NSW Treasury

2025 GST Methodology Review

NSW Treasury Response to 'Significant Changes since the Draft Report' paper

2 December 2024

Acknowledgement of Country

We acknowledge that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history.

We pay respect to Elders past and present and commit to respecting the lands we walk on, and the communities we walk with.

We celebrate the deep and enduring connection of Aboriginal and Torres Strait Islander peoples to Country and acknowledge their continuing custodianship of the land, seas and sky.

We acknowledge the ongoing stewardship of Aboriginal and Torres Strait Islander peoples, and the important contribution they make to our communities and economies.

We reflect on the continuing impact of government policies and practices, and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples, families and communities, towards improved economic, social and cultural outcomes.

Artwork:
Regeneration by Josie Rose

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1 Introduction

This submission responds to the Commonwealth Grant Commission's (the Commission) *Significant changes since the Draft Report (*the Significant Changes paper) published on 8 November 2024. This response should be read in conjunction with the past submissions made by NSW Treasury as part of the 2025 GST Review. NSW Treasury have not reiterated all positions raised in prior submissions, with responses primarily focused on the Commission's positions in the Significant Changes paper.

2 Revenue assessments

- The Commission has only made one major update to revenue assessments through the Significant Changes paper, relating to stamp duty on motor vehicle transfers. This is noted as being the result of updated materiality testing, rather a method change. The Commission has otherwise left revenue assessments in line with positions presented in the Draft Report.
- Our comments on the Commission's revenue assessments remain in line with our previous submissions. While we reiterate some key points in this submission, readers should refer to our earlier submissions.
- Regarding the reintroduction of a differential assessment of stamp duty on motor vehicle transfers, we consider a differential assessment to be conceptually reasonable provided it proves material. We are concerned, however, about the lack of reviewable data given the relative simplicity of the assessment.

2.1 Stamp duty on motor vehicle transfers

Draft Commission position:

- To reintroduce a differential assessment of stamp duty on motor vehicle transfers after post-Draft Report testing passed the $40 per capita materiality threshold.

- In the Draft Report, the Commission initially found a separate assessment was not material based on data provided for the 2019 Update. Subsequently, however, the Commission's post-Draft Report testing of more recent state data has seen the ACT pass the $40 materiality threshold.
- NSW Treasury considers it reasonable to reintroduce a differential assessment given materiality. However, we do not have confidence in the data provided by states in this assessment and as such we are not confident that the assessment is truly material.
- States have no visibility of any other state data for this category, despite the benign and straightforward nature of the data request. It is unclear to us why the data would be confidential.
- In the absence of state data, we have attempted to review the plausibility of the assessed revenues using either publicly available or New South Wales specific data. We acknowledge this is not a perfect comparison, but we have had to make do with the data available.
- From our analysis, it is unclear why there would be such a material difference in state revenue capacities. It is not obvious why New South Wales would be assessed as having such an above average capacity to generate revenue. We ask that the Commission review the data provided by states against publicly available data to test their reasonableness.

<u>Data confidentiality restrictions</u>

- Data confidentiality restrictions play an important and necessary role in ensuring that states are able to provide sufficient data for the Commission's assessments. Often, these restrictions relate to ensuring that data of individual non-government entities or taxpayers are not revealed. This will often reflect the statutory environment of the state, which could include privacy, secrecy and data protection obligations. These are important considerations.
- In this case, the Commission sought the following information from states:
    - Total number of cars transferred / registered (**transferred**) in a financial year[1]
    - Total value of cars transferred in a financial year

[1] For simplicity, 'register' and 'transfer' are referred to as 'transfer' from this point.

- Total duty paid on vehicles transferred in a financial year

- It is unclear what law would be contravened in other states for the provision of the above data. These data are high-level and aggregated in nature. There is no individual data identifiable from this request. If a state is unable to provide this level of data for this assessment, it would raise a question of how that state could provide any data to assist in any assessment.
- Of course, we are not experts in other states' data-handling legislation, and we acknowledge that there may be legitimate reasons for confidentiality to apply in this case. We raise this issue on the basis that we find the confidentiality surprising.

