




Australian Government
Commonwealth Grants Commission

2025 Methodology Review

Geography consultation paper

October 2023



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Overview of assessment

- 1 States and territories (states) spend different amounts per capita on services for people in different regions. In some cases that is because the socio-demographic composition differs and that drives a different level of service use. In other cases, the cost of delivering even the same level of service varies, for example, because labour costs are higher in more remote locations.
- 2 The Commission uses different geographical classifications and approaches to measure different attributes affecting service delivery costs. These include:
 - Australian Bureau of Statistics (ABS) remoteness categories to measure:
 - regional costs — capturing higher costs of delivering comparable services due to remoteness
 - service delivery scale — capturing the additional cost per person of delivering services in small, isolated centres compared with larger urban areas due to fixed costs
 - the different use of services by people in more or less remote areas as part of the socio-demographic composition in various expense assessments
 - area-based measures of socio-economic status
 - definitions of components for expense categories.
 - Urban areas are defined for the roads and transport categories.
 - Small, isolated, and discrete First Nations communities are defined for assessing water subsidies, electricity subsidies and First Nations community development respectively.
- 3 This paper considers regional costs and service delivery scale. The other aspects of geographical classifications affecting service delivery costs noted above are considered as part of the consultation paper on socio-economic status, and each affected category.

Current assessment method – 2020 Review

- 4 Where possible, the Commission measures the regional and service delivery scale costs specific to each assessment category. The approach to this varies between categories depending on the data available. Where feasible, costs are estimated separately for components within categories. For example, in the health category regional costs and service delivery scale costs are estimated separately for admitted patients, non-admitted patients and emergency departments.
- 5 For those categories where regional costs or service delivery scale effects are recognised to exist but cannot be directly measured, a general gradient is estimated using the average of the admitted patient and government school cost gradients. These 2 assessments use large, high-quality datasets (outlined below) to make robust estimates of both regional costs and service delivery scale, using different methods.

- 6 The regional cost gradient for admitted patients is calculated using data on the relative costs for servicing equivalent patients by the remoteness of their place of residence. The service delivery scale gradient for admitted patients is calculated using data on the relative costs for servicing equivalent patients by the remoteness of their place of treatment. The regional costs and service delivery scale for schools come directly from the schools regression results.

Data used in the assessment

- 7 The geographic cost assessment uses the geographic remoteness categories produced by the ABS in its 5-yearly census of population and housing. Category-specific geographies are used in roads, transport and services to communities, based on geographical areas defined by the ABS in its 5-yearly census of population and housing.

Assessing regional costs and service delivery scale

- 8 Regional costs and/or service delivery scale are drivers of costs in every expense assessment, but not in all components within each assessment.
- 9 Table 1 shows which components of each expense assessment include regional costs or service delivery scale effects. The general gradients are the averages of the gradients for state funded government schools and admitted patients.

Table 1 Measures of regional costs and service delivery scale by component

Category	Component	Driver	Type of assessment
Schools	State funded government schools	Regional costs and service delivery scale	Component specific
	State funded non-government schools	Regional costs and service delivery scale	Component specific
Post-secondary education	Post-secondary education	Regional costs	Component specific
Health	Admitted patients	Regional costs and service delivery scale	Component specific
	Emergency departments	Regional costs and service delivery scale	Component specific
	Non-admitted patients	Regional costs and service delivery scale	Component specific
	Community health	Regional costs and service delivery scale	Extrapolated (a)
Housing	Social housing	Regional costs	General gradient
Welfare	Child protection and family services	Regional costs and service delivery scale	General gradient
Services to communities	Water subsidies	Regional costs	Component specific
	Electricity subsidies	Regional costs	Component specific
	First Nations community development	Regional costs	General gradient
	Other community development	Regional costs	General gradient
	Environmental protection	Regional costs	General gradient
Justice	Police	Regional costs and service delivery scale	Component specific (b)
	Criminal courts	Regional costs and service delivery scale	Component specific
	Other legal services	Regional costs and service delivery scale	Extrapolated (a)
	Prisons	Regional costs and service delivery scale	Component specific
Roads	Rural roads	Regional costs	General gradient
Transport	Non-urban transport	Regional costs	General gradient
Services to industry	Agriculture regulation	Regional costs	General gradient
	Mining regulation	Regional costs	General gradient
	Other industries regulation	Regional costs	General gradient
Other expenses	Service expenses	Regional costs	General gradient

Note: (a) Extrapolated refers to an extrapolated cost gradient from other components within the same category.

