




Australian Government  
Commonwealth Grants Commission

# 2025 Methodology Review

Significant changes since the  
Draft Report

November 2024

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## Summary of changes

The Commission has decided to make the following substantive changes to the methods proposed in the Draft Report for the 2025 Review.

- Motor taxes: reintroduce a differential assessment of stamp duty on motor vehicle transfers based on the total dutiable value of vehicle transfers
- Schools: revert to the 2020 Review approach for measuring socio-educational disadvantage, using the most socio-educationally disadvantaged 25% of students
- Health:
  - revert to the 2020 Review approach of using private patient separations as the indicator of non-state sector admitted patient activity
  - use the actual distribution of the Commonwealth grants for First Nations community-controlled health services as the estimate of non-state sector expense needs, resulting in the adjustment to actual Commonwealth payments being set to zero
  - use the exact calculated estimates for the non-state sector adjustment substitutability levels instead of rounding to the nearest 5%
  - assess expenses on aeromedical services and the Patient Assistance Transport Scheme as part of the admitted patient component in a future update if data for all states are included in national weighted activity units (NWAU) and are available for all 3 years of the assessment period
  - exclude COVID-19 clinics from the list of non-admitted patient allied health services in the proxy indicator of community and public health
  - discount the non-state sector adjustment for admitted patients, emergency departments, non-admitted patients and community health by 12.5%
- Housing: assess net expenses for social housing using an average household size-based approach rather than the individual based approach
- Investment: exclude expenses assessed in the COVID-19 component of the health assessment in the calculation of state shares of need for health-related capital
- Roads: retain the 2020 Review method for the synthetic rural road network, including routes to mines, national parks, gas wells and ports.

The Commission has decided to make the following minor changes to the methods proposed in the Draft Report.

- Welfare: where states are not able to provide data on homelessness services expenses, use the average of state expenses on homelessness from the Productivity Commission's *Report on Government Services* to split expenses across the housing and welfare categories
- Transport: reallocate pipeline expenses from the urban component to the non-urban component
- Geography: not include the gradients calculated for water or electricity subsidies in the general regional cost gradient. The general gradient will be calculated as the weighted average of gradients for state funding of government schools, post-secondary education, admitted patients, emergency departments, non-admitted patients, criminal courts, prisons, and Rawlinsons cost of construction.

## Background

- 1 As part of the 2025 Methodology Review [Terms of Reference](#) issued by the Commonwealth Treasurer, the Commission was asked to consult with states and territories (states) on any substantive changes to the methods proposed in the [Draft Report](#).
- 2 This paper sets out the substantive and minor changes since the Draft Report, the reasons for those changes, and includes indicative GST impacts of the new methods reflecting the changes since the Draft Report.
- 3 Indicative GST impacts are calculated using the 3 assessment years of the 2024 Update and applying the Commission's method changes as outlined in the Draft Report modified to incorporate the changes in this paper.
- 4 GST impacts are provided for illustrative purposes only and should not be used to predict the GST distribution for 2025–26. The GST impacts in the Commission's final report will include updated data and will differ from the illustrative impacts in this paper.
- 5 Methods not covered in this paper are expected to remain as described in the Draft Report.

## Substantive method changes since the Draft Report

### Motor taxes

#### Differential assessment of stamp duty on motor vehicle transfers

- 6 In the Draft Report, the Commission proposed not to reintroduce a differential assessment of stamp duty on motor vehicle transfers because it considered the assessment was not likely to be material at the driver materiality threshold (\$40 per capita). The Commission's position was based on an estimate of the materiality of a differential assessment using data provided by states in the 2019 Update, the latest data the Commission had available at the time of the Draft Report.

#### State views

- 7 In response to the Draft Report, South Australia said Australian Bureau of Statistics (ABS) data showed there had been significant growth in revenue raised from stamp duty on motor vehicle transfers since 2018–19. South Australia said its analysis

indicated that a differential assessment would be material. It said the Commission should seek more recent data from states to test the materiality of a differential assessment of stamp duty on motor vehicles and reintroduce the assessment if material.

### Commission response

8 The Commission collected data from states on the value of motor vehicle transfers for the 2024 Update assessment years. Based on these data the assessment is material at the \$40 per capita driver materiality threshold.

### Commission position

9 The Commission will reintroduce a differential assessment of stamp duty on motor vehicle transfers. Stamp duty on motor vehicles will be assessed as a separate component within the motor taxes category.<sup>1</sup> The revenue base will be the total dutiable value of vehicle transfers. The dutiable value is the greater of the purchase price or the market value. Data on the revenue raised are separately identified in ABS Government Finance Statistics and, for the last assessment year, from state revenue offices.

## Indicative impact on GST distribution of changes since the Draft Report in the motor taxes assessment

10 Table 1 shows the change from the 2020 Review method to the 2025 Review method, resulting from a differential assessment of stamp duty on motor vehicle transfers. New South Wales and Western Australia had above-average per capita value of vehicle transfers, and this reduced their GST needs. Victoria, the ACT and the Northern Territory had well below-average per capita value of vehicle transfers, and this increased their assessed GST needs. The value of vehicle transfers was close to average in the other states.

**Table 1 Indicative impact on GST distribution of 2025 Review method changes to the motor taxes assessment, 2024–25**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
\$m	-289	245	33	-37	12	4	27	5	326
\$pc	-34	35	6	-13	7	7	55	20	12

<sup>1</sup> Revenue from stamp duty on motor vehicle transfers was assessed equal per capita in other revenue in the 2020 Review.

# Schools

## Classification of socio-educational disadvantage

- 11 In the 2020 Review, the schools assessment incorporated a regression that identified a higher cost per student for the most disadvantaged 25% of students. In the Draft Report, the Commission proposed changing the assessment to measure the higher cost for the most disadvantaged 10% of students rather than the most disadvantaged 25% of students.

### State views

- 12 Queensland, South Australia and Tasmania opposed the Commission's proposed change. They said that, while severe disadvantage was a significant driver of costs, moderate disadvantage was also very important, and possibly more important.

### Commission response

- 13 There is a strong conceptual case that students with both severe and moderate disadvantage increase the costs of delivering school services. However, the Commission has been unable to specify a regression model that reflects the impacts of both moderately and severely disadvantaged students. As such, the Commission is faced with a choice between one of the two indicators: it cannot reliably use both.<sup>2</sup>
- 14 A total of 30% of government school students are in the most disadvantaged 25% of all students, compared with 13% in the most disadvantaged 10% of all students. While changing the indicator from the most disadvantaged 25% to the most disadvantaged 10% roughly halves the number of affected students, the associated coefficient changes by less than double (increasing from 5,067 to 9,719). Thus, the total funding attributed to disadvantaged students would decrease by moving to measuring the 10% most disadvantaged. Given that only one variable can be used, the Commission considers that the preferable approach is to use the variable that has the larger effect at the state level, namely the most disadvantaged 25% of students.
- 15 Changing the socio-educational advantage indicator from the most disadvantaged 25% to the most disadvantaged 10% would increase the Northern Territory's assessed needs for socio-educational advantage, as the Northern Territory has a larger share of the most disadvantaged students. However, this change would also decrease the estimated coefficient for First Nations students. The decrease in the amount allocated to the Northern Territory for First Nations students would largely offset the increase for socio-educational disadvantage.

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<sup>2</sup> Models that use both indicators have a negative coefficient for one of them (implying funding per student reduces as disadvantage increases). The Commission accepts the conceptual case that disadvantaged students attract a higher level of funding. There is evidence to support this conceptual case including from state funding arrangements. The Commission therefore considers that a negative coefficient for one of the indicators is not reliable.

## Commission position

- 16 The Commission will retain the approach used in the 2020 Review for measuring socio-educational disadvantage, using the most socio-educationally disadvantaged 25% of students. The Commission agrees with those states that indicated that changing the indicator to only the most disadvantaged 10% of students did not adequately capture the costs associated with more moderately disadvantaged students.

## Indicative impact on GST distribution of changes since the Draft Report in the schools assessment

- 17 By reverting to the 2020 Review definition of socio-educational disadvantage, there is no change in the GST distribution between the 2024 Update and the 2025 Review associated with socio-educational disadvantage.

## Health

### Admitted patient non-state sector indicator

- 18 In the Draft Report, the Commission proposed using private patient benefits paid as the indicator of non-state sector activity for the calculation of the admitted patient non-state sector adjustment. The 2020 Review method used private patient separations as the indicator.
- 19 The Commission's proposal was in response to Queensland's suggestion in its Tranche 1 submission to use private patient bed days rather than separations as the indicator of non-state sector activity for admitted patient services. Queensland said that bed days provide more information on the relative costs of service provision and therefore provide a better indicator of non-state sector activity.
- 20 The Commission proposed private patient benefits paid because:
- state-level data on bed days are not available for the 3 smallest states
  - benefits paid could potentially provide more information than separations or bed days on the relative costs of service provision, and therefore provide a better indicator of non-state sector activity.
- 21 However, the reliability of private patient benefits paid as an indicator of activity depends on states having comparable average benefits paid for equivalent hospital services. In the Draft Report the Commission noted that the indicator was not considered ideal due to differences between states in average benefits paid but concluded that it provided a better measure of activity than separations.

### State views

- 22 New South Wales, Victoria, Queensland and the ACT supported the use of private benefits paid as a better indicator of non-state sector activity.