Calculation of the assessment

- The calculation for this assessment is straightforward. From state data, the Commission calculates **a national average rate of tax on vehicles transferred**. This average rate is then applied to **each state's value of vehicles sold or transferred** to estimate its revenue-raising capacity from motor vehicle stamp duty. Accordingly, a state with an above-average per capita value of vehicles transferred would have a higher-than-average revenue raising capacity.
- Based on how the assessment is calculated, an above-average per capita value of vehicles transferred would only be caused by two factors:
    - a higher-than-average **number** of vehicle transfers per capita; or
    - a higher-than-average **price** of vehicles transferred.
- Table 1 identifies the state impacts from a differential assessment of stamp duty on motor vehicles.[2] These estimates functionally represent a movement away from equal per capita (EPC), as the method at the 2020 Review assessed these revenues as EPC.

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

- In the Significant Changes paper, the Commission identifies that New South Wales and Western Australia had above-average per capita value of vehicles transferred, thus reducing assessed GST needs. In contrast, Victoria, ACT and the Northern Territory had well below-average per capita value of vehicle transfers, increasing their assessed GST needs.

Comparison of revenue raising capacity in New South Wales and Victoria

- In analysing the results of the differential assessment, we have focused on the differences between New South Wales and Victoria for the 2023-24 financial year. These two states have relatively similar per capita movements (in the opposite direction) and have the largest absolute movements in the overall assessment. Further, Victoria has readily available public data on motor vehicle registrations and transfers, which aids in the comparison.

[2] 2025 Methodology Review – Significant Changes paper, Table 1.

- In the absence of reviewable data, we can only comment on this assessment on the basis of publicly available data. While we acknowledge this may be a flawed method as it can rely on potentially unsuitable data points, we are unable to access the necessary data points to provide more robust analysis as per our earlier points on data confidentiality.
- Table 2 provides an overview of total vehicle registrations and estimated resident population (ERP) in New South Wales and Victoria in 2024. While this is not directly relevant to the assessment, it is an initial framing of the current position of motor vehicle registrations in each state. New South Wales has 14.2 per cent more vehicles registered than Victoria, while having a 21.7 per cent larger population, as at March 2024. This results in a lower number of total motor vehicles per capita for New South Wales.

Table 2: Total vehicles registered overall and state ERP

Data point	New South Wales	Victoria
2024 BITRE – Number of motor vehicles registered overall	6,295,697	5,514,720
State ERP as at March 2024	8,469,600	6,959,200
Total motor vehicles registered per capita	**0.74**	**0.79**

Source: Bureau of Infrastructure and Transport Research Economics – Road Vehicles, Australia, January 2024; Australian Bureau of Statistics – National, state and territory population, March 2024.

- Table 3 displays the average car prices across states, based on publicly available information. These values are representative only, as these prices include state fees and duties. The prices relate only to new cars.

Table 3: Average car price across states, September 2023

State	Average car price
Queensland	$39,730
Western Australia	$37,647
Victoria	**$37,346**
New South Wales	**$36,687**
South Australia	$36,233
Tasmania	$33,520

Source: Canstar Blue Research, September 2023, https://www.canstarblue.com.au/vehicles/average-car-price/

- The most significant difference between two states is Queensland and Tasmania, with the average cost of a car in Queensland 18.5 per cent higher than in Tasmania. Victoria's average car cost is 1.8 per cent higher than in New South Wales.

Table 4: Total vehicles transferred, 2023-24

Data point	New South Wales	Victoria
Number of vehicles registered or transferred in 2023-24	1,895,096	1,793,911
State ERP as at March 2024	8,469,600	6,959,200
Motor vehicles registered or transferred in 2023-24 per capita	**0.22**	**0.26**

Source: NSW internal transfers and registrations data; Data Victoria – Historical data and resources (transfers and registrations)