(b) In the police component, regional costs and service delivery scale are measured together as a single cost gradient along with the differential use of police resources in different remoteness areas. Where assessed, differential use of services is considered separately from regional costs in all other categories.

Source: Commission decision.

- 10 Regional costs are also applied in the investment assessment, recognising that construction costs vary geographically. The regional cost gradients for construction are state-specific and are taken from the most current Rawlinsons construction cost guide for each assessment year.¹

¹ Rawlinsons, *Rawlinsons Australian Construction Cost Handbook*, 37th–41st edns, Rawlinsons Publishing, Perth, 2019–23.

- 11 In 2021–22, the components that incorporated regional costs or service delivery scale effects included \$240 billion of state spending, or 82% of total state recurrent spending.

Table 2 Expenses assessed subject to regional costs or service delivery scale

	2018-19	2019-20	2020-21	2021-22
	\$b	\$b	\$b	\$b
Schools	36	38	38	41
Post-secondary education	6	6	7	6
Health	68	71	77	86
Housing	5	5	6	7
Welfare	8	9	10	10
Services to communities	9	10	12	13
Justice	22	23	25	26
Roads	4	4	5	5
Transport	1	1	2	2
Services to industry	3	4	6	15
Other expenses	21	24	26	30
Total	183	195	212	240
Proportion of total expenses (%)	82	81	81	82

Source: Commission calculation.

GST Distribution in the 2023 Update

- 12 Table 3 shows the estimated GST impact (difference from an equal per capita distribution) of all regional drivers of assessed GST needs. This includes differences in service use by remoteness as well as regional costs and service delivery scale. Regional influences distributed \$3,971 million (\$150 per capita) away from an equal per capita distribution.

Table 3 GST impact of all regional influences

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Schools	-183	-204	150	78	14	42	-23	127	410
Post-secondary education	-22	-24	20	3	3	14	-5	10	50
Health	-1,005	-813	628	129	37	501	-191	714	2,009
Housing	-128	-53	9	83	5	-12	-5	102	199
Welfare	-18	-28	17	-6	1	11	-2	25	54
Services to communities	-177	-181	63	120	19	12	-15	161	374
Justice	-405	-324	134	189	24	77	-48	353	777
Roads	-14	-14	9	10	-1	-1	0	11	30
Transport	-2	-3	1	1	0	0	0	2	5
Services to industry	-14	-14	4	13	2	1	-1	9	29
Other expenses	-25	-28	13	15	5	4	-3	19	55
Total (\$m)	-1,994	-1,684	1,048	633	108	648	-293	1,533	3,971
Total (\$pc)	-241	-248	193	223	58	1,109	-622	5,899	150

Note: Includes remoteness aspect of socio-demographic composition influences.

Source: Commission calculation.

What has changed since the 2020 Review?

Urban growth

- 13 The ABS remoteness areas are constructed from an accessibility index based on distance to nearest towns and cities above certain thresholds. As towns grow, the surrounding areas can change the accessibility index if their population size crosses certain thresholds (250,000; 48,000; 18,000; 5,000 and 1,000).
- 14 Between 2016 and 2021, Murray Bridge (SA) and Mount Barker (SA) grew from less than 18,000 people to greater than 18,000 people. At the same time, the population of Broken Hill (NSW) reduced from more than 18,000 to less than 18,000. As a result, the accessibility indexes for these towns and their surrounding areas changed. The impact of this on overall classifications of state populations is relatively minor, as changes in accessibility indexes do not always correspond to changes in remoteness categories.
- 15 If the urban centre of Hobart were to grow to above 250,000 people, then Hobart would be classified as a major city. This would significantly affect the remoteness classification for the whole of Tasmania, due to increased proximity to the nearest major city. At the time of the 2021 Census the urban centre of Hobart had fewer than 200,000 residents, so the likelihood of this occurring within the 2025 Review period is small.

Changes to service delivery

- 16 Remote technologies such as telehealth consultations and electronic prescriptions are becoming more widely available. State governments have committed to using technology to improve services and support service workers in remote and regional Australia.²
- 17 Some in-person health and education services were reduced temporarily due to the COVID-19 pandemic.

Improvements in data

- 18 The overall data environment has been improving, and this may offer the potential in the future for a more sophisticated approach to assessing the different costs of providing services in remote areas. This is discussed further below.