- 23 Western Australia said that benefits paid by private health insurers vary among states due to factors other than case complexity. Western Australia has high private health insurance benefits, but low private bed days per separation. Western Australia said it appears that its private hospitals charge more than the national average for treatments of the same complexity. Western Australia said that this could reflect the market dynamics of a concentrated group of private hospital operators, the majority insurance provider being not-for-profit, and possibly higher costs faced by private hospitals.
- 24 South Australia said that, given the significance of this component, any method changes affecting it should be based on high quality, consistent data that are not policy influenced. It was not convinced that the proposed private patient benefits paid data meet this requirement.

### **Commission response**

- 25 Analysis of data on benefits paid per separation by diagnosis-related group showed that, for the 5 states where data are available, all had relatively large shares of separations where the ratio of state benefits paid to the Australian average was close (within 20%) to one.
- 26 However, states varied in their share of separations that had average benefits paid that were above or below the national average. Victoria and South Australia had a large share of separations below the national average and Western Australia a large share above the national average.
- 27 The Commission accepts that private patient benefits paid for equivalent hospital services vary among states due to factors other than case complexity. It concluded that benefits paid could not be considered an unbiased measure of non-state sector activity.

### **Commission position**

- 28 The Commission will revert to the 2020 Review approach of using private patient separations as the indicator of non-state sector admitted patient activity.
- 29 The non-state sector adjustment for all health assessment components, including the choice of indicator for non-state admitted patient activity, is included in the Commission's forward work program.

### **Re-testing socio-demographic groups**

- 30 In the Draft Report, the socio-demographic drivers in the health assessment were unchanged from the 2020 Review method. The Draft Report stated that the socio-demographic drivers would be re-tested to ensure the assessment used as much information on service use and cost by socio-demographic groups that can be supported by the data.



31 The 2020 Review method did not include socio-economic status as a driver in remote and very remote areas, for either the assessment of state health expenses or the assessment of non-state sector activity.

### State views

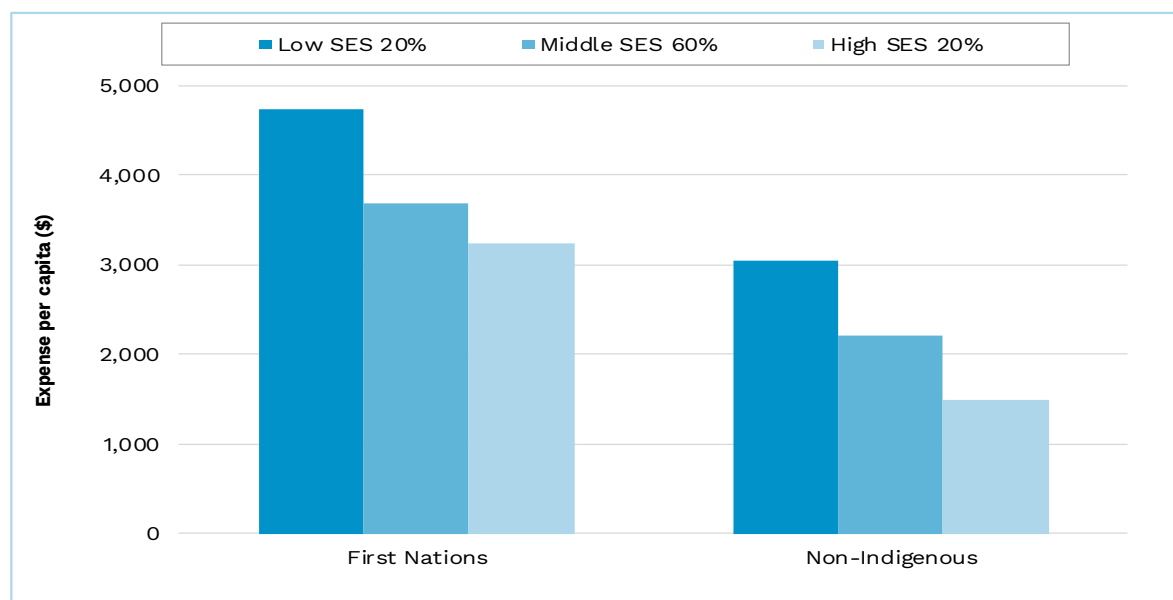
32 The Northern Territory said that the community and public health non-state sector adjustment for Commonwealth funding of First Nations community-controlled health organisations should be amended to include socio-economic status as a driver in remote areas. It said that the Commission’s method assumes that all remote First Nations people have homogenous health needs, whereas the Commonwealth funding model for the Indigenous Australians’ Health Programme includes a socio-economic adjustment in addition to remoteness.

### Commission response

33 Using the latest available data, the Commission re-tested the drivers used in the state and non-state sector elements of the health assessment.

34 The conceptual case for the inclusion of socio-economic status in the assessment of state expenses is based on people living in areas classified as low socio-economic status using state health services more than people living in medium or high socio-economic areas (see Figure 1).

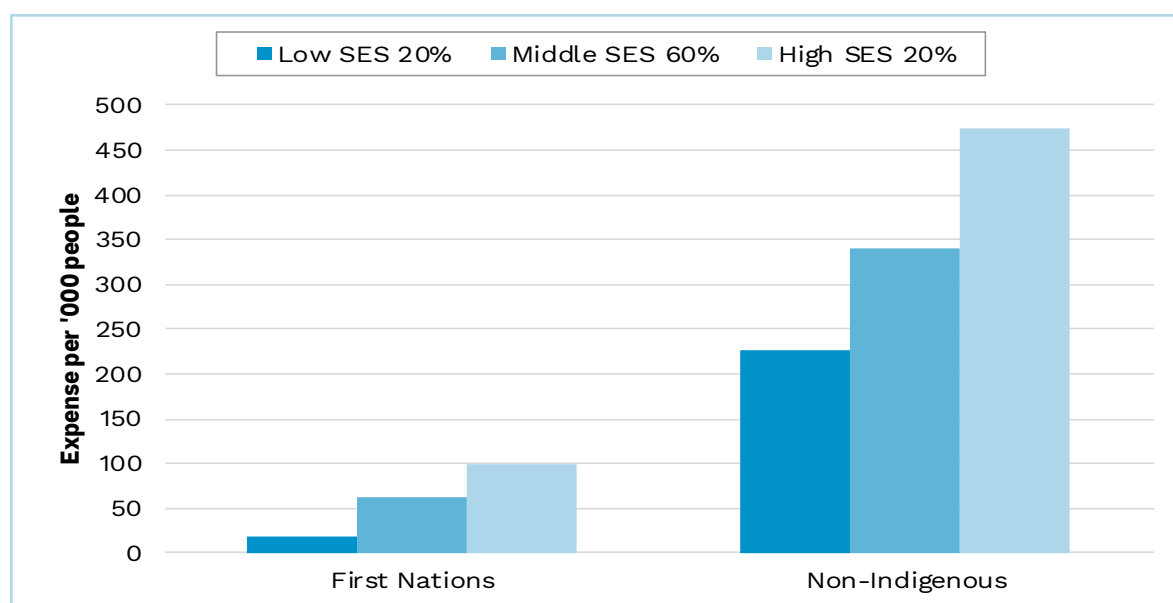
**Figure 1 State sector admitted patient activity, by socio-economic and Indigenous status, 2021–22**



Source: Commission calculation using IHACPA NWAU, ABS Government Finance Statistics expenses and ABS population data.

35 Socio-economic patterns of use are expected to vary across the different types of non-state sector health services due to differences in the out-of-pocket costs for patients. Figure 2 shows the pattern of usage by socio-economic status of non-state sector admitted patient services. In contrast to state admitted patient services, use is higher among people living in high socio-economic status areas. The socio-economic use profile for other non-state sector services (Medicare bulk billed non-referred services, specialists and operations) is similar to the use profile in public hospitals.