- In directly analysing the design and impacts of the assessment, our first consideration is the total number of vehicles transferred in each state for 2023-24.
- As per Table 4, NSW had a higher overall number of vehicles transferred than Victoria. However, on a per capita basis, only 0.22 cars were transferred for New South Wales, compared to 0.26 for Victoria. This indicates Victoria has a higher per capita rate of cars being transferred, and therefore a higher per capita revenue raising capacity from the ***number of vehicles transferred***.
- All else equal, a state with a greater number of transfers per capita would have a larger revenue base on a per capita basis. The only way for this to not be the case would be for the state to have a sufficiently lower average price of transferred cars than the other state. Based on the Commission's assessment, this must be the case for Victoria compared to New South Wales.
- Unfortunately, we do not know the average price of cars transferred in each state. As per Table 3, the average price of a new car is broadly the same in Victoria and New South Wales. It would be expected that used cars would sell for less than new cars. While any difference in the proportion of new and used car transfers between states could drive a difference in average price paid in those states, we are unable to undertake the analysis to this extent.
- In the following analysis, we explore potential differences in price that could result in Victoria having a lower assessed revenue capacity than New South Wales despite a higher number of per capita transfers.

Table 5: Total vehicles transferred with equal value per car applied, 2023-24

Data point	New South Wales	Victoria	State Average
Value per car ($)	$37,000	$37,000	$37,000
Average tax rate[1]	3%	4.2%	3.58%
Derived total value of motor vehicles registered or transferred in 2023-24 ($'000)	$70,118,552	$66,374,707	$136,493,259
Derived value of motor vehicles registered or transferred in 2023-24 per capita ($)	**$8,278.9**	**$9,537.7**	**$8,846.7**
Apply national average tax rate (3.6 per cent)	**$296.7**	**$341.8**	**$317.0**

1 – The average tax rate was calculated by applying 3% to all transferred NSW vehicles and 4.2% to all transferred Victoria vehicles. It is recognised that there are progressive rates within each state's systems that are not incorporated into this calculation.

- We first start by considering the difference in assessed capacity between New South Wales and Victoria if the value per car between the two states was equal ($37,000).[3] We also use an average tax rate of 3.58 per cent.
- Due to Victoria having a greater number of vehicles transferred per capita, the state has a per person revenue raising capacity higher than New South Wales. This can be seen in Table 5, where Victoria can raise $341.8 per person applying the average tax rate, compared to New South Wales only being able to raise $296.7 per person. As the value per car is equal across states, it does not affect the differential revenue raising capacity.
- To simply bring the assessment back to an equal per capita outcome, the value of the average individual car transferred in Victoria must be 13.2 per cent lower than that in New South Wales. The outcome of this is demonstrated in Table 6 below.

Table 6: Total vehicles transferred with an equal per capita outcome, 2023-24

Data point	New South Wales	Victoria	State Average
Motor vehicles registered or transferred in 2023-24 per capita	0.22	0.26	0.24
Value per car ($)	$37,000	$32,117	$34,625
Derived total value of motor vehicles registered or transferred in 2023-24 ($'000)	$70,118,552	$57,614,176	$127,732,728
Derived motor vehicles registered or transferred in 2023-24 per capita ($)	**$8,278.9**	**$8,278.9**	**$8,278.9**
Apply national average tax rate (3.6 per cent)	**$296.7**	**$296.7**	**$296.7**

- As above, Victoria now has a 13.2 per cent lower car value registered or transferred than in New South Wales. The outcome of this assessment would produce an equal per capita revenue raising capacity, noting this is due to opposite factors:
    - New South Wales has a lower-than-average number of vehicles transferred per capita but a higher-than-average value of car transferred.
    - Victoria has a higher-than-average number of vehicles transferred per capita but a lower-than-average value of car transferred.
- Per the Significant Changes paper, the Commission assesses Victoria as having a $35 per capita revenue capacity below an equal per capita approach, while assessing New South Wales as having a $34 per capita revenue capacity above equal per capita.[4] As an illustrative example to test these movements, Table 7 further adjusts the value per car in Victoria to be 30 per cent lower than the value per car in New South Wales.

Table 7: Total vehicles transferred with Victoria having 30 per cent lower car values, 2023-24

[3] $37,000 is functionally the midpoint between the average cost of cars in New South Wales and Victoria ($37,016.5) from Canstar data.

