

Other expenses

Overview

- 1 The other expenses assessment includes expenses not classified to specific expense categories. It has the following components:
 - service expenses
 - natural disaster relief
 - administrative scale
 - Native Title and land rights.

Service expenses

- 2 In 2022–23, the service expenses component was the largest component in the other expenses category and included spending for:
 - other purposes (general public services, including administration, operation or support of executive and legislative bodies; and financial and fiscal affairs, such as the management of public debt, operation of the treasury and revenue agency, and production and dissemination of statistics on financial and fiscal affairs)
 - public order and safety other than police, courts and prisons
 - recreation, culture and religion
 - communications.

Natural disaster relief

- 3 The natural disaster relief component covers net expenses that fall within the scope of the Commonwealth-State Disaster Recovery Funding Arrangements.¹
- 4 Under the Disaster Recovery Funding Arrangements, states and territories (states) can be reimbursed for expenses incurred in response to an eligible disaster by the Commonwealth. The reimbursement amount depends on the type of spending undertaken by states and whether spending thresholds have been exceeded. The reimbursement rate for different types of spending and the method used to determine annual thresholds are outlined in the arrangements.
- 5 For state expenses to be eligible for reimbursement, they must have been incurred in response to an eligible disaster. An eligible disaster includes bushfires, earthquakes, floods, storms, cyclones, storm surges, landslides, tsunamis, meteorite strikes, tornados and some terrorist attacks. The process for the recognition of a natural

¹ National Emergency Management Agency (NEMA), [Disaster Recovery Funding Arrangements 2018](#), NEMA, 2018, accessed 13 June 2024.

disaster and eligibility for relief spending is defined by the Disaster Recovery Funding Arrangements.

- 6 Expenses covered under the framework include:
 - immediate reconstruction of public assets to their pre-disaster function
 - emergency financial and non-financial assistance to individuals including food, clothing, temporary accommodation, and counselling
 - financial support to businesses and organisations
 - longer term community recovery activities.
- 7 State funding of expenses for which local governments are responsible is also covered by the Disaster Recovery Funding Arrangements.
- 8 This component excludes state spending on:
 - events such as pandemics, droughts and oil or chemical spills
 - some terrorist acts that are not eligible disasters under the Disaster Recovery Funding Arrangements²
 - natural disaster mitigation
 - any other expenses on natural disaster relief by a state that are not recognised under the Disaster Recovery Funding Arrangements framework.

Administrative scale

- 9 The administrative scale component recognises the unavoidable fixed costs incurred by states in delivering services. Administrative scale expenses are independent of the size of a state's service population and its socio-demographic composition. Such costs can be associated with:
 - core head office functions of departments (for example, corporate services, policy and planning functions)
 - services provided for the entire state (for example, judiciary, legislature, treasury, revenue office).
- 10 Not all fixed costs or 'head office type costs' are included in the administrative scale component. This component only accounts for minimum fixed costs that do not vary with the scale of service delivery. Remaining costs are part of the service delivery expenses of each category and assessed according to category needs.

Native Title and land rights

- 11 The Native Title and land rights component recognises expenses related to:
 - the *Native Title Act 1993* (Cth)
 - the *Aboriginal Land Rights (Northern Territory) Act 1976* (Cth)
 - other related state legislation.

² National Emergency Management Agency (NEMA), [Disaster Recovery Funding Arrangements 2018](#), NEMA, 2018, accessed 13 June 2024.

- 12 Expenses include the cost of administering legislation, negotiating or litigating claims and any ongoing costs associated with compensation and joint management of land. Expenses for Native Title and land rights vary depending on the number, type and nature of claims made in the state. This is impacted by historical circumstances and competing interests in land use.
- 13 States may also receive revenue related to Native Title and land rights including fees related to joint land management agreements and requests for information, and reimbursement from third parties in relation to compensation cases.

