

Services to communities

Overview

- 1 The services to communities assessment covers state and territory (state) spending on subsidies for the provision of water, wastewater services and electricity. It also covers a range of expenses for community development and environmental protection services. It has the following components:
 - electricity subsidies — remote community subsidies and other subsidies
 - water and wastewater subsidies — small community subsidies and other subsidies
 - First Nations community development
 - other community development
 - environmental protection.
- 2 The assessment recognises that services to communities expense needs are influenced by the following.
 - Remoteness
 - For electricity subsidies, states with more people living in remote and very remote communities have higher spending needs.
 - For water subsidies, states with more people living in communities of fewer than 3,000 people outside of major cities have higher spending needs.
 - First Nations people — for First Nations community development, states with higher shares of First Nations people living in discrete First Nations communities have higher spending needs.
 - Wage costs — states facing greater wage cost pressures have higher spending needs.

Actual state expenses

- 3 The first step in calculating assessed expenses is identifying actual state expenses.¹ States collectively spent 4.6% of their total recurrent expenses on services to communities in 2022–23. Table 1 shows expenses broken down by component and Table 2 outlines actual expenses by state in 2022–23.²

¹ Adjusted budget calculations use ABS Government Financial Statistics data to determine actual state expenses. For further details see the adjusted budget chapter of the *Commission's Assessment Methodology*.

² Tables in this chapter, unless otherwise stated, use 2022–23 data.

Table 1 Services to communities expenses by component, 2022–23

	2022-23	
	\$pc	\$m
Water subsidies	33	880
Electricity subsidies	109	2,865
Environmental protection	243	6,400
First Nations community development	14	367
Other community development	144	3,801
Total	544	14,314
Proportion of total expenses (%)		4.6

Table 2 Services to communities expenses by state, 2022–23

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Services to communities (\$m)	3,986	4,341	1,797	2,528	736	178	254	493	14,314
Services to communities (\$pc)	483	646	334	892	401	311	551	1,963	544
Proportion of total expenses (%)	4.0	5.5	3.1	7.4	3.9	2.5	4.0	8.1	4.6

Structure of assessment

4 Table 3 outlines the drivers that influence expenses in each component.

Table 3 Structure of the services to communities assessment

Component	Driver	Influence measured by driver
Water subsidies		
Small communities	Small communities	Costs are higher for small communities.
	Regional costs	The cost of providing services increases as the level of remoteness increases.
	Wage costs	Differences in wage costs between states affect costs.
Other	Equal per capita	Population drives the use and cost of services.
Electricity subsidies		
Remote communities	Remote communities	Costs are higher for remote communities.
	Regional costs	The cost of providing services increases as the level of remoteness increases.
	Wage costs	Differences in wage costs between states affect costs.
Other	Equal per capita	Population drives the use and cost of services.
First Nations community development	Population in discrete First Nations communities	The cost of providing services in discrete First Nations communities is higher.
	Regional costs	The cost of providing services increases as the level of remoteness increases.
	Wage costs	Differences in wage costs between states affect costs.
Other community development	Equal per capita	Population drives the use and cost of services.
	Regional costs	The cost of providing services increases as the level of remoteness increases.
	Wage costs	Differences in wage costs between states affect costs.
Environmental protection	Non-deliberative Equal per capita	These expenses are not differentially assessed.
	Regional costs (a)	The cost of providing services increases as the level of remoteness increases.
	Wage costs (a)	Differences in wage costs between states affect costs.

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

Data

5 The data used in the services to communities assessment are outlined in Table 4.

Table 4 Data used in the services to communities assessment

Source	Data	Updated	Component
States	Electricity subsidies	Annually	Electricity — remote community subsidies
	Water subsidies	Annually	Water — small community subsidies
	First Nations community development expenses	Annually	First Nations community development
ABS	2021 Census	5-yearly	Electricity — remote community subsidies
			Water — small community subsidies
			First Nations community development

Note: Data for the wage costs adjustment are also included in this assessment. The adjusted budget data sources are outlined in the adjusted budget chapter of the *Commission's Assessment Methodology*.