**Figure 2 Non-state sector admitted patient activity, by socio-economic and Indigenous status, 2022–23**



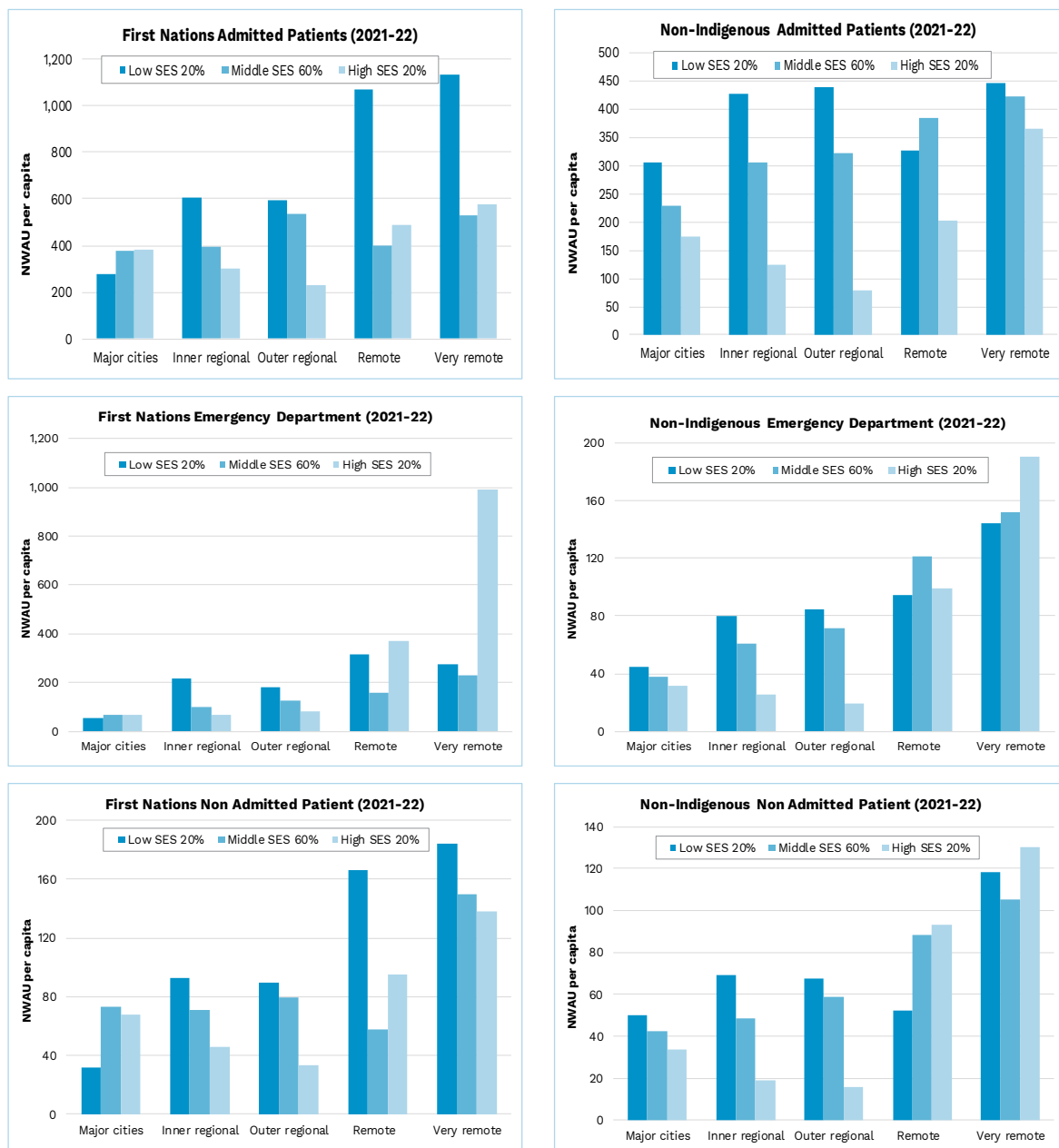
Source: Commission calculation using AIHW admitted patient private health insurance funded separations, ABS Government Finance Statistics expenses and ABS population data.

36 When the state sector activity data are cross-classified by remoteness area, the resulting use rates are often not consistent with the conceptual case for the impact of socio-economic status on the use of health services, particularly in remote and very remote areas (Figure 3). For example:

- In admitted patients, use of health services is higher for non-Indigenous people in remote, middle socio-economic areas compared with low socio-economic areas (Figure 3, panel 1).
- In emergency departments, use of health services is higher for First Nations and non-Indigenous people in very remote high socio-economic areas compared with low socio-economic areas (Figure 3, panel 2).
- In non-admitted patients, use of health services is higher for non-Indigenous people in remote and very remote high socio-economic areas compared with low socio-economic areas (Figure 3, panel 3).

37 The health services use pattern for First Nations people in major cities, across the 3 hospital components, is also not consistent with the conceptual case. Among First Nations people in major cities, use rates are lower for those with low socio-economic status relative to those with higher socio-economic status.

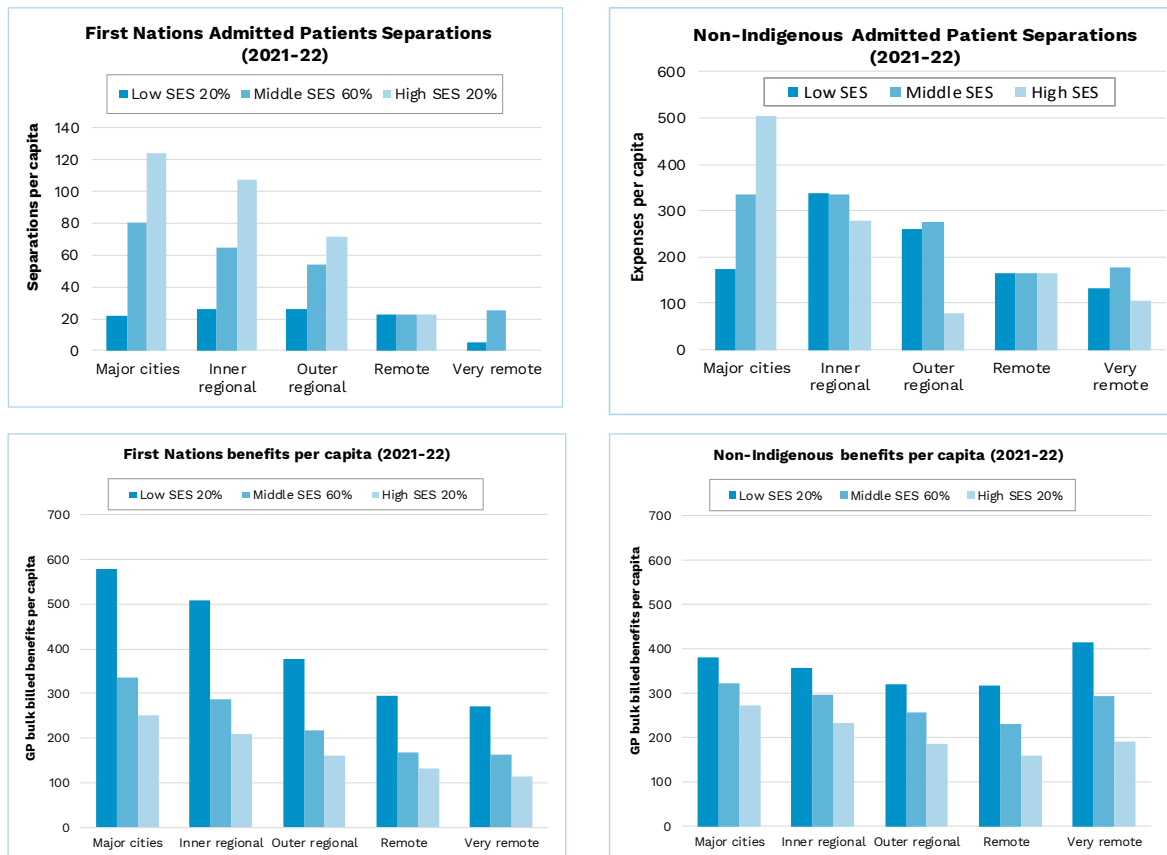
**Figure 3 State sector activity, by remoteness, socio-economic and Indigenous status, 2021–22**



Source: Commission calculation using IHACPA NWAU, ABS Government Finance Statistics expenses and ABS population data.

38 For the non-state sector, the data on private admitted patients do not allow activity to be disaggregated by socio-economic status in remote areas (due to confidentiality resulting from the small number of observations). It can be done for very remote areas (Figure 4, panel 1). For activity measured by GP bulk billed benefits (used as the proxy measure of non-state sector activity in the emergency department and community and public health components), socio-economic use patterns are consistent across remoteness areas (Figure 4, panel 2).

**Figure 4 Non-state sector activity, by remoteness, socio-economic and Indigenous status, admitted patients, emergency departments and community and public health, 2021–22**

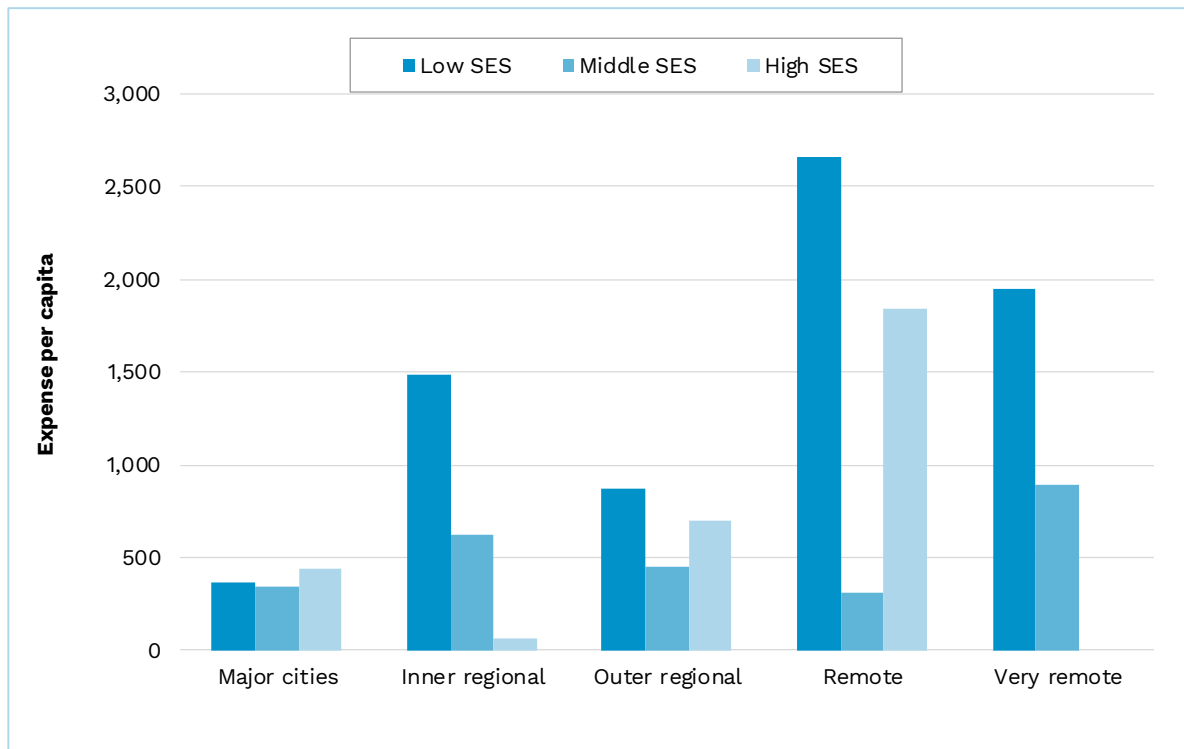


Source: Commission calculation using AIHW admitted patient private health insurance funded separations, Medicare bulk billed benefits paid, Government Finance Statistics expenses and ABS population data.