Implications for assessment

- 19 The service delivery scale assessments for schools and health are recalculated every year with updated data. Any changes in service cost or service delivery models will be carried through with the data. These will then be reflected in the annual estimates for these assessments and the assessments which use the general gradient, as shown in Table 1.
- 20 In the 2020 Review, the Commission acknowledged that the 5 ABS remoteness categories do not cover the full range of circumstances experienced by states and territories and that, therefore, providing services to locations in the same remoteness area can have very different costs.
- 21 As noted above, the ABS remoteness areas are defined with reference to road distance to towns of various sizes. Road distance to various size towns is a major driver of differences for the cost-of-service delivery in different parts of Australia. However, there are also other significant drivers. Ideally, a geographic classification of remoteness would capture such factors as the seasonality of accessibility, road quality and publicly available flights, as well as other relevant influences on the cost-of-service delivery, particularly in remote and very remote regions.
- 22 While the Commission recognises that not all locations within a remoteness area are homogenous, it is unable to identify sufficiently comparable and reliable data that would enable a differential assessment of costs within remoteness areas.
- 23 Improvements in data may allow the potential for a differential assessment of such costs in the future. For example, the expected development of nationally consistent

² Australian Government Department of Health and Aging (DHAC), [National Strategic Framework for Rural and Remote Health](#), DHAC, 2012, accessed 20 August 2023.

roads data, including aspects of road quality, could potentially allow for more sophistication in the measurement of remoteness.³ The Commission welcomes state views on sources of data that could inform future work in this area.

Consultation question

Q1. Do states support continuing the current methodology for estimating regional costs and service delivery scale effects?

Isolated major cities

- 24 In the 2015 Review, an adjustment was made for additional non-wage costs experienced by isolated major cities, such as additional freight costs and costs associated with interstate travel. The adjustment was based on the Commission's judgement, and it increased the fiscal needs of Perth and Canberra.⁴
- 25 This adjustment recognised that while the ABS remoteness categories were based on distance to nearest *major* city, not all major cities have the same access to production, manufacturing and importation. The additional costs for the Northern Territory and Tasmania were captured by the regional costs assessments, with Darwin and Hobart being classified as outer regional and inner regional areas respectively. However, the Commission concluded that the adjustment for regional cost allowance for Darwin and Hobart was excessive and used its judgement to reduce the fiscal needs of these 2 cities.
- 26 In the 2020 Review, the Commission concluded that these judgement-based adjustments were insufficiently robust and it was not clear whether GST was being moved in the right direction, or whether the magnitude was appropriate. The Commission said that the direction of any adjustment for states other than Western Australia was not self-evident. In the case of Western Australia, it was unable to identify data to construct a robust and consistent assessment. Partial indicators of the additional costs of isolation were not material.
- 27 For the 2025 Review, the Commission remains open to considering available data that might support a robust assessment. However, it observes that petrol prices, construction costs and supplies from major national chains all suggest that prices in Perth are not significantly different to those in other major cities.

³ See the roads consultation paper for more detail.

⁴ Canberra was considered to face higher costs because of its small size and hence lack of economies of scale, and its lack of a port and therefore higher freight costs than other major cities.

Consultation question

Q2. Can states identify any data to measure differences in non-wage costs between major cities?

Proposed assessment

Differences from the 2020 Review approach

28 Subject to state views, the Commission does not propose to make any changes to its 2020 Review approach.

Proposed assessment structure

29 Table 4 shows the proposed regional cost and service delivery scale assessments for the 2025 Review.

Table 4 Proposed structure for regional costs and service delivery scale

Category	Drivers	Assessment	Change since 2020 Review?
Schools	Regional costs and service delivery scale	Category specific	No
Post-secondary education	Regional costs	Category specific	No
Health	Regional costs and service delivery scale	Category specific	No
Housing	Regional costs	General gradient	No
Welfare	Regional costs and service delivery scale	General gradient	No
Services to communities	Regional costs	Category specific & general gradient	No
Justice	Regional costs and service delivery scale	Category specific	No
Roads	Regional costs	General gradient	No
Transport	Regional costs	General gradient	No
Services to industry	Regional costs	General gradient	No
Other expenses	Regional costs	General gradient	No

Source: Commission decision.

Consultation

30 The Commission welcomes state views on the consultation questions identified in this paper (outlined below) and the proposed assessment. State submissions should accord with the 2025 Review framework. States are welcome to raise other relevant issues with the Commission.

Q1. Do states support continuing the current methodology for estimating regional costs and service delivery scale effects?

Q2. Can states identify any data to measure differences in non-wage costs between major cities?