including number of businesses as an assessment driver.

## Commission position

- *The Commission will work with states and Commonwealth agencies, including the ABS and the Net Zero Economy Authority, following the 2025 Review to develop a consistent definition of net-zero spending, identify drivers of state spending and identify and monitor net-zero business development (and non-business development) spending to consider the potential for assessing state spending needs.*

## Queensland position

To determine the spending need as part of the net-zero transition is a very complex task that will require a full review of government programs across all states to ensure that spending is appropriately identified and included within either a services to industry assessment or a new assessment. Furthermore, significant challenges such as the availability of data at a detailed level, determining appropriate drivers of need and the treatment of spending outside the general government sector will also have to be addressed.

As a starting point, an agreed framework for identifying net zero transition spending is necessary before any changes can be considered. Following this, a detailed data request would then need to be issued to States to ascertain what data is available.

As neither of these key steps have been taken, Queensland supports that no changes should occur as part of this Review. However, given the substantial task and costs involved in an energy transition and the likely differences in need between states, Queensland would support that this is further investigated by the Commission going forward, including as part of the 2030 Methodology Review.

## Commission position

- *The Commission proposes to continue to assess business development expenses as equal per capita with a wage cost adjustment.*

## Queensland position

Queensland agrees that an EPC treatment remains appropriate for all business development expenses, including COVID-19 business expenses, and supports its ongoing use. Queensland's substantial concerns with the proposed different treatment of COVID-19 business expenses as part of this assessment are further discussed in *Section 3: COVID-19 spending*.

In its *Tranche 2 submission*, Queensland proposed that the proportions of state spending on regulation and business development assumed in the assessment model were likely no longer reflective of actual spending and should be reviewed. Given the time that has elapsed since the proportions were last set as part of the 2020 Review and the changes to business development expenses as a result of the COVID pandemic, this review remains necessary to ensure that the assessment still reflects 'what states do' and Queensland continues to advocate for a review of this.

## Queensland recommendations

In addition to the issues discussed above, Queensland recommends that the Commission remove the medium (25 per cent) discount for the general gradient for the relevant components of the services to industry assessment. The components where this discount on the general gradient should be removed are:

- Agriculture regulation
- Mining regulation
- Other industry regulation

**This discount is conceptually flawed and resulting in an underestimation of actual state need.** This issue is further discussed in *Section 25: Geography*.

Additionally, Queensland recommends that the Commission also apply undiscounted service delivery scale costs based on the general gradient to the relevant components of the services to industry assessment. These components are:

- Agriculture regulation
- Mining regulation
- Other industry regulation

Applying service delivery scale costs would recognise the inherent increased fixed costs associated with service delivery in regional and remote localities.

## 24 Other expenses

### Proposed changes/positions

Based on the information provided in the draft report, the Commissions positions are:

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

#### Commission position

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

#### Queensland position

Queensland supports the continuation of the other expenses assessment in its current form.

#### Commission position

- *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. 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.*

#### Queensland position

Queensland notes the conceptual case for including regional cost factors and wage cost factors in some components of the other expenses category and the changes to the share of expenses to which these factors are applied. However, it is noted this would include a reduction in the share of expenses to which regional cost factors would apply from 62 per cent in the 2020 Review to 47 per cent currently proposed. As noted in *Section 25: Geography*, Queensland does not support changes which reduce the extent to which regional costs are accounted for. This position is discussed in detail in the section below.

## Queensland recommendations

In addition to the issues discussed above, Queensland recommends that the Commission remove the medium (25 per cent) discount for the general gradient for the service expenses components of other expenses assessment. This discount is conceptually flawed and resulting in an underestimation of actual state need. This issue is further discussed in *Section 25: Geography*.

Additionally, Queensland recommends that the Commission also apply undiscounted service delivery scale costs based on the general gradient to the service expenses components of other expenses assessment. Applying service delivery scale costs would recognise the inherent increased fixed costs associated with service delivery in regional and remote localities.

## Other

### 25 Geography

#### Proposed changes/positions

Based on the information provided in the draft report, the Commission positions are:

- The Commission proposes to continue its current approach to estimating regional costs and delivery scale effects. This includes:
  - using component-specific measures of remoteness costs and/or service delivery scale where the availability of reliable data makes that possible,
  - using category-specific measures of remoteness and/or service delivery scale costs where component-specific measures are not possible,
  - using a general gradient where a service-specific gradient would not be appropriate or cannot be measured, but there is a strong conceptual case for remoteness costs and/or service delivery scale.
- The Commission proposes improving the representation of services included in the general gradient calculation (currently composed of schools and admitted patients data). The Commission proposes using a weighted average of schools, admitted patients, emergency departments, non-admitted patients, water subsidies, electricity subsidies, prisons, criminal courts, post-secondary education and Rawlinsons construction cost data to calculate the gradient.
- The Commission proposes to continue implementing the 25 per cent discount to the general gradient.
- The Commission proposes to apply regional costs and service delivery scale to the same assessments as in the 2020 Review.
- The Commission proposes not to introduce an interstate non-wage cost assessment.
- The Commission proposes to retain the ABS standard classification of remoteness.
- The Commission proposes to retain its current approach and measure the extent to which costs increase for people who live in different regions.
- The Commission proposes to continue to take measures to avoid any double counting within assessments.

#### Commission position

- *The Commission proposes to continue its current approach to estimating regional costs and delivery scale effects. This includes:*
  - *using component-specific measures of remoteness costs and/or service delivery scale where the availability of reliable data makes that possible,*
  - *using category-specific measures of remoteness and/or service delivery scale costs where component-specific measures are not possible,*
  - *using a general gradient where a service-specific gradient would not be appropriate or cannot be measured, but there is a strong conceptual case for remoteness costs and/or service delivery scale.*
- *The Commission proposes improving the representation of services included in the general gradient calculation (currently composed of schools and admitted patients data). The Commission proposes*



*using a weighted average of schools, admitted patients, emergency departments, non-admitted patients, water subsidies, electricity subsidies, prisons, criminal courts, post-secondary education and Rawlinsons construction cost data to calculate the gradient.*

### Queensland position

Queensland supports assessing regional costs, service delivery scale (SDS) costs, and socio-demographic drivers of need related to remoteness. Queensland supports using component-specific measures where possible, category specific measures where component-specific measures are not available, and using the general gradient where there is a strong conceptual case for regional costs but no data available to derive a specific gradient. In general, Queensland contends that regional costs could be more widely applied, and Queensland does not support any proposed changes to decrease the amount of expenditure assessed as having regional costs. **Assessing regional cost factors is essential for genuinely deriving states relative fiscal capacity.**

### Commission position

- *The Commission proposes to continue implementing the 25 per cent discount to the general gradient.*

### Queensland position

Queensland does not support the continued implementation of the 25 per cent discount on the general gradient. Queensland is concerned that the current limited application of SDS costs and the discounting of regional costs across multiple assessments mean that the Commission is materially underestimating the need for government services in regional and remote areas. There is a strong conceptual case indicating that services facing regional costs also face significant service delivery scale costs.

Furthermore, as per analysis presented in the *Tranche 2 submission*, the actual regional cost gradient associated with services assessed using the general gradient usually have costs far exceeding the cost of services used to derive the general gradient. **This remains the case when using the improved definition of the general gradient.** As such, applying a discount to these costs is counter to the principle of HFE.

Given these factors, **Queensland recommends that the medium (25 per cent) discount to the general gradient is removed.** As a priority, Queensland strongly recommends that the discount on regional costs removed from the following assessments:

- Indigenous community development
- Other community development and amenities
- Biodiversity and landscape protection
- Agriculture regulation
- Mining regulation
- Other business regulation
- Child safety and family services
- Homelessness services
- Other welfare, including non-NDIS disability services, aged care, and the NRS
- Social housing
- Service expenses.

At minimum, Queensland recommends that the regional costs discount is reduced to 12.5 per cent and that the general combined gradient is applied in all relevant assessments.

**Removing, or at a minimum reducing, this discount on regional and service delivery scale costs will allow the Commission to better assess and recognise the increased costs associated with service provision in regional and remote areas.**

#### **Commission position**

- *The Commission proposes to apply regional costs and service delivery scale to the same assessments as in the 2020 Review.*

#### **Queensland position**

Queensland supports applying regional costs to the same assessments as in the 2020 Review. However, Queensland does not support applying service delivery scale costs to the same assessments as in the 2020 Review, and instead recommends that service delivery scale costs are applied to all assessments with regional costs.

**This is because there is a clear conceptual basis for these services facing both increased fixed costs along with operational costs in regional and remote areas.**

As outlined in Queensland's *Tranche 2 submission*, there are substantial fixed costs associated with the delivery of all government services. In regional and remote areas, these costs are extremely elevated given unique geographic challenges facing these regions (including but not limited to, higher maintenance costs driven by labour shortages and increased maintenance need from extreme weather). For many components, these additional fixed costs are not assessed by the Commission. **As such, applying service delivery scale costs according to the general gradient for relevant components should be considered a priority for the Commission.**

As a priority, Queensland strongly recommends that service delivery scale costs according to the general gradient are assessed for the following assessments:

- Indigenous community development
- Other community development and amenities
- Biodiversity and landscape protection
- Agriculture regulation
- Mining regulation
- Other business regulation
- Post-secondary education (complementing the assessment-specific regional cost gradient)
- Homelessness services
- Other welfare, including non-NDIS disability services, aged care, and the NRS
- Social housing
- Service expenses.

Additionally, as outlined above, Queensland does not support the application of any discount to regional costs or service delivery scale costs. Discounting the assessment of these costs severely underestimates need in geographically dispersed states and prevents effective HFE. As such, **Queensland recommends that the general SDS gradient applied to the above components should not be discounted.** Likewise, Queensland recommends that the discount on the SDS general gradient applied to the child safety and family safety component should be removed.

At a minimum, Queensland recommends that any discount on service delivery scale costs should be no more than a low level (12.5 per cent) discount.

### **Commission position**

- *The Commission proposes not to introduce an interstate non-wage cost assessment.*

### **Queensland position**

Queensland supports not introducing an interstate non-wage cost assessment. This is consistent with there being no reliable and robust data sources comparing interstate non-wage costs.

### **Commission position**

- *The Commission proposes to retain the ABS standard classification of remoteness.*

### **Queensland position**

Queensland supports retaining the ABS standard classification of remoteness for the 2025 Review. However, Queensland has identified numerous issues with this standard classification. As such, Queensland recommends that the Commission engages and collaborates with the ABS to develop an updated index for remoteness that is more reflective of the practicalities of service delivery and the accessibility of services in different regions for the 2030 Review. This issue is further discussed in *Section 35: Regional costs and population dispersion*.

### **Commission position**

- *The Commission proposes to retain its current approach and measure the extent to which costs increase for people who live in different regions.*

### **Queensland position**

Queensland supports retaining the current approach that measures the extent to which costs increase for people who live in different regions. The current approach adequately assesses the additional costs associated with regional and remote service delivery once service provision in other locations is accounted for.

### **Commission position**

- *The Commission proposes to continue to take measures to avoid any double counting within assessments.*

### **Queensland position**

Queensland supports the Commission taking measures to avoid any double counting within assessments. Taking such measures will help ensure that assessments remain robust.

### **Queensland recommendations**

As outlined above, Queensland recommends that undiscounted regional costs and service delivery scale costs according to general gradient are applied to the following components:

- Indigenous community development
- Other community development and amenities
- Biodiversity and landscape protection
- Agriculture regulation

- Mining regulation
- Other business regulation
- Child safety and family services
- Homelessness services
- Other welfare, including non-NDIS disability services, aged care, and the NRS
- Social housing
- Post-secondary education<sup>52</sup>
- Service expenses.

Queensland also notes that a thorough and complete review of regional costs, population dispersion, and geographic factors was not undertaken during the 2025 Review. As such, Queensland recommends that the Commission make regional costs and population dispersion a priority for the 2030 Review. In particular, Queensland recommends that the Commission:

- **Undertakes a comprehensive review and redevelopment of remoteness indices.** Queensland recommends that a redeveloped remoteness index should be able to recognise the service delivery challenges in dispersed regional centres, the different capacity of different service centres to deliver services to surrounding areas, and the increased service delivery capacity of GCCSAs compared to other urban centres. Queensland recommends that the Commission engages and collaborates with the ABS to develop an index for remoteness that is more reflective of the practicalities of service delivery and the accessibility of services in different regions.
- **Undertakes a comprehensive review of regional costs.** Queensland recommends that the Commission undertakes a comprehensive analysis of the complete extent of regional costs and increases in use rates from the socio-demographic characteristics of remoteness.
- **Considers introducing cost weightings for certain geographic factors.** Queensland recommends that the Commission consider the appropriateness of cost weightings for certain geographic factors, areas in Northern Australia, regions and locations of a high Indigenous concentration, extremely remote areas, and island communities.

These issues are discussed in detail in *Section 35: Regional costs and population dispersion*.

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<sup>52</sup> Queensland recommends that service delivery scale costs according to the general gradient are used for post-secondary education in addition to the assessment-specific regional costs gradient.

## 26 Socio-economic status

### Proposed changes/positions

Based on the information provided in the draft report, the Commission positions are:

- The Commission proposes no change to the measure of socio-economic status for the non-Indigenous population in the 2025 Review. It proposes to undertake further work in consultation with the states following the 2025 Review to inform consideration of a possible change in a future review.
- Consistent with its approach in the 2020 Review, the Commission proposes to use socio-economic status for First Nations and non-Indigenous people in as much detail as can be supported by the data. Where patterns of cost and use are inconsistent with the conceptual case upon which they are based, the Commission proposes to aggregate data, or not differentially assess socio-economic status.
- The Commission proposes to work with states to initiate a review of the Indigenous Relative Socioeconomic Outcomes index after the completion of the 2025 Review.

#### Commission position

- *The Commission proposes no change to the measure of socio-economic status for the non-Indigenous population in the 2025 Review. It proposes to undertake further work in consultation with the states following the 2025 Review to inform consideration of a possible change in a future review.*

#### Queensland position

Queensland supports retaining the current assessment methodology for socio-economic status.

As noted in the *Tranche 1 submission*, there remain substantial limitations with a PLIDA (formerly MADIP) based measure that would prevent its use in the Commission's assessment methods. The most significant of these limitations is the incomplete linkage of individuals under PLIDA. These linkage gaps disproportionately affect those of lower SES, significantly limiting its suitability as a SES measure.

Queensland welcomes the Commission conducting further investigations into PLIDA for the 2030 Review. This issue is further discussed in *Section 34: Forward work program & the 2030 Methodology Review*.