[4] 2025 Methodology Review – Significant Changes paper, Table 1.

Data point	New South Wales	Victoria	State Average
Value per car ($)[5]	$37,000	$25,900	$31,602
Derived total value of motor vehicles registered or transferred in 2023-24 ($'000)	$70,118,552	$46,462,294	$116,580,846
Derived motor vehicles registered or transferred in 2023-24 per capita ($)	**$8,278.9**	**$6,676.4**	**$7,556.1**
Apply national average tax rate (3 per cent)	**$296.7**	**$239.3**	**$270.8**
Difference from EPC (per capita)	**$25.9**	**-$31.5**	**-**

- This comparison is indicative and does not account for other states impacting the assessment. What it considers, though, is the magnitude of value difference required for Victoria to have a per capita revenue capacity as low (relative to New South Wales) as suggested by the Commission's assessment. In our estimation, Victoria's average price would need to be between 30-40 per cent lower than the average price in New South Wales.
- Again, we acknowledge that this is based on incomplete information. The analysis includes all vehicles; we cannot remove vehicles that are exempt from stamp duty. This would reduce the number and value of vehicles transferred per capita. Given data confidentiality settings, we can only estimate the potential value of vehicles based on publicly available information.
- Overall, we have concerns about the data included in this assessment. The estimates of a differential assessment produce results that do not appear plausible given available public data on the number of vehicles transferred, the number of vehicles transferred per capita, or average car prices across states.
- Ideally, all state data would be made available for state review. In the absence of this, we would ask the Commission to confirm the reasonableness of data included in this assessment, including explanations for the material deviations from public data. If data is not fit for purpose, which seems plausible based on our analysis, then it should be subject to significant discounting or not used at all.

2.2 Other revenue assessments

- The Commission notes in its Significant Changes paper that it will retain the land tax discount at 12.5 per cent. NSW Treasury considers that there remain material issues with the data used in this assessment, as further discussed in our response to the Draft Report. This includes our point that we were not contending data had worsened since the 2020 Review, as suggested by the Commission's response, but that the decision to reduce the discount from 25 per cent in the 2020 Review was based on unsound data in the first place.
- We acknowledge that elasticity effects will have to be considered as part of the forward work program, including through another external consultation on the matter. We remain convinced that the previous consultation (in addition to an extensive literature) remains relevant and fit for purpose. We think an elasticity adjustment can and should be made now.
- As mining revenue was included as a later addendum to the Draft Report, we recognise that the Commission had less time to consider state feedback in time for inclusion in the Significant Changes paper. While we

[5] As value per car increases, the percentage lower than NSW that Victoria needs to achieve the assessment outcome is reduced. As value per car decreases, the percentage lower Victoria needs to achieve is increased.

maintain our broad support for the Commission's positions in the mining assessment, we consider that there are methodological improvements that can still be made to the separate coal assessment that would promote a better equalisation outcome.

- We note comments made by Western Australia regarding a brown coal assessment and the consideration of low-quality black coal. We concur with Western Australia that there are differences in coal quality across states, though appreciate there is somewhat more complexity than the low- and high-quality dichotomy identified in the submission. However, we also recognise the Commission has opted for these differences to be reflected via a price band approach, rather than through separating coal based on its characteristics.
- We also note Western Australia's comments about the $40 materiality threshold for a separate assessment of individual minerals. If a separate assessment does not meet this threshold, the mineral should be included in the Other Minerals component.

3 Expense assessments

- The Commission has made major updates across expenditure assessments. Here, we primarily focus on the changes across health and housing. We otherwise provide only short comments on the residual expenditure or investment changes made by the Commission in its Significant Changes paper. We refer the Commission to our earlier submissions for more detailed positions.
- We strongly support the Commission's adjustment to the social housing assessment, electing to apply a household size adjustment rather than implementing a new individuals-based approach. This is a more sound and logical approach, based on what states do, that produces a much more reasonable outcome for the assessment, compared to the results from the Draft Report.
- We have varied views on the multiple changes proposed to the health assessment, though broadly accept where the Commission makes decisions to defer non-state sector impacts to the forward work program. We question where the Commission has made a decision inconsistent with its preferred approach to defer non-state adjustments to the forward work program.
- Otherwise, we note that the Commission has provided separate information on the impact of updated data or quality assurance processes that have changed the GST distribution outlined in the Draft Report. These particularly impact the transport, wages, and services to industry assessments.