Assessment method

Electricity subsidies

- Expenses for this component include subsidies to electricity service providers for services to households as well as general subsidies to households related to the supply of electricity. Subsidies include both operating subsidies and capital subsidies. The component does not include concession payments to households for electricity (for example, to pensioners and healthcare card holders), which are assessed in the welfare category.
- There are separate assessments for remote community electricity subsidies and other electricity subsidies. The component is split because the average electricity network subsidy per capita is significantly higher in remote and very remote areas than in other areas, which reflects a combination of higher generation, transmission and/or distribution costs and lack of economies of scale in smaller communities.
- State data are used to estimate actual electricity subsidies to remote and very remote communities and other electricity subsidies.

Remote community electricity subsidies

Driver

Populations in remote and very remote communities

- Remote community electricity subsidies include subsidies for off-grid communities in remote and very remote areas. Off-grid communities that are not connected to a

major electricity network are the most costly communities for the supply of electricity. Subsidies for remote parts of on-grid electricity networks, where subsidies are due to higher costs, are also included in the assessment.

- 10 The high cost of supplying electricity to remote and very remote communities means that full cost recovery is not possible. Average state policy is to subsidise the supply of electricity to these communities.
- 11 The Commission uses the size of state populations in remote and very remote communities as the driver of need for state electricity subsidies. Population estimates are obtained from ABS Census data (Table 5).

Table 5 State population in remote and very remote communities, 2021–22

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Remote	26,856	3,293	71,817	91,685	44,753	8,616	n/a	52,345	299,365
Very remote	6,969	n/a	53,527	65,564	14,376	2,605	n/a	48,030	191,071

Source: ABS 2021 Census.

Applying regional costs

- 12 The assessment recognises that the cost of supplying electricity to very remote communities are higher than for remote communities. State data show that the per capita subsidy for very remote communities is over 3 times higher than the per capita subsidy for remote communities (Table 6).
- 13 The following steps are taken to derive the regional cost gradient.
 - Total populations and subsidies are derived for remote and very remote locations, based on the criteria for communities assessed to need electricity subsidies.
 - Total subsidies are divided by total population for both remote and very remote areas to give the average subsidy per capita in each geographic area.
 - The cost weight for remote areas is set to one. For very remote areas, the cost weight is calculated by dividing the very remote subsidy per capita by the remote subsidy per capita (Table 6).
- 14 This cost gradient is fixed until the next review.

Table 6 Population and regional cost gradients for the electricity subsidies assessment

	Number of communities	Population	Total subsidy	Subsidy	Cost gradient
			\$m	\$pc	
Remote	5,522	299,365	109	365	1.000
Very remote	5,885	191,071	211	1,105	3.026

Source: Commission calculations using ABS and state provided data on electricity subsidies by location.

Applying wage costs

- 15 Wages costs are a significant share of the total cost of providing remote communities electricity subsidies. Differences in wage costs between states have a differential effect on the cost of providing remote communities electricity subsidies. The services to communities assessment uses the Commission's general method for measuring the influence of wage costs. Details on how this is calculated is in the wage costs chapter of the *Commission's Assessment Methodology*.

Method

- 16 The following steps are taken to determine assessed expenses for each state.
- Census data are used to determine the proportion of each state's population living in remote and very remote communities.
 - Those proportions are applied to state populations in each assessment year to determine the number of people living in these communities.
 - The regional cost gradient (Table 6) is applied to the population in remote and very remote communities to derive a weighted population for each state.
 - Total remote communities electricity subsidies are multiplied by each state's share of the total weighted population to give a state's assessed subsidies.
 - Wages costs are applied to give assessed expenses for each state.

Other electricity subsidies

- 17 Some states subsidise the supply of electricity to communities outside of remote and very remote communities. The Commission considers these subsidies are likely to be more reflective of individual state policy decisions rather than reflecting an underlying driver of need. Therefore, these electricity subsidies are assessed on an equal per capita basis and do not impact the GST distribution.

Water subsidies

- 18 Expenses for this component include subsidies to water and wastewater service providers for services to residential households. Subsidies include both operating subsidies and capital subsidies.
- 19 There are separate assessments for small community water subsidies and other water subsidies.
- 20 State data are used to estimate spending on small community water subsidies and other water subsidies.

Small community water subsidies

Driver

Populations in small communities

- 21 On average, water supply operating costs per connection are higher for small utilities. Small water utilities do not have the economies of scale of large utilities,

particularly for infrastructure and the operation and maintenance of water treatment works.

- 22 The high cost of supplying water to small communities means that full cost recovery is not possible. Average state policy is to subsidise the supply of water to these communities.
- 23 The Commission uses the size of state populations in small communities as the driver of need for state water subsidies. Small communities are defined as communities outside of major cities with fewer than 3,000 people. Population estimates are obtained from ABS Census data. Table 7 shows the size of state populations in small communities in 2021–22 (census year).