#### Commission position

- *Consistent with its approach in the 2020 Review, the Commission proposes to use socio-economic status for First Nations and non-Indigenous people in as much detail as can be supported by the data. Where patterns of cost and use are inconsistent with the conceptual case upon which they are based, the Commission proposes to aggregate data, or not differentially assess socio-economic status.*

#### Queensland position

Queensland supports the Commission continuing to disaggregate socio-economic status, Indigenous status, and remoteness in as much detail as can be supported by the data. The Commission notes in their draft report that:

*"Where patterns of cost and use are inconsistent with the conceptual case upon which they are based, the Commission proposes to aggregate data, or not differentially assess socio-economic status."*

Queensland supports this sentiment and recommends that this principle should apply not just to socio-economic status but also Indigenous status and remoteness.

Queensland notes that this issue is already materially impacting the child safety component of the welfare assessment, with remote children being assessed as having materially less need than non-remote children across all SES and Indigenous status categories. As such, the Commission should consider whether continuing this remoteness assessment is appropriate

### Commission position

- *The Commission proposes to work with states to initiate a review of the Indigenous Relative Socioeconomic Outcomes index after the completion of the 2025 Review.*

### Queensland position

Queensland supports the Commission's commitment to review IRSEO during the 2030 Review. Queensland notes that a review of factors impacting Indigenous status and disadvantage have not been adequately reviewed since the 2015 Review. As such, this should be viewed as a priority for the 2030 Review. This issue is further discussed in *Section 34: Forward work program & the 2030 Methodology Review*.

### Queensland recommendations

Queensland notes that a thorough and complete review of socio-economic status and other socio-demographic composition drivers of need was not undertaken during the 2025 Review. As such, Queensland recommends that the Commission make these issues a priority for the 2030 Review. In particular, in reference to socio-demographic composition, Queensland recommends that the Commission:

- **Further investigate PLIDA-based measures.** Queensland welcomes further investigations into PLIDA (noting continued advancements) and other methods which would improve the contemporaneity of SES determinants.
- **Undertake a comprehensive review of socio-demographic composition drivers.** Queensland recommends that the Commission undertakes a comprehensive review of socio-demographic composition drivers.
- **Undertake a comprehensive review of compounding factors of socio-demographic disadvantage.** Queensland recommends that the Commission undertakes a comprehensive review of the impact that compounding factors of socio-demographic disadvantage.
- **Undertake a Comprehensive review of Commonwealth Payments relating to socio-demographic disadvantage.** Queensland recommends that the Commission comprehensively reviews their treatment of Commonwealth Payments to states in assessments where socio-demographic characteristics are assessed.

These issues are discussed in detail in *Section 36: Socio-demographic composition*.

Queensland further notes that Indigenous status and Indigenous disadvantage have not been investigated or discussed in detail during either the 2020 Review or the 2025 Review. As such, Queensland recommends making issues relation to First Nations Australians a priority for the 2030 Review. In particular, Queensland recommends that the Commission:

- **Undertakes a detailed analysis of ABS data to ensure that Indigenous population data is accurate.** Queensland recommends that the Commission engages and collaborates with the ABS and states to ascertain issues with Indigenous population data, particularly in regional and remote areas and discrete Indigenous communities.

- **Undertakes a comprehensive review of the impact of non-demographic population changes.** Queensland recommends that the Commission engages and collaborates with the ABS and states to complete a comprehensive analysis of non-demographic Indigenous population growth, and the impact non-demographic change has on assessments.
- **Undertakes a comprehensive review of the IRSEO index:** Queensland recommends that the Commission undertakes a comprehensive review of the IRSEO index and work with states, the ABS, and other organisations to ensure Indigenous disadvantage indices are fit-for-purpose.

These issues are discussed in detail in *Section 37: Indigenous status and Indigenous disadvantage*.

Finally, Queensland recommends that the Commission further scrutinise patterns of usage based on socio-demographic composition in general as part of the 2030 Review and investigate the possible impacts of service accessibility on need. This is further discussed in *Section 38: Other issues for the 2030 Review*.

## 27 Adjusted budget

### Proposed changes/positions

Based on the information provided in the draft report, the Commission positions are:

- The Commission proposes to use preliminary ABS Government Finance Statistics (GFS) data from states for year 3 where they are available, and state year 3 data in cases where they are not available. This process will be monitored to ensure using preliminary ABS data remains appropriate for year 3. The Commission will continue to use final ABS GFS data for the first 4 assessment years.
- The Commission proposes to implement adjustments according to the proposed process.
- The Commission proposes to provide non-confidential data to states to allow for reconciliation of state and ABS GFS data.
- When data errors are discovered in previous assessment years, the Commission proposes to correct these errors in the corresponding assessment years of the current update. The Commission will generally not make an additional adjustment to correct for errors in GST distribution as a result of the data error in previous updates.
- The Commission proposes to work with states and the ABS, where appropriate, to improve alignment of ABS GFS and state budget data.

#### Commission position

- *The Commission proposes to use preliminary ABS Government Finance Statistics (GFS) data from states for year 3 where they are available, and state year 3 data in cases where they are not available. This process will be monitored to ensure using preliminary ABS data remains appropriate for year 3. The Commission will continue to use final ABS GFS data for the first 4 assessment years.*

#### Queensland position

Queensland supports using preliminary GFS data in the final assessment year to be replaced with finalised data once available. This approach would improve data quality by drawing data from a single source and should require fewer overall adjustments, particularly those which result from aligning state and ABS GFS data. In instances where the timing around the release of ABS preliminary data does not permit this to occur, Queensland supports utilising state GFS data in its place and will work with the Commission to ensure that it remains suitable to use.

#### Commission position

- *The Commission proposes to implement adjustments according to the proposed process.*

#### Queensland position

Queensland supports the proposed process for adjustments based around testing of materiality thresholds and consulting with states. This applies rigour and transparency to any changes that are implemented.



### Commission position

- *The Commission proposes to provide non-confidential data to states to allow for reconciliation of state and ABS GFS data.*

### Queensland position

Queensland supports the Commission providing non-confidential data to states for reconciliation purposes, while noting that disaggregated data remains subject to confidentiality provisions. Queensland maintains that this remains essential to the provision of data from states to the Commission.

### Commission position

- *When data errors are discovered in previous assessment years, the Commission proposes to correct these errors in the corresponding assessment years of the current update. The Commission will generally not make an additional adjustment to correct for errors in GST distribution as a result of the data error in previous updates.*

### Queensland position

Queensland supports the Commission correcting errors in the corresponding assessment years of the current update, noting that such adjustments only occur in rare circumstances. It is recommended that where the Commission is seeking to correct any errors that they consult with states in the process and advise of the impacts of any changes.

### Commission position

- *The Commission proposes to work with states and the ABS, where appropriate, to improve alignment of ABS GFS and state budget data.*

### Queensland position

Queensland supports the Commission working with states and the ABS, where appropriate, to improve alignment of ABS GFS and state budget data. While the Commission considers that it is not best placed to ensure the consistency of data between states, as a key data user and in employing methods that distribute significant amounts of funding, it is imperative that the Commission is actively involved in this work and ensuring that the data it uses is to the highest possible standard.

### Queensland recommendations

Queensland notes that a significant risk of not regularly reviewing ABS GFS data and state budget data is that quality and reliability of the assessment outcomes can be compromised. To this end, Queensland strongly recommends that the Commission consider this a priority under its forward work program. This is further discussed in *Section 38: Other issues for the 2030 Review*.

## 28 Administrative scale

### Proposed changes/positions

Based on the information provided in the draft report, the Commission positions are:

- The Commission considers the detailed analysis underpinning the assessment remains valid and proposes to retain the current methods for assessing administrative scale for the 2025 Review. It plans to include a broader examination of the impact of administrative scale as part of its proposed forward work program.
- The Commission proposes not to change the 60:40 wage cost to non-wage cost ratio in administrative scale expenses.
- The Commission proposes not to assess diseconomies for large administrative systems for the 2025 Review. It will continue to examine the conceptual case and evidence for the range of mechanisms that may influence the relationship between total expenses per capita and city or total state population size.

#### Commission position

- *The Commission considers the detailed analysis underpinning the assessment remains valid and proposes to retain the current methods for assessing administrative scale for the 2025 Review. It plans to include a broader examination of the impact of administrative scale as part of its proposed forward work program.*

#### Queensland position

Queensland supports the conceptual basis for an administrative scale assessment to recognise the minimum costs incurred by states to deliver services and higher cost burden on smaller states.

However, Queensland does not support the current approach to assessing administrative scale, particularly the level and reliability of the current adjustment factor.

The current assessment approach remains based around deriving basic structures and staffing profiles by agency or function which are heavily based on subjective judgements and thus are unreflective of actual costs.

Furthermore, because the assessment as it is structured does not determine costs at a whole of government level it does not account for shared service functionalities which should lessen duplicate costs and generate efficiencies.

Based on these issues, Queensland would support a broader review of this assessment as part of a forward work program. However, in recognition of the data and conceptual issues raised, Queensland strongly recommends that a discount (of at least 12.5 per cent and preferably higher) should be applied in the interim, pending a full review of assessment methods as part of the 2030 Methodology Review.

Discounts on lesser grounds have been applied in other assessments and in light of the significant issues in this assessment, it is clearly warranted in this case.

#### Commission position

- *The Commission proposes not to change the 60:40 wage cost to non-wage cost ratio in administrative scale expenses.*

### Queensland position

Queensland also does not support the Commission's proposal to retain the 60:40 split between wage and non-wage costs. This ratio has substantial limitations as it has been determined based on a four-year average of First Minister's departments. This has little relevance for service delivery as central agencies, in particular First Minister's departments, would not necessarily reflect the wage/non-wage cost split faced by other service delivery and line agencies where costs reflect a broad range of different expenses, including costs of delivering state government services and grants. This strengthens the argument for this assessment to be re-examined in detail as part of the 2030 Methodology Review.

The Commission notes that this is inconsistent with Government Finance Statistics data and the results show that this is not reflective of all states, with South Australia, Tasmania and Australian Capital Territory showing significantly different ratios.

The inappropriateness of this highlights the need to apply at least a 12.5 per cent discount, until this is reviewed as part of the 2020 Methodology Review.

### Commission position

- *The Commission proposes not to assess diseconomies for large administrative systems for the 2025 Review. It will continue to examine the conceptual case and evidence for the range of mechanisms that may influence the relationship between total expenses per capita and city or total state population size.*

### Queensland position

Queensland supports not making any changes to account for diseconomies among larger states at this time. Investigation of these matters should be undertaken appropriately as part of a full review as recommended above and supported by the Commission in their draft report position.

## 29 Net borrowing

### Proposed Position/positions

Based on the information provided in the draft report the commissions positions are:

- The Commission proposes to retain the current net borrowing assessment method.
- The Commission proposes not to smooth the population growth in the net borrowing assessment, to retain consistency between the capital assessments.

### Commission position

- *The Commission proposes to retain the current net borrowing assessment method.*

### Queensland position

As outlined in detail in Queensland's previous submissions, Queensland does not support the conceptual case; rationale and the methodology underpinning the assessment of net borrowing and thus does not support retaining the current assessment method.

Queensland's continued stance is that the net borrowing assessment should be discontinued. Net borrowing represents the amount by which the total outlays of the general government sector, which consists of both service delivery expenses and infrastructure investment, exceed its total revenue.

Given the Commission's existing assessments separately equalise all individual components contributing to the overall fiscal balance (expenses, revenues, investment), Queensland believes that the need, fiscal capacity, and GST distribution resulting from the net borrowing assessment are already equalised through all other assessments.

As stated in Queensland's *Tranche 2 submission*, since the fiscal year 2019–20 there has been a substantial increase in borrowings by states, largely driven by changes to revenue and spending in response to the COVID-19 pandemic. The Commission has already assessed these impacts, capturing them appropriately through the existing assessments and GST redistribution outcomes.

Queensland sees the increase and differences in spending levels by states primarily as a result of policy choices made by states on how to respond to, and recover from, the COVID-19 crisis. Consequently, Queensland views the assessment of states' net borrowing position as being clearly contaminated by policy considerations, with many significant spending decisions in recent years being driven by individual states' policy decisions, resulting in major fiscal impacts.

Therefore, Queensland considers the net borrowing assessment to not only be over-influenced by policy, but it also perceives a duplicative net effect in the assessment and equalization outcomes due to revenue and expenditure outcomes.

**Queensland maintains the view that the net borrowing assessment lacks a strong conceptual foundation and recommends that the assessment be discontinued.**

### Commission position

- *The Commission proposes not to smooth the population growth in the net borrowing assessment, to retain consistency between the capital assessments.*

### Queensland position

If the assessment is to be retained, Queensland supports the Commissions position to not pursue a smoothing of population growth in the net borrowing assessment. This would reduce the contemporaneity of the assessment and the smoothing of population growth to reduce volatility is considered unnecessary due to the three year averaging process currently applied.

## 30 National capital

### Proposed changes/positions

Based on the information provided in the draft report, the Commissions positions are:

- The Commission proposes to discontinue the national capital assessment if it is immaterial.
- The Commission proposes not to assess any cost advantages or disadvantages relating to national capital status in the 2025 Review.
- The Commission is open to working with the ACT as part of the next review process, to determine whether an assessment that captures the expenses incurred because of the ACT's special circumstances can be developed and is material.

#### Commission position

- *The Commission proposes to discontinue the national capital assessment if it is immaterial.*

#### Queensland position

Queensland supports the discontinuation of the national capital assessment as the assessment is immaterial.

#### Commission position

- *The Commission proposes not to assess any cost advantages or disadvantages relating to national capital status in the 2025 Review.*
- *The Commission is open to working with the ACT as part of the next review process, to determine whether an assessment that captures the expenses incurred because of the ACT's special circumstances can be developed and is material.*

#### Queensland position

Queensland supports not including cost advantages or disadvantages related to national capital status in the current review but does not oppose the Commission continuing to investigate whether an assessment reflecting any differences related to ACT circumstances are required in a forward work program.

# 31 Wages

## Proposed changes/positions

Based on the information provided in the draft report, the Commissions positions are:

- The Commission proposes to continue to use relative private sector wage levels as a proxy for relative public sector wage costs.
- The Commission does not propose to exclude groups from or apply custom weights to the private sector employees survey data.
- The Commission proposes to continue to use the ABS Characteristics of Employees survey as the data source to measure differences in wage pressures between states.
- The Commission proposes to use hourly wages rather than weekly wages as the dependent variable, and to disregard the biased estimates from 2020 when constructing relative state wage costs.
- The Commission considers that hours worked can affect a person's hourly wage and proposes to include three categories of usual working hours in the model to capture this.
- The Commission proposes to replace work experience and work experience squared with 5-year age groups.
- The Commission proposes to maintain its suggested criteria for including control variables in the model, and to weigh these criteria against each other when considering a variable that does not strictly meet all criteria.
- The Commission proposes to maintain its ordering of stepwise inclusion of variables in the model and exclude detailed industry controls from the model and remove the gender interaction terms.
- The Commission proposes to smooth data over time using the proposed method, but not to incorporate newer years of data into earlier estimates to avoid revision effects.
- The Commission proposes to maintain a 12.5% discount, reflecting continuing general uncertainty about measurement issues and the use of the private sector wages proxy.
- The Commission proposes to estimate wage costs by applying the ratio of overall total wage to non-wage expenses to unattributed expenses across all categories.