3.1 Health and health investment

Draft Commission position:

- To retain the approach used in the 2020 Review for measuring non-state sector admitted patient activity (private patient separations), reversing the position in the Draft Report to use private patient benefits paid.
- To consider all non-state sector adjustments in the forward work program.

- NSW Treasury does not support the use of private patient separations over private patient benefits paid. We consider this represents a lower quality indicator of activity that will likely worsen the equalisation outcome for this component of the health assessment. We acknowledge issues with the proposed benefits paid approach but consider the approach would have fewer issues than the existing approach.
- However, we consider it is reasonable for the Commission to move most of its re-evaluation of non-state sector adjustments to the forward work program. The Commission should take a consistent approach to this across other components of the health assessment.

Draft Commission position:

- To use the actual distribution of Commonwealth grants to First Nations community-controlled health services as the estimate of non-state sector expense needs.

- The Commission considers that the actual Commonwealth distribution of these grants, which accounts for socio-economic status, is appropriate to use as the estimate of non-state sector needs. As a result, the non-state sector adjustment for Commonwealth grants to community-controlled health organisations is functionally ceased.
- In this case, the Commission has determined that its analysis of use rates not being consistent with the conceptual case is sufficient to make an adjustment to the non-state sector model, rather than deferring

consideration until the forward work program. This is not consistent with the Commission's broader approach to non-state sector adjustments.

- As part of earlier submissions, NSW Treasury raised concerns that health services use patterns do not reflect the conceptual case for the non-state sector adjustments. The Commission declined to adjust the non-state sector model, instead opting to introduce a discount and to undertake a detailed analysis of the non-state sector model as part of the forward work program. In our view, the same approach should be applied in response to this issue.
- In committing to the forward work program, it would be reasonable for the Commission to signal in advance that it may update this method (and other non-state adjustments) in between reviews, subject to appropriate consultation.

Draft Commission position:

- To use the exact calculated estimates for the non-state sector substitutability levels.

- We support the Commission's position to remove rounding from its non-state sector substitutability levels and use the exact calculated substitutability level, which is a 'midpoint' for Admitted Patients and Non-Admitted Patients and a single calculated figure for Emergency Departments and Community and Public Health Services. This is a reasonable and minor change that reduces unnecessary adjustments in the non-state calculation process.

Draft Commission position:

- To incorporate aeromedical services and Patient Assistant Transport Scheme expenses in the admitted patient assessment before the next review if certain conditions are met.

- We support the Commission changing the non-hospital patient transport assessment between the 2025 and 2030 Reviews, provided certain conditions are met. The conditions identified by the Commission include:
    - 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.
    - the data being available for all 3 years of the assessment period when any such method change is implemented in a future update.

Draft Commission position:

- To exclude COVID-19 clinics from the list of non-admitted patient allied health services in the proxy indicator for community and public health.

- We accept it is reasonable for the Commission to make further COVID-19 adjustments, reflecting that COVID-19 expenses are being separately assessed from typical state health expenses.
- This adjustment includes the removal of COVID-19 clinic activity from the proxy indicator for community and public health, until the separate assessment of COVID-19 ceases from the 2027 Update. After this, COVID-19 clinics will again be included in the proxy indicator of activity.

Draft Commission position:

- To apply a 12.5 per discount to all non-state sector adjustments.

- We support the decision to implement a 12.5 per cent discount to the non-state sector model. This accounts for adjustments across all relevant components, including admitted patients, emergency departments, non-admitted patients, and community and public health services.
- The Commission notes uncertainty about the reliability of data and robustness of methods used to determine the adjustments as reasons for the discount. We agree with these issues and have analysed these in detail in our previous submissions.
- It is appropriate to include this discount while issues with the non-state sector model are assessed during the forward work program. To continue without a discount given such large uncertainties would be prioritise the status quo without sufficient evidence that it is appropriately assessing state expenditure requirements.