Actual state expenses

- 14 The first step in calculating assessed expenses is identifying actual state expenses.³ States collectively spent around 13.3% of their total recurrent actual expenses on other expenses in 2022-23. Table 1 shows actual expenses broken down by component and Table 2 outlines actual expenses by state in 2022-23.⁴

Table 1 Other expenses by component, 2022-23

	2022-23	
	\$pc	\$m
Service expenses and Native Title and land rights	1,215	31,967
Natural disaster relief	217	5,708
Aggregate Administrative scale	123	3,241
Total	1,555	40,917
Proportion of total expenses (%)		13.3

Table 2 Other expenses by state, 2022-23

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Other Expenses (\$m)	14,616	11,421	6,446	1,994	2,348	1,267	1,792	1,033	40,917
Other Expenses (\$pc)	1,772	1,700	1,197	703	1,279	2,213	3,885	4,109	1,555
Proportion of total expenses (%)	14.8	14.5	11.0	5.9	12.6	17.8	28.1	17.0	13.3

³ Adjusted budget calculations use ABS Government Financial Statistics data to determine actual state expenses. For further detail, see the adjusted budget chapter of the *Commission's Assessment Methodology*.

⁴ Tables in this chapter, unless otherwise stated, use 2022-23 data.

Structure of assessment

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

Table 3 Structure of the other expenses assessment

Component	Driver	Influence measured by driver
Service expenses	EPC (a)	Population drives the use and cost of services.
	Regional costs (b)	The cost of providing services increases as the level of remoteness increases.
	Wage costs	Differences in wage costs between states affect costs.
Natural disaster relief	APC	State expenses reflect circumstances beyond state control.
Administrative scale	Minimum size of administration	The fixed costs of administering a state that do not vary with the size of the state affect costs.
	Wage costs	Differences in wage costs between states affect costs.
Native Title and land rights	APC	State expenses reflect circumstances beyond state control.

(a) Population is considered the only driver for some categories of expenses but not all. For some expenses, other factors besides population may apply, but expenses are not differentially assessed.

(b) Applied to a subset of service expenses that was around 40% of total service expenses in 2022–23.

Data

15 Data used in the assessment are outlined in Table 4.

Table 4 Data used in the other expenses assessment

Source	Data	Updated	Component
States	Net state expenses for natural disaster relief measures covered by the Disaster Recovery Funding Arrangements	Annually	Natural disaster relief
National Emergency Management Agency	Commonwealth concessional interest rates, state revenue total	Annually	Natural disaster relief
ABS	State and Local Government Final Consumption Expenditure deflator	Annually	Administrative scale
Commission calculation	Minimum staffing structure	No	Administrative scale
States	Native title and land rights expenses	Annually	Native Title and land rights

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

- 16 Each component has its own assessment. Service expenses uses state population, regional costs and wage costs as drivers of assessed expenses. Natural disaster relief and Native Title use the actual spending of each state as the driver of assessed expenses. Administrative scale uses the minimum size of administration and wage costs as the drivers of assessed expenses.

Service expenses

Driver

- 17 The Commission considers that the most appropriate driver of state spending for most of these expenses is state population. It is a deliberative equal per capita assessment.
- 18 The exception is spending on natural disaster mitigation. Mitigation spending does not have a specific Classification of the Functions of Government - Australia (COFOG-A) code in the GFS framework. States report some mitigation spending against COFOG-A codes that align with the other expenses category and some that align with the services to communities category. State population is not the only driver of natural disaster mitigation expenses, but there are difficulties determining these drivers. There is a non-deliberative equal per capita assessment for mitigation expenses.
- 19 The implication of a deliberative versus non-deliberative equal per capita assessment is for the treatment of related Commonwealth payments. Expense needs are 'not assessed' for expenses for which a non-deliberative equal per capita assessment applies. Therefore, Commonwealth payments related to these expense types are treated as 'no impact'. For details on the treatment of Commonwealth payments, see the Commonwealth payments chapter of the *Commission's Assessment Methodology*.

Applying regional costs

- 20 Regional costs account for the additional costs states face in providing services in more remote locations. A category-specific measure of these costs cannot be directly measured because it is not practical to determine the effect of remoteness on each of the service expenses in this component. Therefore, a general regional cost gradient is applied. This is the weighted average of regional cost gradients estimated from several sources. For details on how it is determined, see the geography chapter of the *Commission's Assessment Methodology*.
- 21 Not all expenses in this component are affected by remoteness. The proportion of expenses to which regional cost factors are applied is updated annually to reflect changes to the reported expenses. For the 2022–23 year this proportion was around 40%.

Applying wage costs

- 22 Wages costs are a significant share of the total cost of service expenses. Differences in wage costs between states have a differential effect on the cost of providing services. The service expenses 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*.