## Queensland position

While Queensland does not oppose the conceptual case for differentially assessing state wage costs, we continue to hold concerns over the structure of the wages assessment. As noted in our previous submission our support for this assessment was conditional on a number of adjustments being made. These included:

- Removing selected industries to address COVID-19 lockdown impacts.
- Adopting a 'true' pooling approach to estimating wage costs.
- Maintaining a discount to account for a range of ongoing uncertainties.

Unfortunately, with the exception of the continued discount, the Commission has chosen not to implement these changes which we maintain would significantly improve the quality and reliability of the wages assessment. As such Queensland does not support this assessment in its current form.

Further, the proposed change of dependent variable from weekly wages to hourly wages has not been adequately justified by the Commission. The highly material nature of the redistribution resulting from this change further highlights Queensland concerns about the use of the private sector wage proxy and demonstrates the likely severe data limitations. As such, if the Commission introduces hourly wages as the dependant variable, Queensland recommends that the Commission increase the discount to, at minimum, 25 per cent.

#### **Commission position**

- *The Commission proposes to continue to use relative private sector wage levels as a proxy for relative public sector wage costs.*

#### **Queensland position**

Queensland notes the Commission position but holds concerns around the use of private sector wages as a proxy for public sector wages.

Wage drivers in the public sector are very different to private sector wage differences. Indeed, state governments have an extreme influence on wages in most sectors, including schools, hospitals, corrective services, emergency services, and policing. This represents most of the public workforce.

Queensland contends that the major diver of public sector wages for these employees is interstate competition for workers with other state governments as opposed to competition with the private sector. As such a more appropriate assessment of state wage pressures would recognise this interstate competition, or at a minimum, a greater discount should be applied acknowledging that private sector wages are at best, an imperfect proxy for public sector wages.

Insofar that the Commission continues to view private sector employees as a suitable proxy for public sector employees, Queensland supports the Commission's proposal that this should be based on *all* private sector employees and not specifically female private sector employees, as recommended by the Commission's consultant.

Using only female worker wages is likely to bias the assessment with studies showing that the gender wage gap is narrower in the public sector compared to the private sector, thus using private sector female workers as a proxy for the public sector is unlikely to be suitable. Queensland is pleased to note that the Commission has not made any changes around this in its position.

#### **Commission position**

- *The Commission does not propose to exclude groups from or apply custom weights to the private sector employees survey data.*

#### **Queensland position**

Queensland does not support the Commission position to not apply exclusions or restrictions to the current dataset. It is considered that in some circumstances, such as to account for extreme events such as COVID-19, this is in fact necessary.

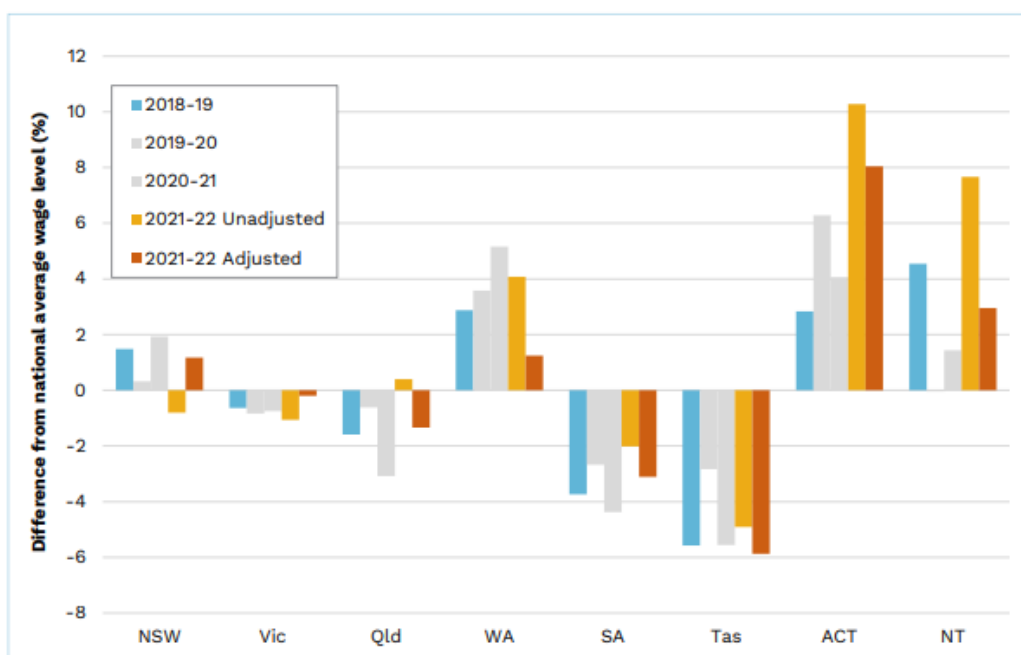
As part of the 2023 Annual Update new issues papers, the Commission proposed a change to address lockdown impacts by replacing usual hours worked with paid hours worked. At the time it was noted by Queensland that the implementation of this change was rushed and its robustness was unable to be tested by states. As such, Queensland favoured instead removing the part of the data sample most heavily impacted by lockdowns, as this was seen to directly eliminate the source of bias from the model and thus better account for the effects of COVID-19.

Detailed analysis undertaken by University of Queensland has likewise supported this option and demonstrated that such a change would not significantly impact on sample sizes, particularly if the data were pooled.

While the Commission has elsewhere claimed that changes which restrict the sample add a level of complexity that is not justified, Queensland disputes that reasoning here noting the significant impacts of a lockdown adjustment seen in the 2023 new issues and shown again in Figure 31.1 below.

This chart shows the impacts of unadjusted 2021-22 data (yellow bars) against 2021-22 adjusted data (orange bars) and illustrates the changes to the wage estimates are considerably different across states and in some cases, such as for New South Wales and Queensland, lead to a change in the direction of the result. These significant differences highlight why adjustments to restrict the sample, while complex, are justified.

**Figure 31.1 – Relative state wage level estimates over time**



Source: 2023 New Issues, Commission calculations

Queensland continues to advocate that this change, along with a ‘true’ pooling approach to estimating wage differences (discussed below), needs to be made. Together these will address some of the shortcomings of the current wages assessment and help to produce a more accurate wage adjustment factor.

**Commission position**

- *The Commission proposes to continue to use the ABS Characteristics of Employees survey as the data source to measure differences in wage pressures between states.*

**Queensland position**

Queensland does not oppose continuing to use Characteristics of Employment data as the basis for the current regression, with the Commission considering this the best available dataset for assessing wage differences between states. We note concerns raised by Tasmania and Western Australia over elements of bias in the data and the Commission’s efforts to investigate this and we encourage the Commission to continue these investigations as part of a forward work program after the 2025 Review.



## Commission position

- *The Commission proposes to use hourly wages rather than weekly wages as the dependent variable, and to disregard the biased estimates from 2020 when constructing relative state wage costs.*

## Queensland position

Queensland does not support the Commission's proposed move from a weekly wage to an hourly wage as the dependent variable in the regression model.

As highlighted in Queensland's previous submission, there are significant empirical issues with making this change. The proposed dependent variable (hourly wages) is defined in CoES data as the ratio of weekly wage to paid hours and, as both the numerator and denominator in this relationship share correlated variables (age, gender), this was noted to create potential bias in estimation.

While the Commission has noted that it has undertaken testing for these concerns and concluded that there is no bias (or that bias is limited to outlier 2020 survey data which would be excluded), these results have not been shared with states and are therefore unable to be verified.

Additionally, an hourly wage variable was seen to be generally more relevant for analysing sectors or occupations characterised by irregular working hours and less aligned with the rationale of using *comparable* private sector employees as a proxy for public sector wages. Despite changes over time the public sector workforce still **pre-dominantly comprises full time workers** with latest data showing that in the Queensland public service, part time employment comprises 33 per cent of total employment<sup>53</sup> and 31 per cent of all public sector employment nationally.<sup>54</sup>

Almost all or most public sector workers are not employed based on an hourly rate, but rather a salary amount. **As such, any competition between government and the private sector is primarily on the basis of a weekly wage level as opposed to an hourly wage.** This was highlighted in the independent UQ report, and overall, **using an hourly rate as the dependent variable would significantly decrease the comparability between public sector and private sector wages, and further lessen the already weak validity of use of a private sector wages proxy.**

Further highlighting this lack of comparability between public and private sector wages, it was observed that applying the new dependent variable reduces the R-squared of the regression model from 0.62 to 0.42, as seen in testing included in the Commission's original consultation paper. **This is a sizeable reduction that indicates that the explanatory variables used in the model explain a much smaller proportion of the variation in log hourly wage.** As such, this would suggest that hourly wages are a much less suitable fit for this model than weekly wages.

While the Commission has justified this change by focusing on the fact that the main model coefficients remain unchanged, detailed analysis of the results undertaken by UQ pointed out that this ignored that the **coefficient estimate of log hours had significantly changed** (from 0.99 to -0.01). This indicates that there is potentially severe bias in the coefficient estimate and that using hourly wages as the dependent variable may result in the regression being susceptible to the risk of spurious correlations for the ratio problem.<sup>55</sup> **This issue was not addressed by the Commission in its report.**

The main reason provided for supporting this change appears to be that a standard approach is to estimate a weekly wage only when hours of work data is not available and, by extension, as hourly wages data is available it should be used. However, Queensland views this as a poor justification which does not give sufficient regard to the risks highlighted.

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<sup>53</sup> Queensland Public Sector Commission, Queensland public sector workforce profile March 2023, [Queensland public sector workforce profile March 2023 \(forgov.qld.gov.au\)](https://forgov.qld.gov.au)

<sup>54</sup> ABS, Labour Force Survey, [Labour Force, Australia, May 2024 | Australian Bureau of Statistics \(abs.gov.au\)](https://abs.gov.au), released 13 June 2024

<sup>55</sup> R. Kronmal 1993, 'Spurious Correlation and the Fallacy of the Ratio Standard', *Journal of the Royal Society Series A*. 156(3):379-392.

Additionally, this justification does not address why the Commission believes a less comparable dependent variable would increase the explanatory validity of a proxy. As such, Queensland continues to suggest that this change will result in a less reliable assessment and strongly recommends that the Commission maintain its current approach.

Overall, Queensland contends this proposed shift to hourly wages indicates that the Commission would be reducing the reliability and comparability of data used in the wages assessment. As such, **making this change would require the Commission to also increase the discount on the wages assessment to at least 25 per cent.**

It is noted in the draft report that in moving to an hourly wage there would be no simple method to remove elements of bias arising from COVID-related lockdowns and JobKeeper payments. The Commission's draft report outlines how, when using a weekly wage, these could be controlled for by removing workers earning exactly \$750 per week<sup>56</sup> given that, as for other workers, their weekly wage would be assumed to reflect their usual hours of work. However, the Commission states that, under the hourly wages model, there would be no way to easily identify these workers and remove them from the model.

While this limitation highlighted by the Commission provides further clear justification against such a change, should the Commission decide to move to an hourly wage, it is imperative that these COVID impacts are addressed and as such Queensland would support excluding the outlier 2020 data.

#### **Commission position**

- *The Commission considers that hours worked can affect a person's hourly wage and proposes to include three categories of usual working hours in the model to capture this.*

#### **Queensland position**

Queensland does not oppose the Commission making this change noting the significant reduction in complexity that this brings to the model. It was requested in our previous submission that justification should be provided for the assumptions underpinning this decision. We note that the Commission has included literature on the part time and long hour effects which supported their views and thank the Commission for sharing this supporting evidence.

#### **Commission position**

- *The Commission proposes to replace work experience and work experience squared with 5-year age groups.*

#### **Queensland position**

Queensland does not oppose the Commission making this change.

#### **Commission position**

- *The Commission proposes to maintain its suggested criteria for including control variables in the model, and to weigh these criteria against each other when considering a variable that does not strictly meet all criteria.*

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<sup>56</sup> Under JobKeeper arrangements the Australian Government would provide \$750 per week for workers who lost 20 or more hours per week as a result of lockdowns.

## Queensland position

Queensland supports the use of the following criteria for deciding on any future wage regression changes:

- There is a strong conceptual case that it affects wages.
- It materially affects average state coefficients over a five-year period.
- It does not increase average standard error of state coefficients over a five-year period.
- It improves the overall fit of the model.

However, Queensland recommends that the Commission still consult with states before any changes are made to the model, such as the inclusion or removal of variables, even if it should meet these criteria.

Should a variable not meet all these criteria then it would be appropriate to weigh these against each other and make a decision on the balance of its impacts. However, Queensland strongly recommends that this be undertaken in a transparent way with clear visibility how such a decision has been made.

## Commission position

- *The Commission proposes to maintain its ordering of stepwise inclusion of variables in the model and exclude detailed industry controls from the model and remove the gender interaction terms.*

## Queensland position

Queensland supports such changes where they result in a reduction in complexity of the wages assessment and without producing perverse or material outcomes. The Commission noted that using aggregated industry divisions rather than detailed industry groups decreases the number of categories from 292 to 19 while not significantly changing state coefficients. As a result, Queensland would support this specific change.

Likewise, testing showed that including interaction terms would not materially change state coefficients, and only slightly reduce standard error. Queensland would therefore also support not including interaction terms in the model.

As part of this testing the Commission examined a range of regression models to determine an optimised fit using survey data from 2018 to 2022. In the interests of ensuring that the proposed model remains reliable and robust to use going forward, it is recommended that the Commission continues to monitor and test its outcomes against previous and alternative versions and share findings with states.

## Commission position

- *The Commission proposes to smooth data over time using the proposed method, but not to incorporate newer years of data into earlier estimates to avoid revision effects.*

## Queensland position

Queensland does not support the methods first advocated by the Commission in its addendum to the consultation paper and again in its proposed position in the draft report. This position is based on the Commission performing regressions on each year back to 2016-17 and then taking a weighted average of all years, with weightings determined by the distance to the year of interest (the application year) and the variance of the estimates. While the Commission's consultant noted that the method proposed was sound, both the Commission's consultant and the University of Queensland instead nominated 'pooling' (combining wages data across several years) and a rolling window sample as their preferred approach.