- 39 Figure 5 shows the pattern of service activity funded by Commonwealth grants to First Nations community-controlled health organisations, as measured by staff numbers in the organisations receiving these grants. This analysis presents a mixed case for using socio-economic status as a driver for the use of health services in remote and very remote areas.
- 40 For the non-state sector adjustment for First Nations Commonwealth grants to First Nations community-controlled health organisations, excluding socio-economic status as a driver in remote and very remote areas would mean a key determinant of expense needs is missing. The Commonwealth considers the socio-economic status and remoteness of the region when allocating these grants to First Nations community health organisations.<sup>3</sup>

<sup>3</sup> Department of Health (DoH), [Indigenous Australians' Health Programme Primary Health Care Funding Model Technical Factsheet](#), DoH, Australian Government, 2019, accessed on 28 October 2024.

**Figure 5 Commonwealth grants to First Nations community-controlled health organisations, expenses per capita by remoteness and socio-economic status, 2021–22**



Source: Commission calculation using AIHW Aboriginal Community Controlled Health Services full-time equivalent staffing, Commonwealth Department of Health grants to non-government organisations for First Nations purposes and ABS population data.

- 41 The reliability of activity data on the use of health services by socio-economic status in remote and very remote areas varies across the state and non-state sector components of the health assessment. The Commission seeks to apply a consistent approach to the use of socio-economic status as a driver based on reliable data. Given the absence of reliable data on use by socio-economic status in remote and very remote areas, the Commission has not changed the position in the Draft Report and will continue with the 2020 Review approach of not including socio-economic status as a driver in remote and very remote areas for state and non-state sector services.
- 42 Data limitations do not allow for the inclusion of socio-economic status as a driver in remote and very remote areas for the assessment of Commonwealth grants to First Nations community-controlled health organisations. However, given the Commonwealth allocates the grants to First Nations community-controlled health organisations taking into account socio-economic status in remote and very remote areas, the Commission considers that the actual distribution of grants produces a better estimate of assessed non-state sector expense needs than the method used in the 2020 Review.

## Commission position

- 43 The Commission will continue with the 2020 Review approach of not including socio-economic status as a driver of expenses in remote and very remote areas for state and non-state sector services.
- 44 The Commission will use the actual distribution of Commonwealth grants to First Nations community-controlled health services as the estimate of non-state sector expense needs. This means the non-state sector adjustment for Commonwealth grants to community-controlled health organisations will be set to zero.

## Rounding non-state sector substitutability levels

- 45 In the Draft Report, the Commission presented updated public/non-state substitutability levels for the non-state sector adjustment for the admitted patient, emergency department, non-admitted patients, and community and public health components. In each case, the exact figures produced by the formula were rounded to the nearest 5%.

## State views

- 46 New South Wales and Victoria said the Commission should use the exact number produced by the formula for the non-state sector substitutability levels rather than rounding numbers to the nearest 5%. They said the rounding decision did not reduce complexity and resulted in a significant change in GST distribution based on an arbitrary decision that was not evidence based.

## Commission response

- 47 The Commission accepts that the proposal to round substitutability levels to the nearest 5% adds an additional, unnecessary step to the calculation.
- 48 Table 2 shows the calculated and rounded substitutability levels for the non-state sector adjustments. The substitutability levels shown in the column titled 'midpoint' will be the non-state sector substitutability levels for the 2025 Review.

**Table 2** Draft Report proposed substitutability levels

	Method 1	Method 2	Midpoint	Rounded
Admitted patients <sup>a</sup>	27	8	17	15
Emergency departments	13		13	15
Non-admitted patients <sup>b</sup>	36	20	28	30
Community and public health	62		62	60

a Method 1 provides an estimate of substitutable services based on private patient services in both private and public hospitals. Method 2 provides an estimate of substitutable services based on private patient services in public hospitals only.

b Method 1 provides an estimate of substitutable services based on comparable service in the state and non-state sector. Method 2 provides an estimate of substitutable services based on the affordability of non-state services.

## Commission position

- 49 The Commission will use the exact calculated ‘midpoint’ estimates for the non-state sector adjustment substitutability levels.

## Non-hospital patient transport

- 50 In the Draft Report, the Commission said that there is uncertainty about the extent to which activity associated with patient transport is included in the NWAU data produced by the Independent Health and Aged Care Pricing Authority (IHACPA). It said that, given this uncertainty, the costs associated with aeromedical services and the Patient Assistance Transport Scheme would be kept separate for the 2025 Review and assessed using the 2020 Review approach.
- 51 The Commission also said it would continue to engage with IHACPA between reviews to determine whether an alternative approach is appropriate in a future review.

## State views

- 52 Victoria said the 2025 Review should allow for method changes to remove the non-hospital patient transport category if it is clear ahead of the next review that the NWAU data incorporate the costs associated with aeromedical services and the Patient Assistance Transport Scheme.

## Commission response

- 53 Since 2023, the classification system for the National Hospital Cost Data Collection (which supports the calculation of NWAU) has specified that patient transport costs for aeromedical services and the Patient Assistance Transport Scheme are in scope. States are required to submit the data on this basis to the IHACPA.
- 54 There is currently no indication of how long it will take for states to comply with this data requirement. However, the Commission agrees that if the NWAU data incorporate the costs associated with aeromedical services and the Patient Assistance Transport Scheme, then a separate assessment of state expenses on these programs is not required.

## Commission position

- 55 The Commission will incorporate expenses associated with aeromedical services and the Patient Assistance Transport Scheme in the admitted patient assessment before the next review if the following conditions are met.
- First, verification that all states are providing the data that IHACPA needs to incorporate the aeromedical services and the Patient Assistance Transport Scheme activity into the NWAU.
  - Second, the data being available for all 3 years of the assessment period when any such method change is implemented in a future update.

## Proxy indicator of community and public health

56 In the Draft Report, the Commission proposed to broaden the proxy indicator of community and public health activity 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. The list of allied health services included COVID-19 clinics.

### State views

57 Tasmania said that activity of COVID-19 clinics should not be included in the proxy indicator for community and public health because the Commission has proposed a separate assessment of COVID-19 expenses.

### Commission response

58 The Commission agrees that, given COVID-19 related expenses will be removed from the community and public health component, the proxy indicator of activity would be improved by removing the COVID-19 non-admitted patient services.<sup>4</sup>

### Commission position

59 The Commission will exclude COVID-19 clinics from the list of non-admitted patient allied health services in the proxy indicator for community and public health. Once the separate assessment of COVID-19 expenses ceases (2027 Update) the COVID-19 clinics will be included in the proxy indicator.

## Discounting

60 As part of the 2025 Review, the Commission reviewed its use of discounting across assessments. This review was undertaken following the Draft Report.

61 For the health assessment, the Commission will apply a low discount (12.5%) to the non-state sector adjustments for admitted patients, emergency departments, non-admitted patients and community and public health. The discounts reflect uncertainty about the reliability of data and the robustness of the methods for determining the adjustments.

62 The Commission will retain the 2020 Review method of applying a low discount to the community and public health socio-demographic composition assessment. Reliance on a proxy measure of activity for a significant share of community and public health expenses justifies a continuation of a discount. The discount will not apply to the assessment of ambulatory community mental health expenses where a direct measure of activity is used.

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<sup>4</sup> The non-admitted patient NWAU data available to the Commission are disaggregated by the Tier 2 classification. The Tier 2 classification has distinct codes for COVID-19 related services so those can be taken out. The situation is different for admitted patient NWAU data that are based on the Diagnostic Related Group classification. The Diagnostic Related Group classification does not have distinct codes for COVID-19 related services so it would not be possible to exclude COVID-19 related services from admitted patient activity based on Diagnostic Related Group.