Natural disaster relief

Driver

- 23 For state spending on natural disaster relief, each state's assessed expenses are equivalent to the actual amount it spends on natural disaster relief, net of reimbursements from the Commonwealth, local governments and insurance payments. This approach, referred to as an actual per capita assessment, can be appropriate when state expenses are not influenced by state-specific policy decisions.
- 24 The component is assessed actual per capita because:
- states have limited ability to control the impact of natural disasters and associated relief expenses, and costs for providing natural disaster relief vary by the scale, severity, frequency and type of natural disaster
 - the Disaster Recovery Funding Arrangements prescribe allowable types of expenses in response to natural disasters.
- 25 States experiencing natural disasters receive a higher share of GST revenue. This effectively shares the costs of responding to natural disasters between states.

Funding of local government expenses by states

- 26 The component includes the net payments made by states to local governments for the costs they incur in responding to natural disasters.
- 27 Under the Disaster Recovery Funding Arrangements, eligible expenses include payments made by states to local governments to assist them with their natural disaster relief and recovery activities.
- 28 Local governments in most states refund state governments for some of the funding provided by the states. State policies on the level of local government contributions vary, and so an actual per capita assessment of the local government contribution is not appropriate. Local government contributions are assessed using average contribution rates.
- 29 Where states report expenses net of the local government contribution, both the size of expenses for local governments and the amount of revenue received from the Commonwealth need to be increased. The contribution received from local governments is added to the state expenses to account for the missing expenses.

An adjustment is also made to the revenue received from the Commonwealth to account for the underreporting of expenses and therefore forgone revenue.

- 30 Since the ACT does not have a local government, the costs of relief that a local government would normally cover are covered by the ACT government. When disasters occur in the ACT, estimates of the proportion of the ACT's expenses that are local government-type expenses are made using the total actual expenses and the proportion of expense for states that cover local government spending. The estimated actual local government-type expense is then assessed using average contribution rates, as it is for other states, with the assessed contribution deducted from the assessed expenses.

Concessional interest rate loans and interest rate subsidies

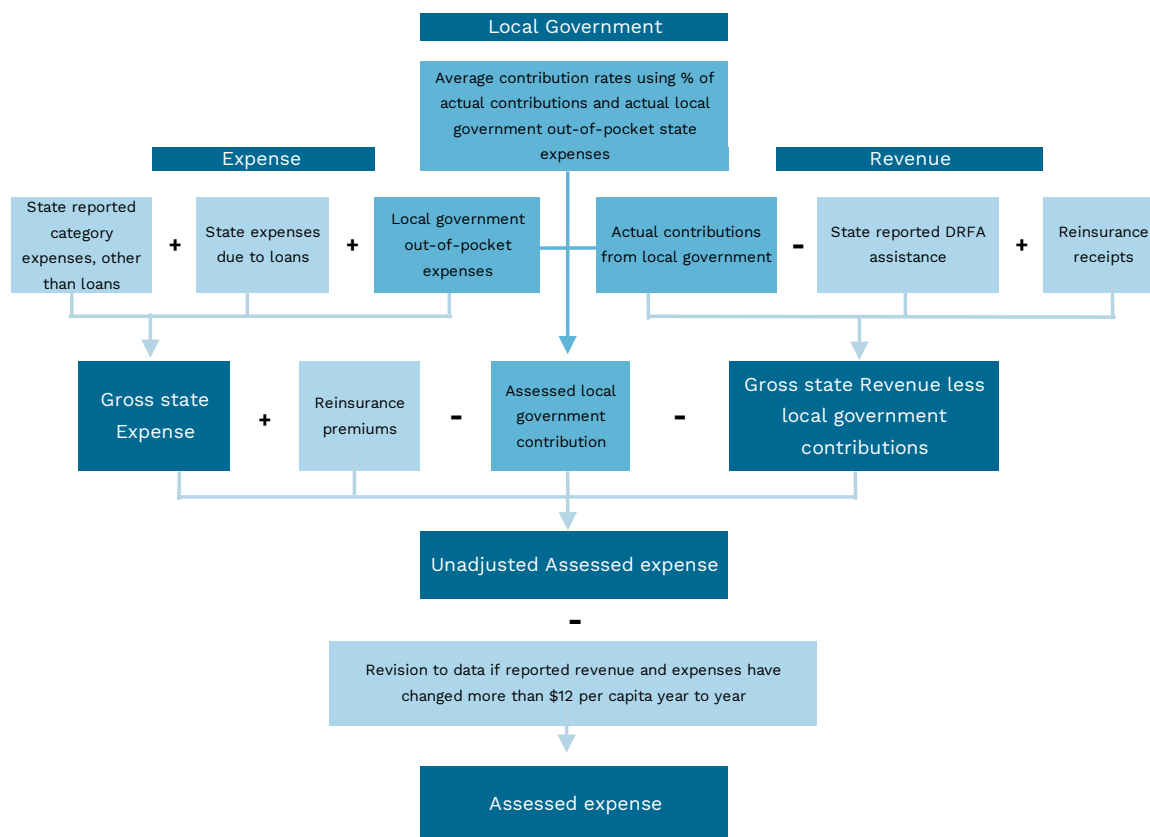
- 31 Eligible forms of assistance under the Disaster Recovery Funding Arrangements for individuals, non-profit organisations, small businesses and primary producers include concessional interest rate loans and interest rate subsidies.
- 32 To ensure equivalent treatment of assistance provided in the form of concessional interest rate loans and interest rate subsidies, the Commission includes only the subsidy value of loans in the calculation of net expenses.