Queensland supports the use of a pooling approach in order to lessen volatility in the ABS CoES data that underpins this assessment. Independent testing undertaken by an external consultants engaged by the

Commission (University of Western Australia, School of Economics) and Queensland (University of Queensland (UQ), School of Economics) both support the view that this produces a more stable outcome, demonstrated empirically through testing of both three year and five year pooled samples against a year by year specification.

Importantly, in UQ’s consultant report they noted that an approach such as the one proposed would have *less* statistical power than an alternative method based on pooling as it would still rely on single year estimates, with each year based on a smaller sample. In contrast, pooling was seen to offer a more reliable estimate due to having a larger multi-year sample and would be more fit-for purpose in reducing volatility (the intended reason for this change).

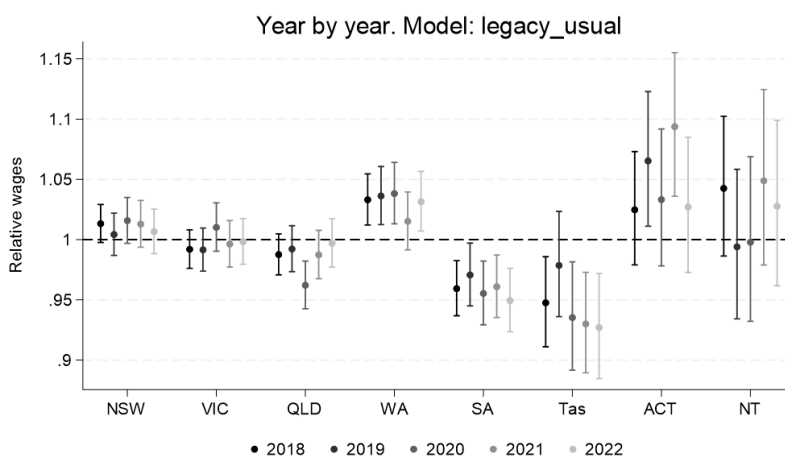
Furthermore, the consultants also pointed to the complexity in the Commission’s proposed method (which is at odds with the simplified approach intended in the revised model’s design) and the arbitrary nature and lack of transparency around the construction of the moving average.

The Commission, however, has reiterated its commitment to its preferred method, suggesting that this counterintuitively *increases* the effective sample size and reduces sampling variability. Queensland disputes this view. The Commission’s conclusion is objectively and demonstratively wrong.

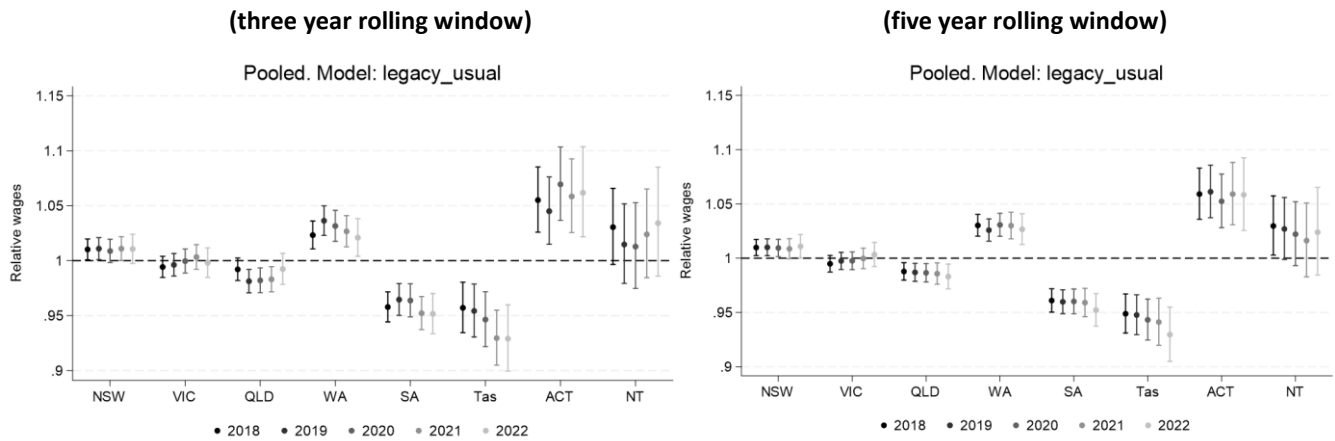
Analysis undertaken by UQ compared results using one year of data with a pooled sample comprising a rolling window of three and five years centred on a year of interest. In the figures shown below they plot relative wages using 0.95 confidence intervals based on the current regression model specification used by the Commission (legacy usual).

To quote UQ’s findings, in both cases the results clearly show that: ***“as the width of the window increases [through use of a three year or five year sample], there is considerably less variability between years [compared with using an unpooled sample], which is also reflected by the narrower 0.95 confidence intervals.”***

**Figure 31.2 – Coefficient estimates using an unpooled sample (year by year)**



**Figure 3 – Coefficient estimates using a pooled sample**



Source: University of Queensland, 'Modelling Public Wages Expenses Across States and Time Using Survey Data'

In attempting to refute this analysis, the Commission has compared their approach (using single year estimates back to 2016-17) against a 3-year pooled sample in the draft report.

However, it should be noted that this is not a legitimate comparison. A more appropriate comparison would be to test the results of their variance weighted model (based on single years) against a pooled sample with the same number of periods. This would allow an unbiased comparison of the two models that could test the impacts on volatility while also weighting this against the statistical power of the two models. This test, however, does not appear to have been conducted as it has not been shared with states.

To further justify their model, the Commission also notes that this would have the advantage of being more contemporaneous by discounting less recent years of data. While Queensland accepts there is a contemporaneous trade-off, our view is that the benefit offered by this does not outweigh the issues this approach creates for the practicality principle, particularly the aim for simpler methods or the inconsistency with the Commission's stated efforts for greater transparency as noted under the 2025 Review Quality Assurance Framework.

A balanced view would, therefore, suggest that a pooled approach with a rolling window as suggested by Queensland and the Commission's consultant would offer a superior method. Queensland recommends that the Commission adopt this approach.

#### Commission position

- *The Commission proposes to maintain a 12.5% discount, reflecting continuing general uncertainty about measurement issues and the use of the private sector wages proxy.*

#### Queensland position

Maintaining a discount in the wages assessment is justified but Queensland recommends that this is **increased to 25 per cent** in light of the significant and unproven changes proposed in this Review and the ongoing uncertainty that remains across *all* aspects of the wages assessment, not just the private sector proxy.

Recent experiences from the COVID-19 pandemic show that in the short term, disruptions to labour markets may result in private sector workers not serving as a good counterfactual group for public sector workers. Individual state responses have contributed to this with policies like lockdowns creating further sources of difference and making an accurate comparison of wages between states difficult.

Other general differences likewise persist around the specification of the regression used in the wages assessment. Independent analysis undertaken by the Commission, University of Western Australia and University of Queensland reveal key differences in view on the questions posed in the consultation paper

and the best methods to address these, establishing that there is not a single unequivocally accurate method for assessing wage differences.

Furthermore, the small sample size in some states and territories continues to remain a source of ongoing uncertainty, especially if the Commission proceeds with its year-by-year approach to assessing wages.

The proposed change to the dependent variable would significantly decrease data reliability and comparability, as demonstrated by the reduction of the R-squared value and the significant change to the coefficient estimate of log hours.

#### **Commission position**

- *The Commission proposes to estimate wage costs by applying the ratio of overall total wage to non-wage expenses to unattributed expenses across all categories.*

#### **Queensland position**

Queensland supports the Commission decision to apply the ratio of wage to non-wage expenses to unattributed spending across *all* categories rather than just to categories with higher levels of unattributed spending (housing, roads and transport). In addition to offering consistency across assessments, this is noted to significantly reduce the proportion of wage costs in those more capital-intensive assessments (housing, transport) which Queensland considers to better reflect actual spending by Departments with these responsibilities (see analysis undertaken by Queensland for the administrative scale assessment in the *Tranche 2 submission*).

#### **Queensland recommendations**

Queensland does not support the wages assessment in its current form, however, notes the conceptual case for a wages assessment. This assessment could be improved through a range of adjustments. Firstly, Queensland recommends that selected industries are removed from the wages regression data to address the impacts of COVID-19 lockdowns. Secondly, Queensland recommends that the Commission adopts a 'true' pooling approach to estimate wage costs instead of implementing the proposed smoothing method outlined.

Finally, Queensland does not support the proposed change from weekly wages to hourly wages as the dependent variable. This change does not represent 'what states do' and significantly decreases the explanatory power of the model. As such, Queensland recommends that weekly wages are maintained as the dependent variable. If the Commission goes through with the proposed change of dependent variable to hourly wages, Queensland recommends that the discount on the assessment should be increased to at least 25 per cent to account for the increased data unreliability and the decreased comparability between the proxy and actual public sector wages.

## 32 Commonwealth payments

### Proposed changes/positions

Based on the information provided in the draft report, the Commissions positions are:

- The Commission considers its existing guideline for deciding the treatment of Commonwealth payments remains appropriate. It proposes to retain the guideline, with additional guidance on its implementation discussed below.
- The Commission proposes to adopt a default treatment of impact in the small number of cases where there is substantial uncertainty about whether a Commonwealth payment is for a state service for which needs are assessed. States will continue to have the opportunity to challenge this default treatment.
- Given the small size of identified COPEs and the difficulty in comprehensively identifying all COPEs, the Commission proposes to cease including the revenue paid to states in the form of COPEs in its Commonwealth payments assessment.<sup>57</sup>
- The Commission considers that it should apply its existing guideline for deciding the treatment of payments to all Commonwealth payments, including those that might contain elements addressing pre-existing structural disadvantage.
- In taking this position, the Commission notes that if there is clear evidence that a payment or part payment is for pre-existing structural disadvantage and needs are not assessed, it will be treated as no impact.
- The Commission proposes to continue to apply its existing guideline for deciding the treatment of Commonwealth payments. Where appropriate, it will continue to be guided by the advice of Commonwealth Treasury and the states, as well as considering published national agreements, to determine which payments are reward payments.

### Commission position

- *The Commission considers its existing guideline for deciding the treatment of Commonwealth payments remains appropriate. It proposes to retain the guideline, with additional guidance on its implementation discussed below.*

### Queensland position

Queensland supports the current methods related to the assessment of Commonwealth payments and agree with the Commission that these remain appropriate. We welcome, however, any effort by Commission to provide additional guidance for payments where there is uncertainty around treatment.

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<sup>57</sup> The Commission notes that, to the extent COPEs are captured in ABS Government Finance Statistics data, they will be reflected in the Commission's 'balancing item'. The balancing item ensures the sum of individual Commonwealth payments sourced from the Commonwealth Final Budget Outcome matches total Commonwealth payments in Government Finance Statistics data. The balancing item does not move states' relative fiscal capacities away from an equal per capita assessment.

### **Commission position**

- *The Commission proposes to adopt a default treatment of impact in the small number of cases where there is substantial uncertainty about whether a Commonwealth payment is for a state service for which needs are assessed. States will continue to have the opportunity to challenge this default treatment.*

### **Queensland position**

Queensland supports the Commission adopting a default impact treatment in cases of substantial uncertainty, but subject to states being afforded the opportunity to argue a case where it does not agree with the Commission's assessment and the Commission being willing to reconsider their decision in the face of evidence.

### **Commission position**

- *Given the small size of identified COPEs and the difficulty in comprehensively identifying all COPEs, the Commission proposes to cease including the revenue paid to states in the form of COPEs in its Commonwealth payments assessment.*

### **Queensland position**

Queensland supports excluding Commonwealth own-purpose payments (COPEs) from assessments given that these comprise only a very small share of payments.

### **Commission position**

- *The Commission considers that it should apply its existing guideline for deciding the treatment of payments to all Commonwealth payments, including those that might contain elements addressing pre-existing structural disadvantage.*
- *In taking this position, the Commission notes that if there is clear evidence that a payment or part payment is for pre-existing structural disadvantage and needs are not assessed, it will be treated as no impact.*
- *The Commission proposes to continue to apply its existing guideline for deciding the treatment of Commonwealth payments. Where appropriate, it will continue to be guided by the advice of Commonwealth Treasury and the states, as well as considering published national agreements, to determine which payments are reward payments.*

### **Queensland position**

Queensland supports the Commission applying its existing guideline for deciding the treatment of payments to all Commonwealth payments, including those that might contain elements addressing pre-existing structural disadvantage. As previously stated, Queensland considers that these guidelines remain appropriate.

### **Queensland recommendations**

As discussed in *Section 6: Health and the health non-state sector adjustment*, Queensland recommends that the Commission treat a proportion of the NHRA Commonwealth Payment as no impact. At minimum, Queensland recommends that the NHRA Commonwealth Payment should be assessed according to a 12.5:87.5 no impact/impact blended treatment.

As was discussed in *Section 6*, there are a range of health interface issues which result in a significant proportion of the NHRA Commonwealth Payment being used to provide Commonwealth-like health



services in state-operated hospitals. Assessing the Commonwealth Payment using a blended no-impact/impact approach would ensure that payments supporting Commonwealth-like service delivery do not affect state GST shares.

Further, Queensland recommends that as part of the 2030 Review, the Commission undertake a comprehensive review of Commonwealth Payments relating to socio-demographic disadvantage. A material proportion of a range of payments are likely related to addressing pre-existing structural disadvantage and as such should not be assessed as 100 per cent impact. This issue is further discussed in *Section 36: Socio-demographic composition*.

## 33 Method changes between reviews

### Proposed changes/positions

Based on the information provided in the draft report, the Commissions positions are:

- The Commission considers that it would be beneficial for it to have additional flexibility to consider alternative methods between reviews in very limited circumstances, and in full consultation with states.
- The Commission considers that the limited circumstances in which the Commission should have flexibility to consider method changes include major unexpected developments that:
  - have a significant impact on the fiscal positions of one or more states
  - are not captured in existing assessment methods, and
  - there is a reasonable basis to conclude that a change in methods before the next review would better achieve the objective of fiscal equalisation.

This would include major policy changes where a change in method needs to be introduced before the next review to better achieve the objective of fiscal equalisation.

- The Commission proposes that consideration of whether method changes are warranted between reviews be undertaken in consultation with states on a case-by-case basis, and in accordance with processes outlined.
- The Commission supports operationalising flexibility to change methods between reviews in standing terms of reference for updates.
- The Commission does not propose to retrospectively adjust GST shares for method changes between reviews.

