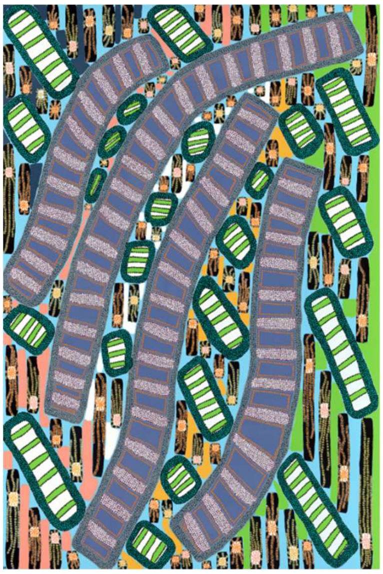
NSW Treasury

2026 Update – NSW response

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.



Artwork:
Regeneration by Josie Rose

2026 Update – New Issues Paper

Data issues

Schools – changes in state funding

NSW Treasury supports Commonwealth Grants Commission's (the Commission) view to use the 2023 ACARA data without adjustment.

NSW Treasury agree with the Commission that a negative coefficient shouldn't be included where there is inconsistency with the conceptual case.

The Commission needs to review the ACARA data given an Adjusted R-squared of 0.67 to ensure it is fit for purpose and that future discounting of the assessment should not be considered. In addition, the First Nations proportion and remote First Nations students need to be significant over multiple years for these variables to be included in the regression model. We believe this matter would most appropriate be considered in the 2030 Review.

Health

NSW Treasury supports the Commission's view to include newly available NAP allied health services data from IHACPA for violence, abuse and neglect services, and genetic counselling in its proxy for community and public health activity in the 2026 Update.

If state spending in the National Partnership on COVID-19 Response includes expenditure on long-COVID, then long COVID should be accounted for once the partnership ceases, otherwise it should be accounted for concurrently in the 2026 Update.

COVID-19 related expenses are currently captured in the Commission's Health assessment through state spending on the National Partnership on COVID-19 Response. This agreement ceased in 2022-23 and therefore COVID-19 expenses will only be partially accounted for in the 2026 GST Update, and full excluded in the 2027 GST Update.

Outside of this agreement, COVID-19 doesn't appear to be captured in the Health assessment. In absence of any other measures of COVID-19 it would be appropriate to include other COVID-19 expenditure such as long COVID-19.

NSW Treasury supports the Commissions view to cease scaling the ED part of the community and public health activity proxy from 2023-24.

Transport – regression re-estimation

NSW Treasury supports the Commission's proposed approach of retaining the 2025 Review regression model coefficients due to data concerns for 2023-24.

Table 1 shows the changes in net urban transport expenses provided by jurisdictions between 2022-23 and 2023-24. This table indicates that there appears to be a very significant change in the methodology used by Queensland to allocate urban transport costs.

Table 1. Average Net Expenses by SUA Population Size ($pc) difference between 2022-23 and 2023-24

SUA Population size	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Under 15000	2	-	635	-1	-21	-27	-	-
15000-20000	14	-	173	5	-5	-	-	-
20,000-25,000	6	-	251	-	-6	-	-	-
25,000-50,000	8	1	247	5	1	-2	-	65
50,000-100,000	-11	-27	126	-5	-	1	-	-
100,000-500,000	-1	-2	110	-	-	2	33	90
Over 500,000	-16	7	140	-27	-8	-	-	-

Furthermore, it is apparent from the data that the cost of providing urban transport in smaller urban centres in Queensland in 2023-24 bears little relationship to costs incurred by other States as shown in Table 2.

Table 2. Average Net Expenses by SUA Population Size ($pc) in 2023-24

SUA Population size	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Under 15000	57	-	635	91	52	100	-	-
15000-20000	47	-	389	43	27	-	-	-
20,000-25,000	21	-	347	-	40	-	-	-
25,000-50,000	48	84	347	68	19	124	-	100
50,000-100,000	62	89	259	70	-	122	-	-
100,000-500,000	428	208	333	-	-	205	529	326
Over 500,000	608	598	635	370	221	-	-	-

Source: Commonwealth Grants Commission

The inclusion of 2023-24 data reduces the explanatory power of the model, increases the standard error significantly and produces coefficients that are inconsistent with the conceptual basis underpinning the current methodology.

- NSW Treasury re-ran the transport regression, removing outlier 2023-24 expense data and found that the regression results more comparable with the results produced in the 2025 Review. This clearly indicates an issue with 2023-24 data for some jurisdictions. That said, due to potential small sample size the ferry variable becomes negative which is inconsistent with the conceptual case. See Table 3 below.
- The 2025 and 2020 Methodology Reviews established a clear relationship between transport complexity and per capita spending. The consultants in 2020 found the relationship to be reasonable and an appropriate proxy. It is reasonable to expect higher recurrent expenditure on transport as the distance to work increases. It would be premature to dismiss the methodology due to one data point (i.e. 2023-24).

Table 2 Urban transport regression coefficients for 2022-23, and modified data for 2023-24

Coefficients	estimate	std.error	statistic	p.value	Significance
(Intercept)	-190.753	39.89407	-4.7815	8.8E-06	***

`Ferry DV`	-4.64333	43.87873	-0.10582	0.916014	
`HR pax`	8.968705	4.551612	1.970446	0.05258	
`BLR pax`	15.46708	7.860028	1.967815	0.052888	.
PWD	0.147081	0.03048	4.825507	7.44E-06	.
Slope	9.406902	5.491486	1.712998	0.090957	***
`Distance to Work`	2.147217	3.443117	0.623626	0.534817	.

Signif codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' '

Source: Commonwealth Grants Commission and NSW Treasury

NSW Treasury supports the retention of the 2025 regression coefficients given that the Commission was unable to find differences in service provision to reflect the variation in state expenses. NSW Treasury supports the investigation of the variation in state expenses through the Data Working Group and supports the Commission's conclusion that the variation is likely a result of different data collection or allocation processes.

Assessment Issue

Schools: Better and Fairer Schools Agreement

NSW supports the second option to give effect to the Terms of Reference – that is to include Commonwealth funding and assess spending on an Actual Per Capita basis. NSW Treasury supports the transition of from the Quality Schools Agreement to the BFSA through complex phasing as it improves the accuracy of the assessment.

NSW prefers the Commonwealth funding and the expenditure of the funds be visible in the model for transparency reasons and to ensure greater consistency between CGC and other publicly available sources of data.

NSW supports applying the Quality Schools Agreement treatment in 2022–23 and 2023–24 as well as in the first half of 2024-25. We see no reason to treat funding under the Quality Schools Agreement differently in the years up to 2023-24 from the first half on 2024-25. That is, we support complex phasing. We believe such an approach is consistent with the Commission's Terms of Reference.

NSW Treasury recognises the need for excluding Commonwealth spending on state schools from all calculations from 2024-25 due to the payment being quarantined by Commonwealth Treasurer. That said, it's important to recognise that states are receiving different per child funding rates from the Commonwealth throughout the course of the BFSA which are in line with the respective glide path to fully funding 100 per cent of the SRS. Due to the variation in glide path among jurisdictions, some states will benefit from receiving an uptick in funding earlier in the agreement.

Treatment of new Commonwealth Payments

NSW Treasury supports the Commonwealth's proposed treatment of all Commonwealth payments outlined in the new issues consultation paper.

The Commission proposes to treat Commonwealth payments as outlined in Attachment A of the new issues consultation paper.

Further information and contacts

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