Revisions policy

- 33 In some years, states revise their net expenses for natural disaster relief, for example because of lags in reporting relief expenses to National Emergency Management Australia. Because needs are assessed on an actual per capita basis, where these revisions are material (\$12 per capita), the Commission makes an adjustment to ensure that the correct expenses are assessed over time. If an adjustment is necessary, it will fully reflect the over- or under-statement of net expenses. Adjustments are only made for years that are current assessment years.

34 Figure 1 shows the calculation used to determine states' assessed expenses for natural disaster relief.

Figure 1 Flow Diagram of the natural disaster relief assessment



Administrative scale

Drivers

- 35 The Commission identifies the amount each state would need to spend to provide minimum head office staff. In per capita terms, this amount is greater for small states than large states.
- 36 This was derived using the following steps.
- Estimate an average minimum staffing structure.
 - Adjust for the ACT to remove staffing attributable to agriculture, non-urban transport, mining and First Nations communities.
 - Adjust for the Northern Territory to reflect additional staffing for engaging with First Nations stakeholders for policy development and coordination.
 - Apply Commonwealth Public Service annual salaries from 2016–17 to the average minimum staffing structures; and increase by 17.3% to account for superannuation and long service leave.
 - Use the State and Local Government Final Consumption Expenditure Deflator to index the quantum from 2016–17 dollars to assessment year dollars.

- Divide wage-related costs by 0.60 to derive the total cost of the administrative task for each state in 2016–17 dollars, as 60% of administrative task expenses are estimated to be wage-related.

Applying wage costs

37 Wages costs are a significant share of the total cost of administrative expenses. Differences in wage costs between states have a differential effect on the cost of administrative expenses. The administrative scale 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*.

Native Title and land rights

Driver

- 38 Native Title and land rights is an actual per capita assessment. This means that a state’s spending needs are assessed to be equal to its actual expenses. This approach is appropriate when state spending is not significantly influenced by state-specific policy decisions. Commonwealth legislation and national frameworks ensure that states approach Native Title and land rights matters in a similar way.
- 39 The Native Title and land rights component is assessed actual per capita to recognise that states have limited ability to control Native Title and land rights spending. This spending is driven by the number and type of Native Title and land rights claims within a state and competing interests in land use. These factors are often determined by historical circumstances and the individual nature of each claim.
- 40 To undertake the assessment, state-provided data are summed for each state to determine its expenditure. If a state has revenue related to the component, this is subtracted from its expenditures.

GST distribution in the 2025 Review

41 Table 5 shows the GST impact of the assessment in the 2025 Review.

Table 5 GST impact of the other expenses assessment, 2025–26

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Service expenses and Native Title and land rights	-72	-74	-58	200	-44	-20	11	57	268
Natural disaster relief	909	-701	172	-95	-163	-56	-52	-14	1,080
Aggregate Administrative scale	-703	-493	-303	77	202	369	412	437	1,498
Total (\$m)	134	-1,268	-189	182	-5	293	372	480	1,461
Total (\$pc)	15	-177	-33	60	-2	507	770	1,868	52

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