## Indicative impact on GST distribution of changes since the Draft Report in the health assessment

- 63 Table 3 shows the change from the 2020 Review method to the proposed 2025 Review method for those elements of the health assessment where changes have been made since the Draft Report. It includes the combined impact of the changes outlined in the Draft Report and the changes outlined in this paper.
- 64 The Commission decision outlined in the Draft Report was to broaden the proxy indicator of community and public health activity to include a subset of non-admitted patient allied health services, in addition to emergency department triage category 4 and 5 services. This resulted in higher assessed spending needs compared with the 2020 Review method for states with relatively larger shares of their population in less remote areas or in higher socio-economic status cohorts, or with relatively larger shares of non-Indigenous or younger people. Following the Draft Report, the Commission has decided to exclude COVID-19 clinics from the list of non-admitted patient allied health services used in the proxy indicator. The net effect of these 2 changes on GST distribution compared with 2020 Review method are shown in Table 3 (see Community health use indicator).
- 65 Using the actual distribution of Commonwealth grants to First Nations community-controlled health services as the estimate of non-state sector expense needs results in higher assessed expenses for states that had been assessed to receive grants higher than their assessed needs under the 2020 Review method, and vice versa.
- 66 Following the Draft Report, the Commission has decided to use exact figures, rather than rounded figures, for the estimates of non-state sector substitutability levels. Using the exact figures increases the non-state sector substitutability levels for the admitted patient and community and public health adjustments which, in turn, increases the influence of these non-state sector adjustments on GST distribution. Using exact figures reduces the non-state sector substitutability levels for the emergency department and non-admitted patient adjustments which reduces the influence of these non-state sector adjustments on GST distribution.
- 67 The GST impacts from changes associated with Commonwealth grants to First Nations community-controlled health services and non-state sector substitutability levels are combined in Table 3 (Changes to non-state sector adjustment).
- 68 Applying a 12.5% discount to the non-state sector adjustments reduces the influence of these adjustments on the distribution of GST.
- 69 The admitted patient non-state sector indicator has been made consistent with the 2020 Review method and so there are no GST impacts of this change since the Draft Report.

**Table 3 Indicative impact on GST distribution of 2025 Review method changes to the health assessment, 2024–25**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Community health use indicator	47	43	-22	-23	-3	-12	5	-34	95
Discounting of non-state sector adjustment	46	-23	48	-43	-7	0	-21	-1	95
Changes to non-state sector adjustment	-100	65	-110	45	7	-11	30	73	221
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Community health use indicator	5	6	-4	-8	-1	-21	11	-134	3
Discounting of non-state sector adjustment	5	-3	9	-15	-4	1	-45	-3	3
Changes to non-state sector adjustment	-12	9	-20	15	4	-18	63	285	8

## Housing

### Additional costs due to above-average overcrowding

70 In the Draft Report, the Commission proposed changing the housing assessment to an individual-based assessment rather than the household-based assessment from the 2020 Review. This was in response to concerns raised by the Northern Territory that the assessment did not appropriately assess expense needs in states with above-average overcrowding.

#### State views

71 In response to the Commission’s consultation paper on housing, the Northern Territory said the assessment should be changed because the 2020 Review method reduced assessed housing expenses in states with above-average overcrowding. The Northern Territory said because the national average use rates are applied to each state’s total households, a state with lower housing per capita due to above-average overcrowding is apportioned less funding per capita.

72 While states accepted the conceptual case that overcrowding results in additional costs, most states did not support an individual-based method as proposed in the Draft Report. Western Australia and the Northern Territory supported the approach. Other states said it does not reflect what states do (because states provide social housing to households, not individuals). They also said social housing expenses do not increase in a linear way as household size increases, as implied by the individual-based approach.

73 New South Wales said an above-average sized household is not necessarily overcrowded. It said the Commission’s solution to the problem identified by the Northern Territory had conflated the issue of household undercount with social housing overcrowding. It said the Commission should consider options for

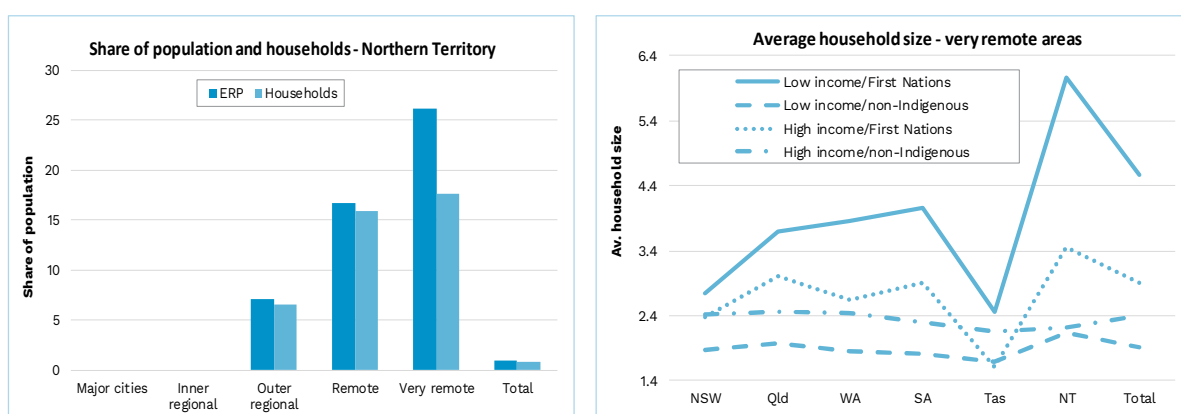
recognising a potential cost weight for household size, though any cost weight needs to be supported by data.

- 74 In addition, New South Wales and Victoria presented data on the increasing share of single-person households in social housing and referenced analysis that showed single-person households incur higher costs for tenant-related service requests and other property maintenance and repair requests. They said these additional costs relate to the complex needs of tenants and complex needs are found at a disproportionately high rate amongst single person households.
- 75 Victoria said a move to an individual-based assessment is unnecessary as existing drivers in the housing assessment (for example, remoteness) are already appropriate proxies for overcrowding. Victoria also said larger households pay more in rent, resulting in higher revenue for the service provider. It said in most cases, this offsets any additional costs associated with extra tenants.
- 76 Queensland said it accepts that there is a conceptual case that a household approach does not adequately reflect the costs of addressing overcrowding, but it did not support the method change. It said that further changes add to the complexity in an assessment which already has a very small impact on GST distribution.
- 77 South Australia said that the additional costs faced by the Northern Territory (i.e. beyond what it needs to spend to provide the average standard of services) should be addressed and funded outside the horizontal fiscal equalisation system. It said this reflects that the objective of horizontal fiscal equalisation is to provide states with the capacity to provide the same standard of services. It said addressing overcrowding in the Northern Territory's remote First Nations communities would require a higher-than-average standard of service, which is beyond the scope of horizontal fiscal equalisation.
- 78 Victoria said the change to an individual-based assessment would result in a change in GST distribution disproportionate to the size of the overcrowding problem. Victoria said it did not consider sufficient consultation had been conducted with states, given the magnitude of this change. South Australia and Tasmania suggested the issue should be considered further as part of the forward work program.
- 79 In its supplementary submission to the Draft Report, the Northern Territory reiterated its support for an individual-based housing assessment. It said the purpose of horizontal fiscal equalisation is to provide states with the fiscal capacity to deliver an average standard of services to persons. It said a household approach would only be reasonable where overcrowding and non-state housing stock per capita rates are equivalent between states and regions in states.

## Commission response

- 80 The Commission accepts the conceptual case that overcrowding results in higher costs and that there is evidence that the extent of overcrowding is materially different between states. In light of the comments from the Northern Territory, the Commission was concerned that the 2020 Review housing method was not adequately taking account of above-average overcrowding in social housing and the impact this has on costs.
- 81 The 2020 Review method apportions national average per household expenses and revenues by socio-demographic group to states based on the number of households states have in each socio-demographic group. However, there are some socio-demographic groups where a state's share of households in the group differs substantially from its share of individuals. In particular, in very remote areas of the Northern Territory, its share of national households is significantly less than its share of individuals. This indicates that average household size in very remote areas of the Northern Territory is much larger than the national average. This appears to be due largely to the above-average household size of low income First Nations households (Figure 6).
- 82 Remote First Nations communities generally lack a private housing market. This reflects tenure issues, limited income earning opportunities and high housing construction costs. These are factors that states have limited ability to influence. Residents of these communities (other than government service providers that have housing provided) are completely dependent on social housing for accommodation. This has resulted in above-average overcrowding in remote First Nations communities.

**Figure 6 Share of population and households, Northern Territory and average household size in very remote areas by socio-demographic group, 2021.**



Source: ABS 2021 Census.

- 83 Overcrowding in remote and very remote areas is higher in the Northern Territory than in other states. The Commission agrees with South Australia that to the extent that this relates to the relative undersupply of social housing that it inherited from the Commonwealth at the time of self-government, this should be addressed outside the horizontal fiscal equalisation system. However, there are other factors leading to the high levels of overcrowding in remote First Nations communities in the Northern Territory, as mentioned earlier, which should be taken into account when assessing GST needs.
- 84 Table 4 and Tables 7 to 11 show that the highest rates of severe overcrowding are in low-income First Nations households in very remote areas.<sup>5</sup> The rates of severe overcrowding in the Northern Territory in this socio-demographic group are much higher compared with the same group in other states.

**Table 4 Rates of severe overcrowding very remote areas, by socio-economic group and state, 2021**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Low-income/First Nations	0.0%	-	1.7%	2.6%	2.1%	0.0%	-	14.0%
Low-income/non-Indigenous	0.0%	-	0.0%	0.3%	0.0%	0.0%	-	0.0%
High income/First Nations	0.0%	-	0.8%	0.7%	0.0%	0.0%	-	3.0%
High income/non-Indigenous	0.0%	-	0.0%	0.1%	0.0%	0.0%	-	0.1%

Source: ABS 2021 Census.