#### Commission position

- *The Commission considers that it would be beneficial for it to have additional flexibility to consider alternative methods between reviews in very limited circumstances, and in full consultation with states.*
- *The Commission considers that the limited circumstances in which the Commission should have flexibility to consider method changes include major unexpected developments that:*
  - *have a significant impact on the fiscal positions of one or more states*
  - *are not captured in existing assessment methods, and*
  - *there is a reasonable basis to conclude that a change in methods before the next review would better achieve the objective of fiscal equalisation.*

*This would include major policy changes where a change in method needs to be introduced before the next review to better achieve the objective of fiscal equalisation.*

#### Queensland position

While Queensland maintains that it would be possible to provide the flexibility to make changes between reviews under exceptional circumstances, our support for this was conditional on, and remains conditional on, a rigorous framework being in place to guide any proposed changes. It is important that this does not become a vehicle for the Commission to make arbitrary changes or a continuous method review.

As noted in Queensland's submission, this should include a **materiality threshold that is more than double the current level (\$80 per capita)** and this threshold only being exceeded in the state or states directly impacted by the shock or reform. This should be considered a necessary but not sufficient condition. Reasonable consideration must also be given to any changes which result in large changes to GST redistribution among states.

Furthermore, the Commission would be required to engage in a **higher degree of consultation than usual**, including releasing a comprehensive issues paper that contained a detailed case for change backed by data and evidence; a range of proposed options along with a preferred option; an analysis of their impacts and explanation for how this would improve on existing methods. States would also need to have ample opportunity to consider and respond to the proposed change.

Finally, any changes allowed through this process must be **subject to annual review** and open to being removed should the circumstances no longer require the change, or the change was found to result in adverse outcomes.

Queensland notes that while some elements of this approach are reflected in the broad principles and approach proposed by the Commission, too much discretion would be afforded to the Commission under the approach proposed in the draft report and thus Queensland does not support this flexibility being provided to the Commission in the absence of a much more detailed framework being developed and agreed by states.

Furthermore, in the draft report there is no reference to any materiality thresholds that would act as guardrails to guide this flexibility, or consideration given to other practical considerations, such as the timeframes for consultation, how a change would be managed around other priorities, or grounds to remove alternative methods after an event had passed. **This lack of detail suggests that these important matters have not been considered.**

The proposed approach would also rely heavily on the judgment of the Commission, most concerningly around trade-offs between supporting principles. Given the lack of emphasis placed on policy neutrality in some key assessments, in particular the mining assessment, it is feared that this may lead to further instances of the Commission pursuing actions without sufficient regard given to any downsides. A consequence of this could be heightened volatility in assessment methods, potential large changes to state distributions and a severely diminished capacity for states to undertake forward planning in relation to policy and budgeting.

For these reasons Queensland now does not support that the Commission be allowed this flexibility. The absence of safeguards risks arbitrary changes and the Commission considering it has a license for ongoing method reviews.

#### **Commission position**

- *The Commission proposes that consideration of whether method changes are warranted between reviews be undertaken in consultation with states on a case-by-case basis, and in accordance with processes outlined.*

#### **Queensland position**

It is stated in the report that the Commission would consider methods in the same way as it would in a methodology review. However, Queensland has concerns with this, specifically noting recent examples of a lack of appropriate consultation from the Commission, such as with the proposed changes to coal mining revenue, where consultation papers have been lacking in background research and appropriate analysis, while timeframes for consultation that were extremely limited. As such Queensland does not support the consultation process outlined by the Commission.

**Commission position**

- *The Commission supports operationalising flexibility to change methods between reviews in standing terms of reference for updates.*

**Queensland position**

Given Queensland's position against allowing the flexibility to make changes between reviews, Queensland does not support operationalising flexibility in the Commission's terms of reference.

**Commission position**

- *The Commission does not propose to retrospectively adjust GST shares for method changes between reviews.*

**Queensland position**

Should the Commission, in spite of these objections, decide to grant itself the flexibility to make such changes between reviews, then to limit the volatility that this would almost certainly cause, Queensland supports that such a change should not be applied retrospectively.

## 34 Forward work program & the 2030 Methodology Review

### Proposed changes/positions

Based on the information provided in the draft report, the Commission has identified a broad range of actions and priorities that it has indicated would form part of a forward work program, including as part of the 2030 Review. In particular, these include the following:

- The Commission considers it would be appropriate to seek external advice on the urban transport assessment prior to the next methodology review, including retesting the urban centre characteristics regression model. Data from the Australian Bureau of Statistics (ABS) 2026 Census are needed to inform the advice and are expected to be available progressively in 2027 and 2028.
- The Commission agrees with the proposal by some states to explore in detail the evidence on the relationship between the provision of health services by the private sector and the Commonwealth government, and the amount spent by state governments on health services. This work will be conducted for the 2030 Review and will also consider alternative approaches to recognising the substitutability between state and non-state sectors.
- The Commission proposes to explore in detail the evidence on health service needs of people in similar socio-demographic groups across states to ensure that important and material differences in state circumstances are accounted for in the 2030 Review.
- The Commission considers that a review of the health assessment framework in preparation for the 2030 Review would be beneficial. The Commission intends to engage with the states on the potential improvements to the health assessment framework ahead of the commencement of the 2030 Review.
- To ensure the administrative scale assessment remains contemporary, the Commission proposes to undertake a comprehensive analysis of the assessment before the 2030 Review.
- The Commission accepts there is a conceptual case that various culturally and linguistically diverse population groups can drive higher costs in providing some state services. However, significant challenges stand in the way of reliably defining, identifying and assessing how such groups affect costs across the range of state services. In preparation for the 2030 Review, the Commission proposes to work with the states and relevant data providers to consider the basis for culturally and linguistically diverse drivers, and appropriate definitions and data, in the context of the Commission's various expense assessments.
- The Commission proposes to monitor policies related to net zero capital and grant expenditure, identify relevant expenses, and examine whether reliable policy neutral drivers of spending across states can be identified.
- The Commission acknowledges there is a conceptual case for including elasticity adjustments and recognises that if differences in state tax rates have material effects on their observed revenue bases, incorporating elasticity adjustments (provided they can be reliably measured) would improve the policy neutrality of assessments. The Commission proposes to further consider how these complexities and uncertainties can be addressed in preparation for the 2030 Review.
- The Commission proposes to work with the states and data providers, including the ABS, to explore opportunities to obtain improved data going forward.

### Queensland position

Methodology reviews present an important opportunity to test the detailed workings of assessment models and the assumptions which underpin these. For states, reviews are a valuable opportunity to provide their views on assessments and the operation of the HFE system as a whole.

Unfortunately, in the 2025 Methodology Review these benefits were not able to be fully realised. A shortened review period resulted in a reduced scope and restricted the activities that would be undertaken under a normal five year review process. In order to prevent this occurring in future, Queensland supports the Commission commencing work for the 2030 Review as soon as possible after completion of the 2025 Review.

Given this, Queensland welcomes the Commission providing a preliminary forward work program at this time. Queensland agrees that all of the issues identified by the Commission are important to scrutinise and review.

Additionally, Queensland recommends that regional costs & population dispersion, socio-economic status, and Indigenous status & disadvantage should be considered as priority issues for consideration during the 2030 Review. These issues were not adequately assessed during the 2025 Review and Queensland has identified shortcomings in current methodologies resulting in an underassessment of need for some states. Further discussions on Queensland's priorities are outlined below.

Furthermore, Queensland welcomes the Commission's willingness to seek independent, expert advice in its assessments, and in particular to engage an external advisor to review the urban transport model for the 2030 Review.

#### **Commission position**

- *The Commission considers it would be appropriate to seek external advice on the urban transport assessment prior to the next methodology review, including retesting the urban centre characteristics regression model. Data from the Australian Bureau of Statistics (ABS) 2026 Census are needed to inform the advice and are expected to be available progressively in 2027 and 2028.*

#### **Queensland position**

As indicated earlier in this submission, Queensland will provide its detailed response to all elements of the transport expense and investment assessments in the supplementary submission in response to the transport assessment addendum.

However, in the context of considering priorities for the 2030 review work program, Queensland strongly supports the Commission engaging an external advisor to review the urban transport model for the 2030 Review.

**Queensland recommends that any external advisor engaged should have a broad scope to scrutinise and recommend changes to the urban transport model and transport assessment as a whole, including examining the merits and limitations of key elements of the existing approach, including the use of PWD and population squared.**

**Queensland also recommends that any external advisor engaged be a respected transport economist, preferably working as an academic at an Australian university.** It is Queensland's view that this would help ensure any external advice received is accountable and independent.

**Queensland further recommends that the engaged consultant also investigates the historical and economic factors underpinning the value and volume of urban transport capital in Australian cities and the extent to which Commission transport assessments have incentivised and disincentivised urban transport expenditure and capital investment.**

### **Commission position**

- *The Commission agrees with the proposal by some states to explore in detail the evidence on the relationship between the provision of health services by the private sector and the Commonwealth government, and the amount spent by state governments on health services. This work will be conducted for the 2030 Review and will also consider alternative approaches to recognising the substitutability between state and non-state sectors.*

### **Queensland position**

Queensland supports the Commission undertaking further work to assess the validity of the non-state sector adjustment. Queensland has consistently stated that this adjustment is not conceptually sound, and that further scrutiny is required to ensure that GST is not being redistributed against equalisation. Queensland agrees that a large proportion of state-provided expenditure is a result of Commonwealth interface issues. Given this, Queensland recommends that the amount of the NHRA Commonwealth Payment impacting GST should be adjusted to account for this.

### **Commission position**

- *The Commission proposes to explore in detail the evidence on health service needs of people in similar socio-demographic groups across states to ensure that important and material differences in state circumstances are accounted for in the 2030 Review.*

### **Queensland position**

Queensland supports the Commission undertaking work assessing the impact of state-specific factors in addition to socio-demographic factors. Other factors, such as high proportions of remote Indigenous communities and the presence of tropical diseases can contribute significantly to increasing state health need, over and above what is explained by socio-demographic composition. It is therefore important that where these factors are relevant, they are being included in assessments.

### **Commission position**

- *The Commission considers that a review of the health assessment framework in preparation for the 2030 Review would be beneficial. The Commission intends to engage with the states on the potential improvements to the health assessment framework ahead of the commencement of the 2030 Review.*

### **Queensland position**

Queensland supports the Commission engaging with states to discuss potential improvements to the health assessment framework, well in advance of the 2030 Review. Given the complexities involved in the provisions of health services, beginning this work early will be essential to ensuring that the Commission is able to make the most of the 2030 Review period.

### **Commission position**

- *To ensure the administrative scale assessment remains contemporary, the Commission proposes to undertake a comprehensive analysis of the assessment before the 2030 Review.*

### **Queensland position**

Queensland supports the Commission undertaking a comprehensive analysis of administrative scale factor. As noted in this and earlier submissions, Queensland is concerned the current assessment is inaccurate and is heavily reliant on a range of assumptions and judgements.

### Commission position

- *The Commission accepts there is a conceptual case that various culturally and linguistically diverse population groups can drive higher costs in providing some state services. However, significant challenges stand in the way of reliably defining, identifying and assessing how such groups affect costs across the range of state services. In preparation for the 2030 Review, the Commission proposes to work with the states and relevant data providers to consider the basis for culturally and linguistically diverse drivers, and appropriate definitions and data, in the context of the Commission's various expense assessments.*

### Queensland position

Queensland does not oppose the Commission investigating the inclusion of cultural and linguistic diversity drivers within assessments should this be found to be relevant and material. However, Queensland notes that are currently significant limitations around available data.

### Commission position

- *The Commission proposes to monitor policies related to net zero capital and grant expenditure, identify relevant expenses, and examine whether reliable policy neutral drivers of spending across states can be identified.*

### Queensland position

Queensland supports the Commission continuing to monitor policies and spending related to a net zero transition. There will be a significant increase in net zero expenditure in future years as states aim to reach Commonwealth-mandated emission reduction targets. As such, a separate assessment to reflect this may be warranted at an appropriate time in the future.

### Commission position

- *The Commission acknowledges there is a conceptual case for including elasticity adjustments and recognises that if differences in state tax rates have material effects on their observed revenue bases, incorporating elasticity adjustments (provided they can be reliably measured) would improve the policy neutrality of assessments. The Commission proposes to further consider how these complexities and uncertainties can be addressed in preparation for the 2030 Review.*

### Queensland position

Queensland does not support the Commission considering introducing elasticity adjustments within assessments. Such adjustments will add a further level of complexity to assessments, contrary to the Commission's practicality principle and would likely be of questionable reliability.

### Commission position

- *The Commission proposes to work with the states and data providers, including the ABS, to explore opportunities to obtain improved data going forward.*

### Queensland position

Queensland welcomes the Commission's commitment to improve data quality. This should be considered a key priority for the Commission in a forward work program. Left unaddressed, data issues may affect the reliability and usefulness of assessment outcomes. One of the areas of focus that should also be considered is the data requests process and, based on the experiences from the 2025 Review, Queensland offers its views on this below.



While Queensland supports the Commission investigating alternative data sources and collection methods, Queensland does not support the Commission changing data sources between Methodology Reviews, except in cases where an existing data source becomes unavailable. As such, the inclusion of any alternative data sources within Commission assessments should not be done until fully considered as part of the 2030 Review.

### **Queensland comments on the current data request process**

One of the most significant issues highlighted through the current review process was a lack of clarity in relation to data requirements. Generally, data requests were found to be poorly defined and this frequently resulted in collection agencies seeking clarification.

While Queensland facilitated discussions between the Commission and collection agencies in order to address any questions as they arose, other states which did not undertake this additional engagement will have relied upon their own judgements and assumptions to complete requests.

Given this, Queensland is concerned that data may not be comparable between states with potential impact of GST redistributions. While the extent of this issue and its impacts on all states is unclear, it is a significant concern if there is potential that GST distributions may be partly driven by data issues rather than genuine differences in state need.

Of further concern, the structure and data collected for some requests was heavily informed by individual states with significant fiscal interests in the assessments which use this data. This may have inadvertently introduced elements of bias as the overall quality and coverage of data in states with vested interests would likely be to a higher standard compared to other states.

There were also more general issues with how the process itself was managed, with multiple versions of data requests issued after inconsistencies were identified or data requirements changed. This led to the process becoming overly onerous for states, particularly as they managed competing priorities. Efforts to streamline and simplify the data collection instrument and introduce improvements to reduce the burden on collection agencies would, therefore, be greatly welcomed.

### **General Queensland recommendations for improving Methodology Review outcomes**

In addition to the specific forward work program issues identified by the Commission, Queensland wishes to provide some general feedback and recommendations for improving the consultation and methodology review process for the Commission.

