

PROPOSED APPROACH AND WORK PROGRAM FOR THE 2025 REVIEW

SOUTH AUSTRALIAN DEPARTMENT OF TREASURY AND FINANCE SUBMISSION

South Australia welcomes the opportunity to comment on the discussion paper: *Proposed approach and work program for the 2025 Methodology Review* (the Review).

South Australia appreciates the Commission's commitment to close consultation and collaboration with the states and territories during the course of the review, including ongoing discussions with Commission staff, bilateral meetings with Commission members, and in-person visits to the states.

In general, the proposed approach and work program for the 2025 Methodology Review in the discussion paper is supported. Comments on some specific issues outlined in the paper are provided below for consideration. These mainly focus on the phasing of the work during the initial assessment review process to ensure that there is sufficient time available to meaningfully engage on all assessment topics.

We look forward to engaging with the Commission as part of the 2025 Review process.

Allocation of assessments between the tranches

Under the draft timeline, the Commission will issue Tranche 1 assessment consultation papers to states on 30 June 2023. State submissions on Tranche 1 papers are due in September 2023. Tranche 2 consultation papers will be released in November 2023, with responses due in March 2024.

When comparing assessments within each tranche, Tranche 1 appears to include a greater number a number of complex, data heavy assessments that will require a detailed level of examination. These include assessments for health, wage costs, transport and schools.

As discussed in the multilateral meeting between the Commission and states on 15 March 2023, the allocation of assessments between the two tranches should be amended to allow greater time to consider alternative approaches for some of the more complex assessments and examine emerging trends post COVID. Some options for a potential reallocation of assessments are outlined below.

Subject to the final phasing of the work program, South Australia also requests that the Commission extend the due date for the state submissions on Tranche 1 papers (for example to October 2023) noting that there is currently a longer review time for Tranche 2.

Transport assessment

The Transport assessment is currently allocated to Tranche 1 of the proposed work program. As discussed in South Australia's submission on the *New Issues Paper for the 2023 Update*, the COVID-19 pandemic has produced a shift in working arrangements and attendance at educational institutions that has changed the overall demand for daily commutes, especially to CBDs. Despite the removal of COVID restrictions, ongoing variances in transport usage patterns remain.

South Australia believes this issue should be considered in more detail as part of the 2025 methodology review to consider if the 2020 assessment approaches will adequately reflect transport activity and availability between 2025 and 2030 (ie the next review period). This may benefit from a longer time series of data on transport usage patterns and availability. This suggests that consideration in Tranche 2 may be more appropriate than Tranche 1.

Wage cost assessment

South Australia has longstanding concerns with the wage cost assessment, including the conceptual basis for the current assessment and more relevant to current circumstances, the increasing volatility of the underlying data in the wage cost model. Following the 2020 Review, the COVID-19 shock has exacerbated the volatility of the data, and further distorted the comparability of employees between private sector and public sector.

Given the increasing volatility in assessment and changes since the 2020 Review, the underlying approach for this assessment would benefit from a thorough review. This may be difficult to achieve if the wages assessment is allocated to the first tranche. A reallocation to Tranche 2 is recommended.

Tax reform and elasticity adjustments

The proposed work program includes the review of tax reform and elasticity adjustments in Tranche 2.

South Australia considers that the potential application of elasticity adjustments for taxation related assessments was comprehensively considered in the 2020 Review.

During the 2020 Review, the Commission engaged consultants to provide estimates of the magnitude of elasticity impacts for each revenue base. It considered that HFE was not being unduly compromised by elasticity effects. There were also implementation issues within the HFE context, including a degree of uncertainty over the size of any potential adjustment and the sensitivity to the classification of revenues. As a result, the Commission decided not to make any elasticity adjustments to revenue bases.

As proposed in the discussion paper for the 2025 Review, current supporting principles and assessment methods are the starting point for analysis. The main goal of the review framework is to identify if there have been changes since the 2020 Review that require a change in approach.

South Australia believes the concerns and issues on the implementation of elasticity adjustments within the HFE context have not changed. Further analysis of elasticity adjustments is unnecessary and does not appear consistent with the proposed approach to the 2025 Review framework.

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Additionally, Commission staff have indicated their intention to engage consultants on elasticity adjustments. South Australia does not believe that such engagement is warranted or an efficient allocation of resources given that consultants were engaged on this issue in the 2020 Review. These resources should be redirected to other assessment areas where there have been material changes in circumstances since the 2020 Review.

Content of the Draft Report

In previous Draft Reports it has been difficult for states and territories to quantify the potential GST distributional impacts of proposed assessments. Where possible, South Australia would like the potential GST distributional impacts quantified for each assessment, for example, with a comparison to the redistribution in the most recent update (2024 Update for the Draft Report). This provides a consistent evidence base for discussions between jurisdictions on proposed changes.

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