Table 7 State population in small communities, 2021–22

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Inner regional	610,371	449,229	332,813	103,872	112,800	38,897	3,399	n/a	1,651,380
Outer regional	249,769	148,739	219,879	82,238	92,830	119,887	n/a	10,093	923,436
Remote	23,446	3,293	53,440	31,354	26,050	8,616	n/a	18,286	164,486
Very remote	6,969	n/a	49,351	45,237	14,376	2,605	n/a	41,113	159,650

Source: ABS 2021 Census.

Applying regional costs

- 24 There are additional costs in supplying water to small communities as remoteness increases due to the higher costs of fuel and other inputs. To recognise this, cost weights are applied to populations in outer regional, remote and very remote communities.
- 25 The following steps are taken to derive the regional cost gradient.
- Total populations and subsidies are derived for inner regional, outer regional, remote and very remote locations, based on the criteria for communities assessed to need water subsidies.
 - Total subsidies are divided by total population for each geographic area to give the average subsidy per capita.
 - The cost weight for inner regional is set to one. For outer regional, remote and very remote locations, the cost gradient is calculated by dividing each region's subsidy per capita by the inner regional subsidy per capita.
- 26 Table 8 shows the regional cost weights for the 2025 Review. These cost weights are fixed until the next review.

Table 8 Small community water subsidies regional cost gradient

	Inner regional	Outer regional	Remote and very remote
Regional cost weights	1.000	2.171	4.448

Note: Due to uncertainties around the data comprehensiveness, remote/very remote is aggregated.

Source: Commission calculation based on state data.

Applying wage costs

27 Wages costs are a significant share of the total cost of providing small community water subsidies. Differences in wage costs between states have a differential effect on the cost of providing small community water subsidies. The services to communities assessment uses the Commission's general method for measuring the influence of wage costs. Details on how this is calculated is in the wage costs chapter of the *Commission's Assessment Methodology*.

Method

- 28 The following steps are taken to determine assessed expenses.
- Census data are used to determine the proportion of each state's population living in small communities.
 - Those proportions are applied to state populations in each assessment year, to determine the number of people living in these communities.
 - The regional cost gradient (Table 8) is applied to the populations in small communities to derive a weighted population for each state.
 - Total remote communities electricity subsidies are multiplied by each state's share of the total weighted population to give a state's assessed subsidies.
 - Wages costs are applied to give assessed expenses for each state.

Other water subsidies

29 Some states subsidise the supply of water to communities other than those defined as 'small communities' by the Commission. The Commission considers these subsidies are likely to be more reflective of individual state policy decisions rather than reflecting an underlying driver of need. Therefore, these water subsidies are assessed on an equal per capita basis and do not impact the GST distribution.

First Nations Community Development

30 Expenses for this component include support for the governance and management of discrete First Nations communities, in recognition of their greater needs due to their smaller populations with low incomes, remoteness (in most cases) and unique issues associated with land tenure arrangements. This component includes spending on co-ordinating capital works programs, developing community plans, and educating community leaders about planning processes.

31 State data are used to determine expenses for First Nations community development.

Driver

First Nations population living in discrete First Nations communities

32 The assessment is based on the number of First Nations people living in discrete First Nations communities. The costs states incur on First Nations community development are likely to increase in proportion to the number of people states have in these communities.

- 33 A discrete First Nations community is defined as Statistical Areas Level 1s (SA1s) with populations that are more than 50% First Nations, as measured by census data.³
- 34 Census data are used to determine the proportion of each state's population living in discrete First Nations communities.

Applying regional costs

- 35 A significant portion of spending relates to remote service delivery rather than head office costs. It is not practicable to directly measure the effect of remoteness on the component, due to the diversity of services included in this component. Therefore, the general regional cost gradient is applied to expenses in the First Nations community development component. Detail on the calculation method for the general regional cost gradient is in the geography chapter of the *Commission's Assessment Methodology*.

Applying wage costs

- 36 Wages costs are a significant share of the total cost of providing First Nations community development services. Differences in wage costs between states have a differential effect on the cost of providing First Nations community development services. The services to communities assessment uses the Commission's general method for measuring the influence of wage costs. Details on how this is calculated is in the wage costs chapter of the *Commission's Assessment Methodology*.