- 1. Reviews should be treated as a continuous and ongoing process.** Given the complexity and materiality of assessments and the issues now under consideration, any pre-work for upcoming reviews should commence at the conclusion of the current review, preferably immediately following the release of the final Review paper. Long standing and significant issues should be considered priorities, with sufficient time allowed to explore these in detail.
- 2. Reviews should have a broad focus and be able to examine any contentious or material issues.** The 2025 Methodology Review focused almost exclusively on changes since the previous review. In order for future reviews to be more appropriate and comprehensive, this restriction must be removed and the Commission and states given the scope to consider a wider range of issues.
- 3. Re-test assessment models to ensure that they remain fit-for-purpose.** This should be considered best practice and we strongly recommend that this is undertaken in every review going forward. As noted, independent advice should be sought to justify the choice and design of models, with the approach taken to the wages assessment in the 2025 Methodology Review providing one such example for how this could be done.

4. **Improved engagement.** There are specific areas where this could be further enhanced, such as including a more evidence-based case for change within consultation papers, providing further opportunities for multilateral engagement, and establishing minimum timeframes to consult on key issues. Furthermore, Queensland considers that greater attempts should be made at consultation for assessments and issues that are particularly contentious or substantial.
5. **Simplify methods where appropriate.** Queensland considers that there is now an increasing trend towards greater complexity in assessments, with recent proposals to introduce further disaggregation in the coal mining, housing and welfare assessments highlighted as examples of this. This is a marked departure from the terms of reference which aims for simplicity in assessments. The greater the level of granularity in assessments, the greater the likelihood of conflict arising with principles such as policy neutrality and simplicity.
6. **Aim for a consistent approach** across assessments where relevant, especially in factors that apply across various assessments, such as regional cost and socio-demographic factors.

Queensland values its positive working relationship with the Commission and its staff and would look forward to working together to implement these suggestions. While this will take time and effort to achieve, Queensland believes this will help to drive the best outcome for HFE.

# Priority issues for consideration in 2030 Methodology Review

## 35 Regional costs and population dispersion

### Queensland position

Queensland notes there are already multiple shortcomings with regional costs, service delivery scale costs and remoteness costs, resulting in an underestimation of the actual costs associated with increasing remoteness.

As such, Queensland recommends that the Commission make regional costs and population dispersion a priority for the 2030 Review, given that a thorough and complete review of these factors was not undertaken during the 2025 Review.

Queensland believes there are several issues which warrant further examination. These include:

- **Priority Issue 1: Comprehensive review and redevelopment of remoteness indices.** Queensland recommends that the Commission engages and collaborates with the ABS to develop an index for remoteness that is more reflective of the practicalities of service delivery and the accessibility of services in different regions.
- **Priority Issue 2: Comprehensive review of regional costs.** Queensland recommends that the Commission undertakes a comprehensive analysis of the complete extent of regional costs and increases in use rates from the socio-demographic characteristics of remoteness.
- **Priority Issue 3: Consideration of cost weightings for certain geographic factors.** Queensland recommends that the Commission consider the appropriateness of cost weightings for certain geographic factors, areas in Northern Australia, regions and locations of a high Indigenous concentration, extremely remote areas, and island communities.

Queensland would welcome an opportunity to work with the Commission to address these priority issues, discussed in further detail below.

### **Priority Issue 1: Comprehensive review and redevelopment of remoteness indices**

Currently the Commission uses the Accessibility/Remoteness Index of Australia Plus (ARIA+) to define remoteness areas. While Queensland supports using ARIA+ in the short-term, there are concerns that the ARIA+ model is outdated and does not fully recognise the differences in service delivery, particularly for dispersed regional cities. This may result in regional costs being underestimated in more dispersed states such as Queensland and overestimated in centralised states such as Victoria and New South Wales. Additionally, other currently developed remoteness indices also have shortcomings. For example, the ARIA++ model has the same issues as ARIA+ while the Modified Monash Model is too narrowly focused on service accessibility rather than challenges with service delivery.<sup>58</sup>

Given these shortcomings with current models, Queensland recommends that the Commission engages and collaborates with the ABS to develop a new index for remoteness for the 2030 Review. In particular, Queensland recommends reviewing and developing a new and contemporary remoteness index that is more reflective of the practicalities of service delivery and the accessibility of services in different regions and specifically address the following issues:

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<sup>58</sup> Australian Institute of Health and Welfare 2004. *Rural, regional and remote health: A guide to remoteness classifications*. Australian Government: Canberra; V. Versace, T. Skinner, L. Bourke, P. Harvey, & T. Barnett 2021. "National analysis of the Modified Monash Model, population distribution and a socio-economic index to inform rural health workforce planning." *The Australian Journal of Rural Health*. 29(5): 801-810. The RRMA model discussed in AIHW (2004) has similar shortcomings as MMM (see citation for more detail).

- *Issue 1a: Recognising service delivery challenges facing dispersed regional centres.*
- *Issue 1b: Recognising the different capacities of different major cities to deliver services to surrounding areas.*
- *Issue 1c: Recognising the increased service delivery capacity of GCCSAs.*

*Issue 1a: Recognising service delivery challenges facing dispersed regional centres.*

In the current ARIA+ model, the classification cutoffs for different remoteness areas have been arbitrarily decided resulting in significant disparities between the service accessibility in locations which are classified in the same remoteness area.<sup>59</sup> Indeed, the ABS has identified that remoteness areas as defined by ARIA+ have significant limitations and should only be used for statistical analysis, suggesting these current classifications are too blunt for use in funding calculations or policy:

*"It is vitally important that anyone developing policies, funding formulae or intervention strategies understands the alignment, or lack of alignment, between a particular geographical classification and their business objective. No geographical classification should be used as a simplistic answer to complex questions."<sup>60</sup>*

Disparities and inconsistencies are most evident in the inner regional classification. This remoteness classification bizarrely contains suburbs less than 50 kilometres from Sydney and Melbourne CBD as well as towns almost 1,000 kilometres from Brisbane. This inaccurately suggests that some city-fringe areas in southern states are as accessible as relatively remote provincial cities in central and northern Queensland.

The stark differences between the service accessibility of two "inner regional" centres can be illustrated by comparing Mackay, Queensland and Ballarat, Victoria:

**Table 35.1: Comparison of remoteness of Ballarat and Mackay**

|                                   | <b>Ballarat</b>       | <b>Mackay</b>         |
|-----------------------------------|-----------------------|-----------------------|
| Population (UCL, 2021 Census)     | 105,348               | 80,455                |
| Distance to State Capital by road | 1 hour 41 minutes     | 11 hours 6 minutes    |
| Distance to State Capital by rail | 1 hour 27 minutes     | 13 hours 16 minutes   |
| <b>ARIA+ classification</b>       | <b>Inner regional</b> | <b>Inner regional</b> |

As can be seen in Table 35.1, residents of Ballarat have a less than 3 hour round trip (i.e. 1 hour 27 minutes each way) on public transport to Melbourne. This suggests that these residents would be readily able to access services in Melbourne, implying that most specialised government services can be centralised to Melbourne, enabling an exploitation of economies of scale and meaning there are only limited regional costs or SDS costs associated with providing services to residents of Ballarat.

In contrast, residents of Mackay require a full day of travel to reach Brisbane, a city only about half the size of Melbourne. If essential services are not provided in Mackay, residents would have to undertake a multiple day trip with significant personal time costs just to receive basic care. As such, there is a very high need to provide government services in Mackay, where no economies of scale can be exploited, resulting in substantial regional and SDS costs associated with providing services to residents of Mackay.

<sup>59</sup> Australian Institute of Health and Welfare 2004. *Rural, regional and remote health: A guide to remoteness classifications*. Australian Government: Canberra.

<sup>60</sup> Australian Bureau of Statistics 2003. *ASGC Remoteness Classification: Purpose and Use*.

The inclusion of highly accessible centres such as Ballarat in the same remoteness class as much more isolated centres such as Mackay inflates the assessed need of the accessible centres (mainly in New South Wales and Victoria) and underestimates the actual need of isolated centres. This is a particular issue in Queensland, where more than 400,000 people live in isolated and dispersed population centres along the Queensland coast and are classed as living in inner regional areas by ARIA+ despite being more than a four-hour drive from Brisbane.

The defining feature of the ARIA+ model that results in these inconsistent classifications is the model's use of an aggregate relative distance from multiple different service centres to derive remoteness. **This ignores that both the aggregate and relative distance a locality is from a service centre impacts how accessible services are for these residents and the increased cost associated with providing the required services.**

This shortcoming is clearly demonstrated when comparing Mackay and Ballarat. Queensland recommends that a more fit-for-purpose index of remoteness would assess a location's remoteness based on its absolute distance from a service centre of a certain size.

*Issue 1b: Recognising the different capacities of different major cities and other service centres to deliver services to surrounding areas.*

Another key shortcoming of the ARIA+ model is its lack of differentiation between service centres and its very low threshold for a locality being categorised as a major city (minimum population of 250,000). This threshold implies much smaller cities, such as the Sunshine Coast, are just as accessible as Melbourne or Sydney.

Indeed, it is likely that Hobart will eventually be classified as a major city under the ARIA+ model in the future. Even if this does not occur before the 2030 Review it still highlights a major shortcoming of the model. Hobart's eventual major city classification will create a counterintuitive situation where Tasmania will be assessed by the Commission similarly to large and centralised states such as Victoria.

Given this, Queensland recommends that the Commission look at increasing the population threshold of what is considered a major city.

Additionally, given the large population variations between major cities, Queensland recommends assessing whether different major cities have different major city service radiuses. A key consideration of this would be the classification of satellite cities.

Queensland also notes that the positioning of where the centre of a major city is may materially impact remoteness classifications. For example, Campbelltown Hospital is a major tertiary hospital in Sydney, however, it is located more than 60 kilometres from the Sydney CBD. Areas within 15 kilometres of this major city hospital are classified as inner regional. Given discrepancies such as this, any redeveloped remoteness model should consider designating multiple service centres within particularly large major cities, such as Sydney and Melbourne, so that their service radius can be more comparably assessed to other major cities.

*Issue 1c: Recognising the increased service delivery capacity of GCCSAs.*

Given the economies of scale generated from centralisation of services, capital cities should have a higher level of service accessibility compared to non-capital cities of the same size. A redeveloped remoteness index should recognise this.

## Priority Issue 2: Comprehensive review of regional costs

Given the limited consideration of regional costs in the 2025 Review, Queensland recommends the Commission undertakes a comprehensive analysis of the complete extent of regional costs and increases in use rates from the socio-demographic characteristics of remoteness.

In particular, Queensland recommends a review of regional costs for hospitals, noting that the NWAU weightings given by the IHACPA in their National Efficient Price Determination are significantly higher than the regional costs the Commission assumes.<sup>61</sup>

## Priority Issue 3: Consideration of cost weightings for certain geographic factors

Queensland recommends that the Commission considers the appropriateness of cost weightings for certain geographies. These cost weightings would be in addition to regional and SDS costs and expense increases related to remoteness.

In particular, Queensland would welcome investigation of cost weightings for areas where geography results in significantly elevated costs compared to other areas of the same remoteness. As such, cost weightings would more adequately assess service delivery challenges related to these geographies. Queensland has identified the following geographies as most significantly impacting costs compared to other areas of the same remoteness:

- Northern Australia
  - Localities in Northern Australia face additional service delivery and fixed costs compared to other areas of the same level of remoteness. This is for a variety of factors. For example, during monsoonal periods much of Northern Australia becomes unpassable, creating accessibility challenges which inevitably increase state expenses.<sup>62</sup> High levels of rainfall also increase humidity and result in increased maintenance costs to control issues including endemic mould and fungal outbreaks affecting infrastructure.<sup>63</sup> Extended extreme heat conditions in the summer months also increases essential electricity usage, especially in health and school settings where maintaining cool temperatures is essential.<sup>64</sup> Northern Australia faces unique health challenges, including a much higher risk of heat-related health issues due to increased humidity and temperature, and the presence of endemic tropical diseases, such as dengue fever and Ross River fever.<sup>65</sup> This significantly increases the health task of these areas compared to areas of a similar remoteness in southern states. This suggests that a cost weighting for Northern Australia on top of regional & SDS costs would appropriately adjust costs to better reflect actual need.
- Areas of high Indigenous concentration
  - Discrete Indigenous communities and communities and regions with high Indigenous concentrations face significantly increased service delivery costs compared to other areas of the same remoteness. These communities face the highest level of disadvantage of anywhere in Australia and are significantly more disadvantaged than other communities

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<sup>61</sup> Independent Health and Aged Care Pricing Authority 2024. *National Efficient Price Determination 2024-25*. IHACPA: Canberra.

<sup>62</sup> M. Carroll 2023. "The Tropics" in in Daniel Carroll, Harry Stalewski, and Bhanu Mariyappa Rathnamma eds. *Paediatric Surgery: Clinical Practice in Remote and Rural Settings, and in Tropical Regions*. CRC Press: Boca Raton. pp. 1-6.

<sup>63</sup> S. Wahab, M. Khamidi, & M. Ismail 2013. "An Investigation of mould growth in tropical climate buildings." *2013 IEEE Business Engineering and Industrial Applications Colloquium (BEIAC)*. 316-321.

<sup>64</sup> B. Hamzah, Z. Gou, R. Mulyadi, & S. Amin 2018. "Thermal Comfort Analyses of Secondary School Students in the Tropics." *Buildings*. 8(4): 56.

<sup>65</sup> H. Mason, J. King, A. Pedan, & R. Franklin 2022. "Systematic review of the impact of heatwaves on health service demand in Australia." *BMC Health Services Research*. 22: 960; M. Carroll 2023. "The Tropics" in in Daniel Carroll, Harry Stalewski, and Bhanu Mariyappa Rathnamma eds. *Paediatric Surgery: Clinical Practice in Remote and Rural Settings, and in Tropical Regions*. CRC Press: Boca Raton. pp. 1-6.

with lower Indigenous concentrations even within the same region.<sup>66</sup> These areas therefore face unique social, economic, and health challenges that require additional state resourcing and investment, particular for local government assistance and for core government functions such as policing, healthcare, education, housing, and child safety.<sup>67</sup> These additional servicing and infrastructure costs are not assessed in most of the current assessments,<sup>68</sup> with Indigenous, SES, and remoteness socio-demographic composition assessments unable to capture the compounded affects within Discrete Indigenous communities and communities with a high Indigenous concentration.<sup>69</sup> This suggests that a cost weighting for Indigenous persons living in these communities, on top of regional & SDS costs, would appropriately adjust costs to better reflect actual need.