Draft Commission position:

- To exclude COVID-19 expenses in the health component of the investment assessment.

- NSW Treasury supports the Commission's decision to exclude COVID-19 expenses in the health component of the investment assessment.
- Per Victoria's supplementary submission, the Commission did not incorporate COVID-19 expenses into the assessment of investment as spending increased. Thus, incorporating COVID-19 influences as expenses decreased would likely result in a perverse outcome.
- This would be due to certain states having a previously higher assessed need for investment without ever actually having that need assessed in the prior updates. It is also noted that health capital expenditure was not materially impacted by COVID-19 relative to recurrent expenditure.

3.2 Housing

Draft Commission position:

- To assess net expenses for social housing on an average household size-based approach, reversing its previous position to use an individuals-based approach.

- We strongly support the Commission's update to the social housing assessment in its Significant Changes paper. There were conceptual flaws in the decision to implement an individuals-based approach that produced inappropriate outcomes for this assessment. The Commission's ability to review and design a more appropriate assessment structure in this short time is welcomed by NSW Treasury.
- We support the Commission developing a pragmatic, sensible and logical methodology, which is to assess net expenses on an average household size-based approach. This correctly identifies that states provide social housing services to households rather than individuals, while taking reasonable steps to account for the impacts of overcrowding on states' social housing need.
- Our submissions to the Commission have detailed responses on the most appropriate methodology for calculating social housing need, focusing on overcrowding and housing stress. As part of this, we agree with the Commission that the 2020 Review method has not necessarily accounted for overcrowding appropriately.

- As per our submission in response to the Draft Report, we had significant concerns about the overcorrection to this assessment caused by the Commission's individuals-based approach. While it is important to address issues of overcrowding, particularly in the Northern Territory, it should not result in the introduction of an assessment with perverse or illogical outcomes. The implied linear relationship between the number of users in social housing and the total cost to a state was one such perverse outcome, which has now been rectified.
- While the Commission notes multiple issues raised by states, we consider the key point to be that states determine social housing need and spend based on the number of households rather than individuals. The Commission 'agrees … that 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.'[6] We would go further; the household method aligns with what states do and the individual method does not.

Additional comments on the proposed social housing assessment

- The Commission notes that South Australia raised concerns that additional costs faced by the Northern Territory are not in scope of the horizontal fiscal equalisation (HFE) system. We agree with the view that this assessment should not be attempting to address any structural issues that should instead by addressed outside of the HFE system.
- The Commission raises that it has a different view with some states, specifying that 'two states said that the assessment needed to account for the increasing number of single person households in social housing'.[7]
- From our perspective, we did not suggest that a cost weight should be introduced for a single-person household, though recognise that provided academic literature could support this position. We presented evidence of the cost of single-person households primarily in response to the Commission's proposed individuals-based model, which, at its core, suggested that a two-person household would cost double that of a single-person household. We contend that this would have been a perverse outcome and not achievable in the actual delivery of social housing across states.
- Without reiterating the position in detail, we continue to contend that housing stress is a material driver of social housing demand. If the Commission is going to evaluate social housing and overcrowding between reviews, housing stress should be included alongside this work.

3.3 Transport

- As transport was included as a later addendum to the Draft Report, we recognise that the Commission had less time to consider state feedback in time for inclusion in the Significant Changes paper. This may have limited the extent of Transport changes made in this paper, which only considered changes to the allocation of V/Line expenditure.
- While most of our positions can be reviewed through our responses to the Draft Report and to the Transport addendum, we reiterate some key positions here.
- Firstly, we remain concerned about the implementation of the temporary blending adjustment, given the robustness of the model. The negative impact of COVID-19 on the data which underpins the assessment is, in our view, offset by the Commission having greater confidence in the robustness of its model having gone through a second iteration of data collection and model estimation, as well as having consulted states extensively through the Review process.
- We are also concerned about the Commission's inconsistent statements regarding the temporary nature of the blending adjustment. As this adjustment is due to concerns over COVID-19 impacting data, the

[6] 2025 Methodology Review – Significant Changes paper, paragraph 86.