- 85 The 2020 Review method does not adequately take account of overcrowding in remote First Nations communities.
- The 2020 Review method includes a First Nations cost weight, which is intended to account for the difference in costs in servicing First Nations social housing compared with mainstream social housing. These additional costs may include those resulting from overcrowding and high mobility, but other factors could also be increasing costs. However, this national average cost weight is apportioned across states based on their count of First Nations households. If this household count is underestimated due to overcrowding, states will not receive the GST they need.
  - The 2020 Review method also includes a regional cost gradient. This is intended to account for the additional costs of providing the same level of similar services as remoteness increases. It does not account for the cost of additional services that may need to be provided for overcrowded social housing.
  - On the other hand, if larger public housing households pay more rent, the revenue component of the 2020 Review method would capture this and assess states with above-average overcrowding to have the capacity to collect less revenue than they actually do.

<sup>5</sup> A severely overcrowded dwelling is one which requires 4 or more extra bedrooms to accommodate the people who usually live there. See ABS, [Factsheet: Overcrowding](#), ABS website, 2012, accessed 25 October 2024.

- 86 The Commission agrees with those states that indicated it would be preferable to retain a method that more closely aligns with what states do, which is to provide services to households rather than individuals. In addition, the Commission recognises that social housing expenses do not necessarily increase in a linear way as household size increases and there are a range of factors that affect the recurrent costs associated with social housing households.
- 87 However, the Commission has a different view with respect to some of the other arguments raised by states.
- Two states said that the assessment needed to account for the increasing number of single person households in social housing, which can be relatively expensive to service. However, state shares of single person households in social housing are relatively uniform, with the Northern Territory the only outlier (Table 5). If this holds across socio-demographic groups, then including a cost weight for single person households would not significantly impact GST distribution.<sup>6</sup>
  - The revenue component of the proposed individual-based approach took account of larger public housing households paying more rent. The Northern Territory was assessed to have a revenue raising capacity around twice that for which it was assessed to have under the 2020 Review household-based approach. States other than Queensland and Western Australia were assessed to have reduced revenue raising capacity.

**Table 5 Share of single person households in social housing by state, June 2023**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Share of single person households (%)	59	60	54	55	63	56	55	25

Source: Housing assistance in Australia 2024, social housing households, AIHW.

- 88 The Commission examined 2 options in light of the comments made by states in response to the Draft Report.

#### **Average household-size approach**

- 89 The housing assessment, like most socio-demographic assessments, has 2 fundamental steps. Step 1 involves the calculation of national average spending (per capita or per household) by socio-demographic group. Step 2 involves the apportionment of national average spending to states based on the number of people or households they have in each socio-demographic group. This gives state assessed expenses by socio-demographic group.
- 90 The average household size method is household based. Therefore, step 1 involves the same calculation as the 2020 Review method and produces the same estimates for national average spending per household.

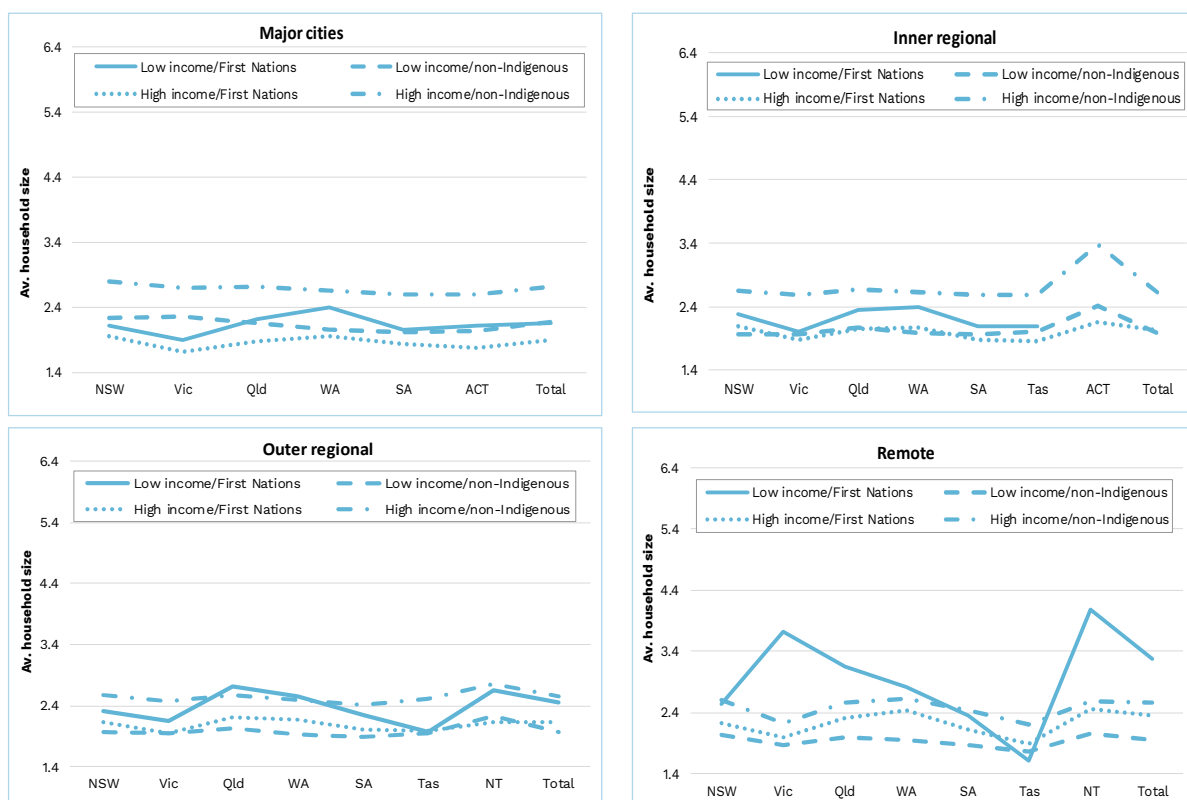
<sup>6</sup> The Commission consulted states on including a cost weight for social housing tenants that were high cost because of a disability or long-term health condition but reliable data were not available.

91 Step 2 involves a different approach to apportioning expenses to states. Rather than using census-based household counts, a household count is derived for each socio-demographic group in each state based on the national average household size in each socio-demographic group. That is:

$$\begin{aligned} & \text{Number of households by socio-demographic group} \\ & \text{Equals} \\ & \text{Number of individuals by socio-demographic group} \\ & \text{Divided by} \\ & \text{National average household size by socio-demographic group} \end{aligned}$$

92 This approach results in states with households that on average are above the national average size having higher assessed social housing expenses and revenue. Figure 7 shows how average household size varies within socio-demographic groups between states.

**Figure 7 Average household size by socio-demographic group, 2022–23**



Source: ABS, Commission calculations.

Note: Y-axis on all figures standardised to Y-axis in Figure 6, right panel (very remote areas).

93 Around 85% of total net expenses on social housing are apportioned to states based on the share of households in the major cities, inner regional and outer regional areas. In these geographic areas, differences in average household size between states within socio-demographic groups are relatively small (compared with remote and very remote areas). Differences in GST distribution between the average household size method and the 2020 Review method are driven mainly by differences in average household size between states within socio-demographic

groups in remote and very remote areas (Table 6). These are the geographic areas where there is most variability in severe overcrowding between states within socio-demographic groups, particularly in low income, First Nations households (Tables 7 to 11).

**Table 6 Share of assessed net expenses by state, remoteness areas**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
<b>R2020 method</b>								
	%	%	%	%	%	%	%	%
Major cities	32	26	19	12	9	0	2	0
Inner regional	35	24	24	5	5	8	0	0
Outer regional	24	11	32	9	9	9	0	6
Remote	12	1	26	25	9	3	0	25
Very remote	3	0	28	32	6	1	0	31
<b>Household size method</b>								
	%	%	%	%	%	%	%	%
Major cities	33	26	19	12	9	0	2	0
Inner regional	35	23	24	5	5	8	0	0
Outer regional	24	10	34	9	9	9	0	6
Remote	10	1	25	24	8	2	0	30
Very remote	2	0	24	28	5	0	0	40

#### State-based cost weight for overcrowded houses

- 94 The Commission also explored an option of introducing a state-based cost weight to the 2020 Review household-based method to better assess GST needs for states with above-average overcrowding rates.
- 95 The following tables show how severe overcrowding rates differ within socio-demographic group by state. The highest rates of severe overcrowding are in low income First Nations households in very remote areas in the Northern Territory. These data could be used to identify differences in state overcrowding rates. However, if a cost weight were to be developed, separate expense data would be needed to quantify a cost weight to apply to severely overcrowded dwellings.

**Table 7 Rates of severe overcrowding major cities, by socio-demographic group and state, 2021**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Low-income/First Nations	0.1%	0.1%	0.2%	0.3%	0.2%	-	0.4%	-
Low-income/non-Indigenous	0.1%	0.1%	0.0%	0.0%	0.1%	-	0.0%	-
High income/First Nations	0.1%	0.1%	0.1%	0.1%	0.0%	-	0.0%	-
High income/non-Indigenous	0.1%	0.0%	0.0%	0.0%	0.0%	-	0.0%	-

Source: ABS 2021 Census.