- Extremely remote areas
  - The current classification of Very Remote areas is very broad, including both communities just outside of remote towns such as Port Hedland, Broome, and Mount Isa as well as Australia's most isolated communities. Providing services for residents of these isolated communities is exponentially more costly than service provision for those close to remote towns. As such, an additional cost weighting for these communities would much better reflect actual need.
- Very remote island communities
  - Islands not connected to the mainland by roads face substantial transportation challenges which significantly increase service and infrastructure delivery costs. Queensland notes that the current ARIA+ model adjusts remoteness for islands not connected to the mainland. However, a large proportion of these island communities would still be classified as very remote if connected to the mainland. This includes Mornington Island, the Torres Strait Islands, Groote Eylandt, Crocker Island, and Elcho Island. In total, over 15,500 people live in very remote island communities, all in Queensland and the Northern Territory. Establishing a cost weighting would better reflect the increased costs associated with providing services and infrastructure to these communities.

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<sup>66</sup> E. Hunter 2007. "Disadvantage and discontent: A review of issues relevant to the mental health of rural and remote Indigenous Australians." *Australian Journal of Rural Health*. 15(2): 88-93.

<sup>67</sup> J. Wakerman, L. Sparrow, S. Thomas, J. Humphreys & M. Jones 2017. "Equitable resourcing of primary health care in remote communities in Australia's Northern Territory: a pilot study." *BMC Family Practice*. 18: 75; A. Taylore, H. Payer & T. Barnes 2018. "The missing mobile: Impacts from the incarceration of Indigenous Australians from remote communities." *Applied Mobilities*. 3(2): 150-167; D. Habibis, R. Phillips, P. Phibbs & J. Verdouw 2014. *Progressing tenancy management reform on remote Indigenous communities*. Australian Housing and Urban Research Institute: Melbourne.

<sup>68</sup> First Nations concentration is currently assessed in the schools investment assessment. A similar assessment could be adopted across all assessments instead of a cost-weighting.

<sup>69</sup>N. Biddle & F. Markham 2023. *Area Level Socioeconomic Outcomes for Aboriginal and Torres Strait Islander Australians in the 2016 and 2021 Censuses*. Centre for Aboriginal Economic Policy Research: Canberra.

## 36 Socio-demographic composition

### Queensland position

Excluding the work conducted on using a PLIDA-based measure, there was limited consideration of socio-demographic composition factors as part of this review. Therefore, Queensland recommends that the Commission make reviewing socio-demographic composition factors a priority issue for the 2030 Review and, in particular, thoroughly investigate and consult with states on the following issues:

- **Priority Issue 1: Further investigations of PLIDA-based measures.** Queensland welcomes further investigations into PLIDA (noting continued advancements) and other methods which would improve the contemporaneity of SES determinants.
- **Priority Issue 2: Comprehensive review of socio-demographic composition drivers.** Queensland recommends that the Commission undertakes a comprehensive review of socio-demographic composition drivers.
- **Priority Issue 3: Comprehensive review of compounding factors of socio-demographic disadvantage.** Queensland recommends that the Commission undertakes a comprehensive review of the impact that compounding factors of socio-demographic disadvantage.
- **Priority Issue 4: Comprehensive review of Commonwealth Payments relating to socio-demographic disadvantage.** Queensland recommends that the Commission comprehensively reviews their treatment of Commonwealth Payments to states in assessments where socio-demographic characteristics are assessed.

### **Priority Issue 1: Further investigations of PLIDA-based measures**

Queensland welcomes further investigations into PLIDA (noting continued advancements) and other methods which would improve the contemporaneity of socio-economic status (SES) determinants for the 2030 Review.

However, while welcoming further engagement on developing a PLIDA-based measure of SES, Queensland views census data as the most reliable and complete data source for SES. The SEIFA indices (which use Census data) provide a policy neutral and objective snapshot of geographic distributions of disadvantage across Australia. **Fundamentally, unlike PLIDA data, SEIFA data is less likely to be impacted by service accessibility.**

As such, Queensland recommends that as the Commission further investigates PLIDA-based measures, that there is concurrent consideration of how census-based data sources (NISEIFA and SEIFA) can be retained within the methodologies. Queensland recommends that any PLIDA-based should be benchmarked against the existing census-based data sources (NISEIFA and SEIFA) to ensure that service accessibility is not impacting GST distribution.

The specific PLIDA measures initially proposed by the Commission in the consultation paper (proportion of non-Indigenous people which receive Department of Social Service pensions; that have a prescription for certain lifestyle-related conditions; and that have high incomes) also have their own limitations. For example, Queensland notes that populations receiving prescription medication for alimentary tract and metabolism related disorders is unsuitable given the lower levels of health literacy among some SES groups which likely lead to lower reported burdens, and accessibility barriers in remote areas which prevent access to Pharmaceutical Benefits Scheme services.

Queensland continues to support the use of non-Indigenous Socio-Economic Indexes for Areas (NISEIFA), based on census derived data. As the Commission has noted in its consultation paper, the 2021 census indicators of SES were not affected by COVID-related lockdowns and could continue to provide a reliable



indicator of SES, further reducing the need to apply any changes at this time. As was discussed in Queensland's *Tranche 1 submission*, Queensland recognises that census data is the 'gold-standard' for assessing SES and any method changes for SES should continue to incorporate NISEIFA to ensure data quality.

### ***Priority Issue 2: Comprehensive review of socio-demographic composition drivers***

Queensland strongly supports assessing socio-demographic composition. Remoteness, Indigenous status, socio-economic status, and age all significantly impact the need for essential government services. These factors were not reviewed in detail during the 2025 Review. As such, Queensland recommends that the Commission undertakes a comprehensive review of socio-demographic composition disabilities during the 2030 Review.

**As there is insufficient time remaining in the 2025 Review to implement this change, the Commission should make this a priority issue for the 2030 Review.**

However, Queensland notes that in the child safety component of the welfare assessment remote children being assessed as having less need than non-remote children in all categories. This is counter to the conceptual case for remoteness and resulting in material redistributions against the conceptual case.

### ***Priority Issue 3: Comprehensive review of compounding factors of socio-demographic disadvantage***

Different socio-demographic composition drivers are assessed as having an additive effect on need. Other states have suggested that different socio-demographic characteristics have a compounding and multiplicative impact on service need. Queensland agrees with this conclusion.

As such, Queensland recommends that the Commission undertakes a comprehensive review of the impact of compounding factors of socio-demographic disadvantage during the 2030 Review and investigate whether this compounding effect can be assessed.

### ***Priority Issue 4: Comprehensive review of Commonwealth Payments relating to socio-demographic disadvantage***

The Commission has proposed assessing Commonwealth Payments related to addressing structural disadvantage as no impact. Queensland supports this position.

Queensland also notes the Commission's recognition in the Draft Report that many Commonwealth Payments (including the National School Reform Agreement, the National Health Reform Agreement, the National Skills Agreement, and the National Housing and Homelessness Agreement) are partially designed to alleviate issues of structural disadvantage related to socio-demographic composition.

Additionally, Queensland notes the role of Commonwealth Payments in addressing disadvantage is already assessed in the schools assessment, given that the National School Reform Agreement is differentially assessed as to not redistribute funding aimed at reducing disadvantage from this Commonwealth Payment.

Queensland recommends that the Commission comprehensively reviews the treatment of other Commonwealth Payments to states in assessments where socio-demographic characteristics are assessed. Assessing these Commonwealth Payments similarly to the National School Reform Agreement could help prevent Commonwealth assistance to alleviate structural disadvantage from being redistributed through GST allocations.

## 37 Indigenous status and Indigenous disadvantage

### Queensland position

Queensland strongly supports assessing factors related to Indigenous status and Indigenous disadvantage. Assessing these factors is essential for genuinely deriving states relative fiscal capacity. The provision of services to the most disadvantaged Indigenous communities in remote areas creates significant complexity and expenditure for states such as Queensland, Western Australia, and the Northern Territory.

However, Queensland notes that neither Indigenous status nor Indigenous disadvantage have been considered by the Commission in either the 2020 or 2025 Reviews. **As such, by the time of the 2030 Review, it will be 15 years since these factors were last reviewed in detail.**

Indigenous populations have changed significantly since the 2015 Review, particularly driven by non-demographic growth in Victoria and New South Wales, which is resulting in material redistributions that are not reflective of the actual task.

Given how critical Indigenous disadvantage is in driving State government spending, particularly in states like Queensland, it is strongly recommended that Indigenous states and Indigenous disadvantage are comprehensively reviewed as part of the 2030 Review.

Queensland welcomes Commission collaboration and engagement with states. Whilst discussing views with all states is important, for issues related to Indigenous status and Indigenous disadvantage, consultation and engagement with Queensland, Western Australia, and the Northern Territory is more important than with other states, given that these states have high concentrations of remote and disadvantaged Indigenous communities compared to other states.

In particular, Queensland recommends a focus on the following priority issues:

- **Priority Issue 1: Ensuring Indigenous population data is accurate:** Queensland recommends that the Commission engages and collaborates with the ABS and states to ascertain issues with Indigenous population data, particularly in regional and remote areas and discrete Indigenous communities.
- **Priority Issue 2: Comprehensive review of the impact of non-demographic population changes:** Queensland recommends that the Commission engages and collaborates with the ABS and states to complete a comprehensive analysis of non-demographic Indigenous population growth, and the impact non-demographic change has on assessments.
- **Priority Issue 3: Comprehensive review of the IRSEO index:** Queensland recommends that the Commission undertakes a comprehensive review of the IRSEO index and work with states, the ABS, and other organisations to ensure Indigenous disadvantage indices are fit-for-purpose.

### **Priority Issue 1: Ensuring Indigenous population data is accurate.**

Indigenous status has consistently been undercounted during ABS censuses and subsequently updated through the post-enumeration survey (PES). In the 2021 Census, the published Indigenous undercount was 17.4 per cent; however, this figure is likely conservative, with a substantial number of Indigenous persons still not correctly counted.

This issue is most severe in regional and remote areas, which have much higher non-reply levels for Indigenous identity questions.<sup>70</sup> Overall, it is probable that the Indigenous population in regional and

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<sup>70</sup> Australian Bureau of Statistics 2022. *2021 Census overcount and undercount methodology*. Accessed 11 June 2024. Available at <https://www.abs.gov.au/methodologies/2021-census-overcount-and-undercount-methodology/2021#understanding-net-undercount-for-indigenous-status-and-country-of-birth>.

remote areas, particularly discrete Indigenous communities, is substantially undercounted relative to urban Indigenous populations.

Remote and discrete Indigenous communities have their population undercounted and need underassessed as a result of multiple issues, including:

- *Issue 1a: ABS Census undercounts being significantly higher in regional and remote areas.*
- *Issue 1b: Mobile populations in discrete Indigenous communities.*

Given these issues, Queensland recommends that the Commission engages and collaborates with the ABS and states to ascertain issues with Indigenous population data, particularly in regional and remote areas and discrete Indigenous communities. Engagement is particularly important for Queensland, Western Australia and the Northern Territory, which have a high proportion of remote Indigenous communities and are the most impacted by any underassessment of need in this area.

#### *Issue 1a: ABS Census undercounts being significantly higher in regional and remote areas.*

The ABS attempts to correct the Indigenous undercount through the PES as to more accurately estimate the total population and their place of residence. There are a range of factors contributing to the Census undercounts of Indigenous persons:<sup>71</sup>

1. A significant proportion of Census records do not have a response to the Indigenous status question (4.9 per cent in 2016).<sup>72</sup> There is a significantly higher proportion of households not answering this question in regional and remote areas.
2. Some individuals are missed by the Census and do not appear on any household's Census form.
3. Some individuals who are listed as not being of Aboriginal or Torres Strait Islander origin on the Census form later state that they are of Aboriginal or Torres Strait Islander origin when asked in the PES several weeks later, a survey that is administered face-to-face to most participants.

All these issues are likely to be more prevalent in remote communities in Northern Australia, where accessibility issues, socio-cultural & language barriers, and challenges in communities engaging with government significantly hamper data collection efforts. The disparity between remote and non-remote areas is likely to become more pronounced given diverging levels of disadvantage between the two groups.<sup>73</sup>

As such, even after PES adjustments, the Indigenous population is almost certainly underestimated in regional and remote areas, especially discrete communities.<sup>74</sup> Given that headline undercount estimates are already conservative, it is likely that a significant proportion of the most disadvantaged Indigenous population is excluded from the Commission's assessments, resulting in a material underassessment of need in Queensland, Western Australia, and the Northern Territory.<sup>75</sup>

Indeed, research concluded that the 2001 Census, after PES adjustments, underestimated the population living in Queensland discrete Indigenous communities by up to 40 per cent, with some communities experiencing an up to 70 per cent undercount.<sup>76</sup> Since 2001, the headline Indigenous undercount rate

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<sup>71</sup> F. Markham & N. Biddle 2018. "Recent changes to the Indigenous population geography of Australia: evidence from the 2016 Census." *Australian Population Studies*. 2(1): 1-13.

<sup>72</sup> Australian Bureau of Statistics 2022. *2021 Census QuickStats: Australia*. Accessed 11 June 2024. Available at <https://www.abs.gov.au/census/find-census-data/quickstats/2021/AUS>.

<sup>73</sup> B. Williamson, J. Prehn, M. Walter, R. Lovett, G. Bodkin-Andrews, B. Maher, V. Lee-ah Mat, R. Jones 2021. "Indigenous peoples and the Australian census: Value, trust, and participation." *Australian Population Studies*. 5(2): 1-14.

<sup>74</sup> B. Williamson, J. Prehn, M. Walter, R. Lovett, G. Bodkin-Andrews, B. Maher, V. Lee-ah Mat, R. Jones 2021. "Indigenous peoples and the Australian census: Value, trust, and participation." *Australian Population Studies*. 5(2): 1-14.

<sup>75</sup> F. Markham & N. Biddle 2018. "Recent changes to the Indigenous population geography of Australia: evidence from the 2016 Census." *Australian Population Studies*. 2(1): 1-13.

<sup>76</sup> J. Taylor & M. Bell 2003. "Options for benchmarking ABS population estimates for Indigenous communities in Queensland." *Centre for Aboriginal Economic Policy Research: Discussion Paper 243*. Australian National University: Canberra.

increased from 10.9 per cent to 17.4 per cent while population estimates and PES adjustments have remained stable in Queensland discrete communities, indicating that there is still a significant underestimation of the populations of discrete Indigenous communities.<sup>77</sup>

This is particularly concerning given the very high service delivery needs and costs of these communities. A 40 per cent underestimation of the populations of these communities would represent hundreds of millions of dollars of actual need not being captured in the assessed need annually.

### *Issue 1b: Mobile populations in discrete Indigenous communities.*

Many discrete Indigenous communities have highly mobile populations, with many residents moving between communities and neighbouring urban centres to access employment and essential services. This will likely result in the needs of these communities being underassessed.