[7] 2025 Methodology Review – Significant Changes paper, paragraph 87.

Commission should confirm in the Final Report that the blending adjustment will be removed in the 2028 Update, when 2026 Census data is available for the assessment.

- Secondly, it would be appropriate to further evaluate the most appropriate measure of population-weighted density. While it was reasonable to move away from the SA1 measure of density given observed instability following the 2021 Census, the Commission should undertake a more comprehensive review of the relative merits of the SA2 and square kilometre grid measures. This evaluation could be incorporated as part of the forward work program's assessment of transport modelling.

Draft Commission position:

- To allocate 20.2 per cent of V/Line expenses to urban transport.

- The Commission has adjusted the percentage of V/Line expenses allocated to urban transport compared to non-urban transport. The Commission has extended this position to considering how New South Wales and Queensland regional train lines should also be more appropriately allocated. NSW Treasury considers that this is a reasonable position.
- We note the Commission will request total weighted patronage data from New South Wales and Queensland to determine if the 2020 Review method of allocating regional train expenses between components is suitable. We look forward to working with the Commission on this matter.
- The Commission has identified that a decision on this matter will be made in an update following the 2025 Review, following receipt of state data.

3.4 Other expenditure assessments

Schools

Draft Commission position:

- To retain the approach used in the 2020 Review for measuring socio-educational disadvantage in state schools (25 per cent most disadvantaged), reversing the position in the Draft Report to use the 10 per cent most disadvantaged.

- NSW Treasury notes the Commission's decision to reverse its Draft Report position to use the most disadvantaged 10 per cent of students in its regression model, rather than the most disadvantaged 25 per cent of students. This results in the Commission retaining the method from the 2020 Review.

Roads

Draft Commission position:

- To retain the approach used in the 2020 Review by including routes to mines, national parks gas wells and ports, reversing the position in the Draft Report to exclude these routes.

- We do not support the Commission's decision to reverse its Draft Report position to exclude routes to mines, gas wells, ports and national parks from the synthetic rural road network.
- NSW Treasury noted in our Tranche 1 submission that there is no evidence of state funded roads to mines. While the Commission does not have information on private funding of roads to mines, our position is that if there is no evidence of state funding for roads to mines, it should not be included in the synthetic rural road network.
- We continue to support the Commission's decision to implement a discount of 12.5% per cent to this assessment, reflecting uncertainty about the reliability of data used in this assessment. We note part of the Commission's rationale is the uncertainty that the synthetic rural road network is a reliable and accurate proxy measure of what states do.
- We note there are residual issues with the assessment that we consider are not settled in the Commission's methodology. These include the need to further evaluate important drivers (soil type and rainfall patterns) missing from this assessment and the inconsistent and unevidenced introduction of the Rawlinsons measure in assessing regional costs in the Roads assessment.

Welfare

Draft Commission position:

- To adopt the average of state spending method to classify data on homelessness spending into the housing and welfare categories.

- NSW Treasury notes the Commission will now adopt the average of state spending method to classify data on homelessness spending into the housing and welfare categories.
- We agree this is more appropriate than the proposed 50/50 method in the Draft Report.

Geography

Draft Commission position:

- To remove water and electricity subsidies from the weighted average regional cost gradient.

- We continue to support the Commission's decision to implement a weighted approach to the regional cost gradient, rather than using the prior combined Schools and Admitted Patients gradients. It is expected this approach will be more robust and potentially provide a more representative calculation of regional costs.
- We agree with the Commission opting to remove water and electricity subsidies from the new weighted average regional cost gradient. The Commission noted in the paper that states raised concerns about the incompleteness of the data, the age of the data, and the extent that these subsidies represented outliers.
- We do not support the continued use of the Rawlinsons measure as part of the gradient. This is a measure designed to capture general construction costs and is typically used for the Investment assessment. It accounts for over 20 per cent of the weighted average. We do not consider that a measure of capital cost is appropriate to use in deriving a regional cost gradient for recurrent expenditure.

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