**Table 8 Rates of severe overcrowding inner regional, by socio-demographic group and state, 2021**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Low-income/First Nations	0.1%	0.1%	0.3%	0.0%	0.0%	0.1%	0.0%	-
Low-income/non-Indigenous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-
High income/First Nations	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	-
High income/non-Indigenous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-

Source: ABS 2021 Census.

**Table 9 Rates of severe overcrowding outer regional, by socio-demographic group and state, 2021**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Low-income/First Nations	0.1%	0.0%	0.6%	0.5%	0.4%	0.0%	-	0.5%
Low-income/non-Indigenous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-	0.0%
High income/First Nations	0.1%	0.0%	0.2%	0.2%	0.0%	0.1%	-	0.1%
High income/non-Indigenous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-	0.0%

Source: ABS 2021 Census.

**Table 10 Rates of severe overcrowding remote areas, by socio-demographic group and state, 2021**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Low-income/First Nations	0.0%	0.0%	1.3%	0.3%	0.0%	0.0%	-	4.9%
Low-income/non-Indigenous	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	-	0.0%
High income/First Nations	0.0%	0.0%	0.4%	0.3%	0.0%	0.0%	-	0.6%
High income/non-Indigenous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-	0.0%

Source: ABS 2021 Census.

**Table 11 Rates of severe overcrowding very remote areas, by socio-demographic group and state, 2021**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Low-income/First Nations	0.0%	-	1.7%	2.6%	2.1%	0.0%	-	14.0%
Low-income/non-Indigenous	0.0%	-	0.0%	0.3%	0.0%	0.0%	-	0.0%
High income/First Nations	0.0%	-	0.8%	0.7%	0.0%	0.0%	-	3.0%
High income/non-Indigenous	0.0%	-	0.0%	0.1%	0.0%	0.0%	-	0.1%

Source: ABS 2021 Census.

## Commission position

96 Rather than changing the housing assessment to an individual-based assessment as proposed in the Draft Report, the Commission will assess net expenses for social housing on an average household size-based approach. This represents a pragmatic approach, which better reflects what states do while balancing the need to address the most significant problems with the 2020 Review method regarding differences in severe overcrowding between states.

- 97 The Commission recognises that this approach is based on a number of assumptions. Average household size is being used as a proxy for overcrowding. This assumes average household size only differs across states within socio-demographic groups as a result of above-average overcrowding or above-average underutilisation. However, state average household size could vary between states due to differences in the age structure or ethnic mix of state populations or differences in access to affordable housing.
- 98 Also, average expenses per social housing household can vary due to reasons other than overcrowding rates, such as an above-average prevalence of high-cost tenants.
- 99 On balance, the Commission considers the average household size approach provides a better assessment of spending needs than the 2020 Review method. In preparation for the next review, the Commission will undertake further work to determine if there are alternative ways to more accurately measure the impact on expenses of differences in severe overcrowding between states.

## Indicative impact on GST distribution of changes since the Draft Report in the housing assessment

- 100 The average household size approach results in changes to both the recurrent and investment assessment for social housing.
- 101 The recurrent impact is shown in Table 12. States with above-average household size receive an increase in GST distribution compared with the 2020 Review method.
- 102 The change to the use of average household size also impacts the housing investment assessment. The largest impact was for the Northern Territory at \$10 per capita.

**Table 12 Indicative impact on GST distribution of 2025 Review method changes in the recurrent housing assessment, 2024–25**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
\$m	15	-11	1	-27	-13	-1	-1	37	53
\$pc	2	-2	0	-9	-7	-2	-2	144	2

## Health investment

- 103 The Commission uses states' assessed needs for recurrent health expenses when determining their assessed needs for health infrastructure. In the Draft Report, the Commission proposed to include all health expenses in its calculations of state health investment needs. Due to a proposed method change in recurrent expenses, this would include COVID-19 health expenses.

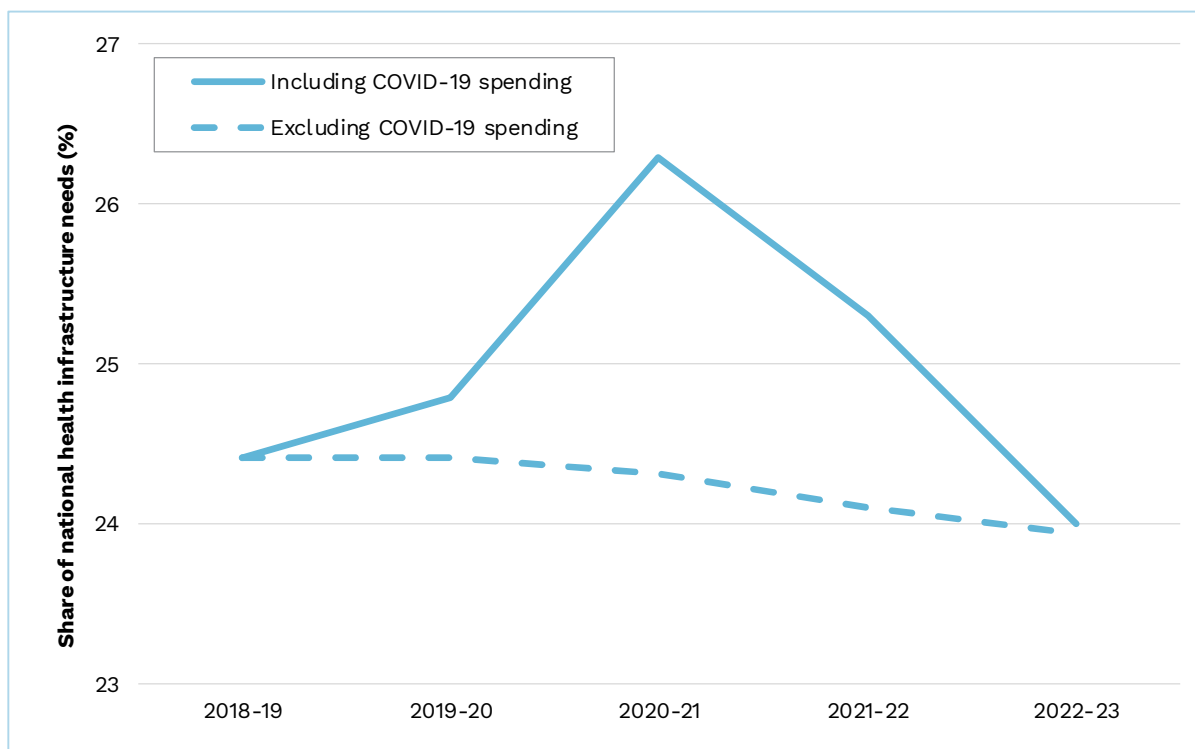
## State views

- 104 In a supplementary submission following the Draft Report, Victoria said that, as COVID-19 expenses had not been incorporated by the Commission into the assessment of investment needs as spending increased, it would be inappropriate to incorporate them as expenses decrease.
- 105 Victoria also said that the COVID-19 response was much less capital intensive than other aspects of health. To the extent it required capital, it largely used infrastructure from other purposes that was temporarily put on hold. The use of this infrastructure did not change the long-term needs for infrastructure in the state.

## Commission response

- 106 The Commission agrees that including COVID-19 related expenses in the health component of the investment assessment would result in an anomalous outcome.
- 107 As this assessment was not used in previous updates when Victoria's share was increasing, it would be inappropriate to include COVID-19 expenses in the assessment of capital needs as its share decreases.
- 108 Using Victoria as an example, this is illustrated in Figure 8. Following the dashed line would ensure the consistent treatment of COVID-19 spending as far as the investment assessment is concerned (exclusion). It would avoid a situation where Victoria is assumed to have been assessed for higher investment needs than it was actually assessed for. This issue is also relevant, to a lesser extent, for New South Wales.

**Figure 8** Victoria's share of assessed health infrastructure



## Commission position

109 The Commission will exclude COVID-19 expenses in the health component of the investment assessment.

## Indicative impact on GST distribution of changes since the Draft Report in assessment of health investment for COVID-19

110 In both the 2024 Update and the 2025 Review, spending on COVID-19 is not used in the calculation of health investment needs. Therefore, there is no associated change in the GST distribution between the 2024 Update and the 2025 Review.

## Roads

### Rural roads to mines, gas wells, ports and national parks

111 In the Draft Report, the Commission proposed to exclude routes to mines, gas wells, ports and national parks. Removing these routes would reduce the rural road network by 43,000 lane kilometres, or 13%.

### State views

112 Some states supported removing routes to mines, gas wells, ports and national parks. New South Wales said these routes are often the responsibility of the private sector or local governments, and roads to national parks are also often maintained at a lower standard to other state roads.

113 Queensland, Western Australia and South Australia disagreed with removing these routes. Queensland said its routes to national parks were maintained at a similar standard to intra-urban state-type roads. Queensland also recommended including routes to all protected areas such as Indigenous Protected Areas, state forests and nature refuges. It preferred all routes within these areas and within national parks to be included in the network.

114 Western Australia said there was not sufficient evidence that roads to national parks were maintained at a lower standard and did not support removing roads to mines without sufficient information on their private ownership.