For example, Palm Island had a 2021 Census night population of 2,098.<sup>78</sup> However, given the high population mobility between Townsville and Palm Island and the likely high undercount of the community's actual population, local government estimates that the population is usually approximately 4,000 and can be over 5,000 during holidays and festivals.<sup>79</sup> Overall, this indicates that up to 60 per cent of the total population is potentially underassessed under current HFE arrangements.

Some residents of Palm Island are likely assessed as living in other areas, with their need for services being underestimated compared to the severely high levels of disadvantage on Palm Island. Meanwhile, other individuals are likely completely excluded from assessments as a result of population undercounts from socio-cultural issues.

Meanwhile, in the Torres Strait, there is a significant transient population of Torres Strait Islanders who are citizens of Papua New Guinea (PNG). These individuals have free access to the Torres Strait for cultural reasons under the *Torres Strait Treaty*, however often enter to access services such as healthcare.<sup>80</sup>

Consequently, a significant proportion of the task in the Torres Strait is related to providing services to PNG nationals. Indeed, it is not unusual for up to 60 per cent of inpatients in Thursday Island hospital to be occupied by PNG nationals and up to 99 per cent of presentations to mobile health clinics being PNG nationals.<sup>81</sup> Additional, PNG nationals are more often expensive to treat because of complex co-morbidities, need for interpreter services, and above-average transport needs.<sup>82</sup>

Despite this, these individuals are not assessed as contributing to the overall task in Queensland. Again, this likely contributes towards the actual task in these remote Indigenous communities being severely underestimated given the unassessed population.

### ***Priority Issue 2: Comprehensive review of the impact of non-demographic population changes.***

Since 2006 there has been an increase in self-identification as an Indigenous person in ABS Census figures. This trend is highly variable across Australia and has been particularly concentrated in younger people in major cities.<sup>83</sup> As such, Indigenous population growth has been increasingly driven by non-demographic factors related to changes in self-identification. New South Wales, Victoria, Tasmania, and the Australian

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<sup>77</sup> F. Markham & N. Biddle 2018. "Recent changes to the Indigenous population geography of Australia: evidence from the 2016 Census." *Australian Population Studies*. 2(1): 1-13.

<sup>78</sup> Australian Bureau of Statistics 2022. *2021 Census QuickStats: Palm Island*. Accessed 11 June 2024. Available at <https://www.abs.gov.au/census/find-census-data/quickstats/2021/LGA35790>.

<sup>79</sup> Palm Island Aboriginal Shire Council 2024. *About Palm*. Accessed 11 June 2024. Available at <https://www.palmcouncil.qld.gov.au/palm>.

<sup>80</sup> Senate Standing Committee on Foreign Affairs, Defence, and Trade 2010. *The Torres Strait: Bridge and Border*. Commonwealth of Australia: Canberra.

<sup>81</sup> Senate Standing Committee on Foreign Affairs, Defence, and Trade 2010. *The Torres Strait: Bridge and Border*. Commonwealth of Australia: Canberra.

<sup>82</sup> Senate Standing Committee on Foreign Affairs, Defence, and Trade 2010. *The Torres Strait: Bridge and Border*. Commonwealth of Australia: Canberra.

<sup>83</sup> Australian Bureau of Statistics 2018. *Census of Population and Housing: Understanding the Increase in Aboriginal and Torres Strait Islander Counts*. Accessed 11 June 2024. Available at <https://www.abs.gov.au/statistics/people/aboriginal-and-torres-strait-islander-peoples/understanding-change-counts-aboriginal-and-torres-strait-islander-australians-census/2016#changing-propensity-to-identify>

Capital Territory have all seen substantially higher non-demographic population increases, compared to Queensland, Western Australia, and the Northern Territory, where population growth has been primarily driven by demographic changes.

Given this trend and its implications on GST distribution, Queensland recommends that the Commission engages and collaborates with the ABS and states (particularly Queensland, Western Australia, and the Northern Territory) to complete a comprehensive analysis of non-demographic Indigenous population growth, and the impact that non-demographic change has on assessments.

There appears to be substantial differences in the level of socio-economic disadvantage experienced by those who have newly identified as Indigenous since 2006 and those who have consistently identified as Indigenous. Longitudinal analysis of Indigenous identification between the 2011 Census and 2016 Census indicates that the newly-identified population have significantly better employment and educational outcomes than the consistently-identifying population.<sup>84</sup>

This creates a concern where newly-identified cohorts will be allocated the higher Indigenous use rate and cost in Commission assessments. This incorrectly increases the assessed expenses of more advantaged states such as New South Wales and Victoria. Meanwhile, the increasing number of Indigenous individuals will not increase the national expenditure on services (the underlying demographics of the population have not changed) and it will dilute the use and cost rates per Indigenous person. This will reduce the assessed GST needs of states with higher proportions of highly disadvantaged Indigenous communities, without reducing their actual expenses.

**Material changes to assessments driven by non-demographic change could reduce the ability of states to provide essential services and ingrain structural disadvantage in remote Indigenous communities.**

This will likely be exacerbated by the issues related to Indigenous undercounts and deficiencies with the IRSEO index.

The Commission has also already identified that non-demographic population changes are a material issue. For example, in both the 2019 Update and 2024 Update the full inclusion of census data has been delayed in the justice assessment to prevent perverse redistribution from this non-demographic change. It is likely that these factors are also materially impacting other assessments, including child and family safety, health, and social housing.

### ***Priority Issue 3: Comprehensive review of the IRSEO index.***

There are several outstanding issues with the IRSEO index which limit its effectiveness as a data source. The most prominent of these issues is the IRSEO's use of broadly defined Indigenous Areas to assess need. This issue has resulted in a lack of disaggregation of very distinct Indigenous communities, particularly in SEQ, where the three largest Indigenous areas by population are located.

This lack of disaggregation has clumped together Indigenous people in SEQ into very large regions, skewing Queensland's IRSEO rankings. All Indigenous persons in Brisbane are classified as "Least Disadvantaged". In contrast, in NT, NSW and WA there is significant capital city disaggregation. This likely results in a significant proportion of Queensland's Indigenous population being assessed as being less disadvantaged than they actually are.

Beyond this issue with disaggregation, others issues with the IRSEO index include:

- IRSEO measures Indigenous advantage as opposed to Indigenous disadvantage. This could result in some highly disadvantaged areas, especially those with above average incomes, being assessed as having lower need despite being more disadvantaged.
- IRSEO has different variables to SEIFA, including different variables for education, employment, and housing. This means that important aspects of disadvantage are not assessed. IRSEO also has no

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<sup>84</sup> F. Shalley, K. Griffiths, & T. Wilson 2023. "No longer Indigenous." *Population Research and Policy Review*. 42(2): 42-53.

variable for measuring disadvantage based on English-language abilities, despite large proportions of the Indigenous population experiencing significant language barriers, especially in discrete Indigenous communities.

- The IRSEO index has not been updated since the 2015 Review, with the organisation compiling the source, CAEPHR, not releasing any updates since 2017. This limits the contemporality of the index and suggests that it is likely outdated.

Given these factors, Queensland recommends that the Commission undertakes a comprehensive review of the IRSEO index and work with states, the ABS, and other organisations to ensure Indigenous disadvantage indices are fit-for-purpose.

Engagement and consultation is particularly important with Queensland, Western Australia and the Northern Territory given their high proportion of disadvantaged Indigenous communities.

## 38 Other issues for the 2030 Review

### Queensland position

While Queensland's priority issues for the 2030 Review are regional costs & population dispersion, socio-demographic composition, and Indigenous status & Indigenous disadvantage, Queensland welcomes a comprehensive and thorough investigation of all assessments and methods for the 2030 Review.

Queensland would also like to flag some further issues that the Commission should prioritise as part of the future work program and for the 2030 Review.

### Roads

As a part of the 2025 Review, the Commission has proposed not to add additional cost drivers to reflect rainfall and soil composition to the roads assessment. Queensland notes this position, however, also notes there is a strong conceptual case that these variables, combined with other physical environmental factors, will materially impact costs:

- Rainfall is one of the primary environmental factors impacting the road maintenance task. High precipitation increases water ingress on road pavements, substantially weakening the road pavement and increasing the amount of required maintenance in high precipitation areas compared to low precipitation areas.<sup>85</sup> Further, in higher rainfall areas, the ongoing costs related to vegetation control are significantly higher given the higher rate of gross primary production. Rainfall is a particular issue in Queensland, especially in the tropical north. High levels of rainfall on major highways, such as the Bruce Highway, substantially increases the rural roads maintenance task.
- Soil composition also impacts the cost of building and maintaining road pavements. High CBR value soils are more able to withstand heavier loads and generally require less effort and materials during construction compared to low CBR value soils.<sup>86</sup> Additionally, low CBR value soils are more susceptible to water infiltration, further increasing road maintenance costs.<sup>87</sup>
- Extremely high and extremely low temperatures can also impact on road maintenance costs. In extremely high temperatures, road pavements become deformed, increasing maintenance costs.<sup>88</sup> Likewise, extremely cold conditions can damage road surfaces and increase maintenance costs, whilst also increasing the traffic safety management costs.<sup>89</sup>

Furthermore, the physical environmental factors impacting on road construction and maintenance are expected to increase in coming years as a result of the impacts of climate change.<sup>90</sup> As such, the differential impact of these factors on state road investment and management costs will further increase.

Given these factors, Queensland recommends that the impact of rainfall, soil composition, temperature, and other physical environmental factors be further investigated as part of the 2030 Review.

### Investment

Queensland has concerns that the Rawlinsons construction cost gradient is materially underestimating actual construction costs in Brisbane relative to other capital cities.

As was discussed in detail in *Section 7: Investment*, while the Rawlinsons capital city cost index assesses Brisbane as the cheapest major city in Australia, alternative construction cost gradients consistently show

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<sup>85</sup> P. Rana & R. Singh 2018. "Impact of Rains on Road Transport." *International Journal of Engineering Development and Research*. 6(4): 97-100.

<sup>86</sup> R. Horonjeff & J. Jones 1953. *The Design of Flexible and Rigid Pavements*. University of California Press: Berkeley.

<sup>87</sup> R. Horonjeff & J. Jones 1953. *The Design of Flexible and Rigid Pavements*. University of California Press: Berkeley.

<sup>88</sup> J. Nicholls & I. Carswell 2001. *The behaviour of asphalt in adverse hot weather conditions*. Highways Agency: London.

<sup>89</sup> A. Sherif & Y. Hassan 2008. "Impacts of pavement surface temperature and condition on road safety." *CSCCE 2008 Annual Conference*.

<sup>90</sup> R. Mallick, M. Radzicki, J. Sias, & J. Jacobs 2014. "Use of System Dynamics to Understand Long-Term Impact of Climate Change on Pavement Performance and Maintenance Cost." *Transportation Research Record Journal of the Transportation Research Board*. 2455(1): 1-9.

that Brisbane is one of the two most expensive major cities in Australia. This inconsistency suggests that Rawlinsons capital city construction cost index is highly unreliable.

Given these issues, Queensland recommends that the Commission undertakes a thorough review of the Rawlinsons index for the 2030 Review, including investigating alternative data sources that could be used to assess capital city construction costs.

### **Mining revenue**

As outlined in this submission and Queensland's previous submissions, the current mining revenue assessment is not consistent with the policy neutrality principle. The Commission has not proposed any suitable methods for mitigating the extreme policy influence that some states have on this assessment during the 2025 Review. Concerningly, the Commission's proposed method change in the coal revenue assessment, if implemented, will make policy neutrality issues materially worse.

Given that these policy neutrality issues persist, Queensland strongly recommends that the Commission works with states during the 2030 Review to develop effective methods to account for policy contamination within assessments and incorporate a more balanced view of the supporting principles.

### **Housing**

While Queensland considers the general undiscounted regional cost and service delivery scale gradient the most appropriate method for assessing the increased costs of providing housing in regional and remote communities, Queensland contends that this gradient severely underestimates actual regional and remote costs.<sup>91</sup> As such, Queensland recommends that the development of an appropriate cost gradient should be further considered as part of the 2030 Review to ensure that social housing costs in remote areas are appropriately captured.

Queensland supports the Commission retaining a First Nations cost weight for the 2025 Review. However, Queensland recommends that this cost weighting should also be the subject to detailed review in the 2030 Review to ensure that social housing costs for First Nations communities are appropriately captured.

The Commission has noted that the proposed use of AIHW data will impact the investment assessment for social housing. Queensland is concerned that this AIHW data is inconsistent across states and underestimates Queensland's social housing need, especially in remote and very remote areas. This is evidenced by the significant inconsistency between Census data and AIHW data.

Given the data quality issues, Queensland recommends that further investigation should occur to address these discrepancies as part of the 2030 Review. This is essential to ensure that social housing investment need in remote and very remote areas is not underestimated.

### **Services to communities**

Queensland contends state expenditure per capita on other community development and amenities is much higher in remote and very remote communities compared to non-remote communities (excluding Indigenous communities). This need is not currently assessed by the Commission. As such, Queensland recommends that the Commission investigate disaggregating this assessment, in a similar way to how the water and electricity subsidy assessments are disaggregated, for the 2030 Review.

Additionally, Queensland recommends that further consideration should be given to identify appropriate differential drivers of biodiversity and landscape protection need during the 2030 Review.

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<sup>91</sup> For further discussion on this issue see Queensland Treasury 2024. *Assessment consultation papers – Tranche 2 – 2025 Methodology Review: Queensland submission*. Pages 81-82.



## **Socio-economic status**

Queensland recommends that the Commission investigate how assessed usage rates for the remoteness, Indigenous status, and SES are driven by service accessibility. It is likely that instances of increasing disadvantage or increasing remoteness resulting in lower usage rates (for example, as in the current child safety and family services assessment) are driven by service accessibility issues and are not a reflection of decreased need. **Service accessibility should not be impacting GST redistribution.**

## **Adjusted budget**

Queensland contends that some expenses data is not consistent between states, and that ABS GFS data is not reliable for all assessments. While the Commission considers that it is not best placed to ensure the consistency of data between states, as a key data user and in employing methods that distribute significant amounts of funding, it is imperative that the Commission is actively involved in this work and ensuring that the data it uses is to the highest possible standard and comparable between states. The risk of not doing so is that quality and reliability of the assessment outcomes are compromised as result.

**To this end, Queensland strongly recommends that the Commission consider reviewing the reliability and comparability of state expenses in ABS GFS data as a priority under its forward work program.**

Queensland supports the Commission working with states and the ABS, where appropriate, to improve alignment of ABS GFS and state budget data and welcomes working with the Commission to ensure that all data is consistent and comparable across states.



**Queensland**  
Government