Method

- 37 The following key steps are used in the calculation of assessed expenses for First Nations community development.
- First Nations populations in discrete First Nations communities from ABS census are divided by the total First Nations population to derive the proportion of each state's First Nations population, by remoteness area, living in discrete First Nations communities.
 - This proportion is applied to state populations to determine the number of people living in these communities in each assessment year.
 - The general regional cost gradient is applied to these people to derive a weighted population.
 - Total First Nations community development expenses are multiplied by each state's share of the total weighted population to give a state's assessed spending.
 - Wages costs are applied to give assessed expenses for each state.

Other community development

- 38 Other community development expenses cover a wide variety of state activity broadly relating to community-related administration and planning including

³ Australian Bureau of Statistics, [Statistical Area Level 1](#), ABS website, 2021, accessed 15 October 2024.

regulating land use, administering zoning laws and planning and development of public facilities. This component also includes expenses related to community amenities such as the design, installation, operation and maintenance of street lighting, provision of facilities such as public toilets, drinking fountains, bus shelters, cemeteries and crematoria.

Driver

State population

39 State population is used as the driver of need for spending on other community development. The costs states incur on community development are likely to increase in proportion to state population.

Applying regional costs

40 There are additional costs associated with providing other community development services as remoteness increases. It is not practicable to directly measure the effect of remoteness on these expenses due to the diversity of services included in the component. Therefore, a general regional cost gradient is applied to expenses in the other community development component. Detail on the calculation method for the general regional cost gradient is in the geography chapter of the *Commission's Assessment Methodology*.

Applying wage costs

41 Wages costs are a significant share of the total cost of providing community development services. Differences in wage costs between states have a differential effect on the cost of providing community development services. The assessment uses the Commission's general method for measuring the influence of wage costs. Details on how this is calculated are in the wage costs chapter of the *Commission's Assessment Methodology*.

Environmental protection

42 Expenses for this component include those for the following services:

- waste and wastewater management
- pollution abatement
- research and development on environmental protection
- protection of biodiversity and landscape including national parks and wildlife services.⁴

Driver

43 Environmental protection expenses are assessed on an equal per capita basis. This is a non-deliberative equal per capita assessment. Environmental protection covers a

⁴ See the adjusted budget chapter of the *Commission's Assessment Methodology* for a list of all the functions of government included in services to communities. Full descriptions are available in ABS, *Australian System of Government Finance Statistics: Concepts, Sources and Methods*, Appendix 1 Part C, ABS, 2015, Canberra.

wide variety of services, and it is neither practical to disaggregate these expenses nor possible to identify a single broad driver for assessing total spending.

Applying regional costs

- 44 The costs of providing services related to the protection of biodiversity and landscape are likely to increase with remoteness.
- 45 The general regional cost gradient is applied to the protection of biodiversity and landscape sub-component of environmental protection. It is not practicable to directly measure the effect of remoteness on these service expenses, given the scope and diversity of the component. Further information on the general regional cost gradient is in the geography chapter of the *Commission's Assessment Methodology*.
- 46 The remainder of the environmental protection component covers a range of expenses that are heavily influenced by the number of urban centres, or relate to regulatory activities, research and other activities which may be largely undertaken in central offices. Therefore, regional costs are not a driver of expense needs for the remainder of the component.

Applying wage costs

- 47 Wages costs are a significant share of the total cost of providing environmental protection services. Differences in wage costs between states have a differential effect on the cost of providing environmental protection services. The assessment uses the Commission's general method for measuring the influence of wage costs. Details on how this is calculated are in the wage costs chapter of the *Commission's Assessment Methodology*.

GST distribution in the 2025 Review

- 48 Table 9 shows the GST impact of the services to communities assessment in the 2025 Review.

Table 9 GST impact of the services to communities assessment, 2025–26

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Water subsidies	-32	-55	25	9	14	24	-9	25	96
Electricity subsidies	-154	-152	37	139	17	-2	-10	125	318
Environmental protection	6	-1	-9	8	-8	-2	3	3	21
First Nations community development	-91	-103	25	31	-13	-8	-7	166	222
Other community development	0	-5	-4	8	-5	-1	2	5	15
Total (\$m)	-271	-316	73	196	5	10	-21	324	608
Total (\$pc)	-31	-44	13	64	3	18	-44	1,260	22

Note: Magnitude and direction of GST impact can change from year to year.