### Commission response

115 Of the routes to ports, mines, national parks and gas wells in the assessed rural road network, 52% are sealed, which is less than the 83% of sealed rural roads between towns (Table 13).

**Table 13 Proportion of sealed roads on the rural road network**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	%	%	%	%	%	%	%	%	%
Roads to ports, mines, national parks and gas wells	40	61	76	36	27	44	69	32	52
Rural roads between towns	86	92	95	76	79	91	98	45	83

Source: Commission calculation and Geoscience Australia, [National Roads](#) [ESRI ARC geodatabase file format], Digital Atlas website, 2023, accessed 27 July 2023.

- 116 In proposing the removal of roads to mines, gas wells, ports and national parks, the Commission noted the potential to simplify the model, recognising the prospect of the private sector contributing to costs, and also recognising the lower likelihood of this type of road being sealed.
- 117 However, more than half of these roads are sealed, and there may be reasons outside a state’s control to have such roads. In addition, the Commission does not have information on private funding of roads to mines.
- 118 On balance, the Commission will retain the routes to mines, gas wells, ports and national parks in the rural roads assessment as there is insufficient evidence to remove them.

### Commission position

- 119 The Commission will retain the 2020 Review method for assessing rural road length, and include routes to mines, national parks, gas wells and ports.

## Indicative impact on GST distribution of changes since the Draft Report in the assessment of roads

- 120 In both the 2024 Update and the 2025 Review, routes to mines, gas wells, ports and national parks are included in the rural road length assessment. As such, there is no change in the GST distribution between the 2024 Update and the 2025 Review associated with assessed rural road length.

## Discounting

- 121 As part of the 2025 Review, the Commission reviewed its use of discounting across assessments.<sup>7</sup> This review was undertaken following the Draft Report.

### Commission response

- 122 With reference to the framework outlined in the [Commission’s position paper on fiscal equalisation, supporting principles and assessment guidelines](#), the Commission has reviewed consistency in the use of discounting in the 2025 Review. The

<sup>7</sup> Commonwealth Grants Commission (CGC), [2025 Methodology Review – Commission’s position fiscal equalisation, supporting principles and assessment guidelines](#), CGC, Australian Government, 2024.

Commission assessed state proposals for new discounts and amendments to existing discounts against its framework. The review focussed on ensuring that discounts were applied where the Commission has concerns about the underlying data or the assessment method, and the size of the discount reflected the degree of concern with the data or assessment method.

- 123 Table 14 indicates the assessments where the Commission intends to apply a discount to an assessment in the 2025 Review, including the rationale for the discount and its level.
- 124 More detail on individual discounts, and consideration of state proposals regarding discounts, will be provided in the review’s final report.
- 125 The Commission is satisfied that its application of discounts and their levels are consistent with its framework.

**Table 14 Discounts in the 2025 Review**

Assessment	Component	Rationale	Level of discount
Land tax	Whole assessment	Uncertainty about the reliability and comparability of taxable land value data.	12.5%
Health	Community health socio-demographic	Reliance on a proxy measure of activity for a significant share of community and public health expenses.	12.5%
Health (new discount)	Non-state sector adjustments for admitted patients, emergency departments, non-admitted patients and community and public health	Uncertainty about the reliability of data and the robustness of the methods for determining the adjustments.	12.5%
Roads (new discount)	Whole assessment	Uncertainty about the reliability of data included in several aspects of the assessment, including the reliability of the rural road synthetic network as a proxy measure of what states do.	12.5%
Wage costs	A range of category assessments	Reliance on private sector wages as a proxy measure for public sector wage pressures, and uncertainty about the capacity of the model to control for all differences in employee productivity.	12.5%
Geography	Regional costs general gradient, applied to a range of category assessments	Uncertainty around the reliability of the gradient, given it is applied where a gradient cannot be directly measured.	25%

### Commission position

- 126 The Commission will retain the 4 discounts from the 2020 Review at the same levels. New discounts will be applied for the whole of the roads assessment and for the non-state sector adjustments in the health assessment. The discount for the non-state sector adjustments is a change since the Draft Report.

# Minor method changes

## Welfare

### Alternative method for determining spending on homelessness services when states do not provide data

- 127 In the Draft Report, the Commission proposed to collect data from the states on their annual homelessness services spending allocated to the ABS Classifications of Functions of Government (COFOG-A) to facilitate the new homelessness services assessment. However, not all states were able to identify the necessary state spending by COFOG-A classification.
- 128 As a result, where states were not able to provide homelessness services expense data, the Commission proposed to use state homelessness service expenses reported in the Productivity Commission's annual *Report on Government Services*.<sup>8</sup> In addition, where states were not able to provide disaggregated data, the Commission proposed to estimate the proportion of state homelessness services expenses in the housing and welfare categories using a 50:50 split.

### State views

- 129 Victoria and the ACT did not support the proposal, considering it arbitrary. New South Wales requested clarity on the reason for the proposed 50:50 split and asked about alternative approaches including a weighted average of the state reported data received by the Commission.

### Commission response

- 130 The Commission agrees that there are alternative methods of determining the share of total homelessness spending in the Commission's category assessments for states that do not provide the disaggregated data.
- 131 The Commission proposes to use data reported by states, to estimate the average share of state homelessness spending reported in each COFOG-A code. The average shares would then be applied to annually reported homelessness services spending for non-reporting states from the Productivity Commission's *Report on Government Services*. This would provide an estimate of state homelessness expenses by COFOG-A code to facilitate a data adjustment to move relevant spending to the proposed homelessness services component in the welfare category.
- 132 The Commission notes that the average of state spending method is the same approach used to separate business regulation and development in the services to industry assessment.

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<sup>8</sup> Productivity Commission (PC), [Report on Government Services](#), PC, 2024, accessed 26 August 2024.

## Commission position

- 133 The Commission will adopt the average of state spending method to classify data on homelessness spending from the Productivity Commission's *Report on Government Services* into the housing and welfare categories. This method is preferred because it removes the need for Commission judgement and the Productivity Commission collects the data using a consistent definition of homelessness services expenses across states.
- 134 The component weights will be updated annually in response to the Commission's annual request for homelessness services spending to the states.

## Transport

### Allocation of expenses between urban and non-urban transport (V/Line)

- 135 In the Draft Report and transport addendum, the Commission did not propose any change to the percentage of V/Line expenses allocated between urban and non-urban components.

### State views

- 136 Victoria said a greater percentage of V/Line expenses should be allocated to the urban transport component. Victoria sought a larger adjustment to account for intra-urban V/Line travel. Analysis by Victoria, using weighted passenger kilometres, indicated that 20.2% of V/Line expenses related to urban transport.
- 137 Queensland accepted that a portion of V/Line expenses should be allocated between urban and non-urban transport. Queensland recommended that similar adjustments should also be made to the New South Wales and Queensland regional train lines. Queensland considered that since it is possible to use these regional train services to travel within an urban area, a proportion of the spending should be allocated to the urban transport component.<sup>9</sup>

### Commission response

- 138 The Commission's position takes into account the evidence provided by Victoria, which disaggregated V/Line trips occurring within an urban area weighted by the relative kilometres travelled by these passengers. This analysis indicated that 20.2% of total weighted patronage on V/line services occurred within a significant urban area. The Commission examined the data provided and concluded this was a reasonable method of calculating inter-urban V/Line travel.

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<sup>9</sup> The Commission's definition of urban transport is based on the ability to use public transport services to travel within an urban area.



139 The Commission aims to ensure that expenses are allocated to the correct component based on the definitions of urban and non-urban travel. The Commission will request total weighted patronage data from Queensland and New South Wales to determine if the 2020 Review method of allocating their regional train expenses between the components is suitable. This decision will be made in an update following the 2025 Review following the receipt of additional state data.

### **Commission position**

140 The Commission will allocate 20.2% of V/Line expenses to urban transport.

## **Geography**

### **Data used in the calculation of the general regional cost gradient**

141 In the Draft Report, the Commission proposed to calculate the general regional cost gradient as the weighted average of the gradient calculated for 9 different components, including water subsidies and electricity subsidies.

### **State views**

142 In response to the Commission's proposal, some states said the regional cost gradients for water subsidies and electricity subsidies were based on very incomplete data. They noted that the water subsidies gradient could not be updated in the 2025 Review and was based on old data. They said these gradients were significant outliers compared with other gradient cost measures, with an increase in costs considerably higher than observed for any other service.

### **Commission response**

143 The measured cost per capita of electricity subsidies is 3 times more in very remote areas than remote areas. This reflects not just the higher cost in very remote areas, but also the higher proportion of the population receiving subsidies. The regional costs assessment is only intended to capture difference in cost, not use.

144 Water subsidies are paid to a very small subset of small communities, with specific attributes. Using water subsidies as part of the general regional cost gradient would effectively assume that this small subset of communities is representative of the entire population in the respective remoteness area. In addition, water subsidies data are based on complete data for only 2 states, and data have not been updated for the 2025 Review.

## Commission position

145 Given limitations with the data, the Commission will not include the gradients calculated for water or electricity subsidies in the general regional cost gradient. It will calculate this gradient as the weighted average of gradients for:

- state funding of government schools
- post-secondary education
- admitted patients
- emergency departments
- non-admitted patients
- criminal courts
- prisons
- Rawlinsons cost of construction.