

2025 REVIEW CONSULTATION PAPERS TRANCHE 1: SOUTH AUSTRALIA TREASURY SUBMISSION

We welcome the opportunity to comment on the 2025 Review tranche 1 consultation papers, including:

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1. Land tax

Question 1: Do states support the continuation of the land tax assessment in its current form?

South Australia supports continuation of the land tax assessment in its current form but the need to retain the 12.5 per cent discount applied due to concerns regarding the reliability and comparability of states' taxable land value data should be tested.

The Commission should also consider whether:

- the value ranges used to determine the value distribution adjustment should be updated.
- the size of the adjustment to the ACT taxable land values is still appropriate.

Further detail

South Australia supports the continuation of the land tax assessment in its current form, which includes revenue from annual charges on the value of taxable land holdings (excluding the principal place of residence) with capacity assessed using total value of taxable land values in each state, split into value ranges.

An assessment based on value ranges is essential to reflect the progressivity in land tax rates applied in most jurisdictions with minor adjustments made to reflect data limitations for taxable land holdings with values below tax-free thresholds and specific circumstances.

South Australia believes that value range data for both revenue raised and the value of taxable land should continue to be sourced from State Revenue Offices data and not from other sources (like ABS National Accounts or Valuer-General's data) to allow for appropriate adjustments based on the way land tax is levied by jurisdictions.

Level of discount

The assessment currently treats revenues from taxable land values below \$0.3 million equal per capita because of state concerns over the ability to reliably separate taxable and non-taxable land at value ranges below respective tax-free thresholds. These concerns are acknowledged.

The Commission also applies a 12.5% discount to the assessment due to concerns about the reliability and comparability of taxable land value data provided by states and territories.

As part of the 2020 Review the Commission stated that¹:

- 51 The Commission would consider removing the discount if it had information showing the adjustments made by New South Wales, Victoria and Queensland (in relation to joint ownership) and States' aggregation policies were not having a material effect on SRO data.

¹ 2020 Review, Volume 2, Chapter 7, Land tax, page 44

South Australia believes that the Commission should request further detailed information from New South Wales, Victoria and Queensland to fully analyse the joint ownership aggregation effects and make appropriate adjustments, if required, to land values for those states. This would improve the accuracy of the current assessment and remove the need for any discount.

Since the 2020 Review, South Australia has implemented an interest-based approach to aggregation for land tax, similar to New South Wales and Victoria. South Australia now undertakes adjustments to our data to provide information on an unaggregated basis. There are no concerns providing this adjusted data to the Commission. This provides support for the removal the overall discount applied to the assessment.

Value distribution adjustment

The Commission should consider whether the value ranges used to determine the value distribution adjustment should be updated.

Data is currently collected in \$100,000 value range increments up to \$1.0 million, \$0.5 million increments from \$1.0 million to \$3.0 million, and then from \$3.0 million to \$5.0 million and \$5 million to \$10 million and \$10 million plus.

There has been significant growth in the taxable land value base since the 2020 Review. In addition, there have also been changes to thresholds and tax rates across jurisdictions².

Given these changes, the Review is an appropriate time to consider whether the value increments for transactions above \$1.0 million should be reduced (ie an increase in the number of threshold ranges requested), reflecting the large shift in value and changes in rates and thresholds.

South Australia would have no concerns sourcing or providing data across an increased number of a value bands.

ACT taxable land value

The Commission makes an adjustment to taxable land values in the ACT because of its policy to apply land tax on a per property basis, rather than on an aggregated landholding basis. The adjustment determined as part of the 2020 Review was 6 per cent, with the adjustment fixed for the review period.

Aggregation has a significant impact on the South Australian taxable land value base. Given the large increase in land values since the 2020 Review, the Commission should test that the size of ACT adjustment is still appropriate as part of the 2025 Review.

² For example, numerous land tax thresholds and rate changes have been introduced in South Australia from the 2020-21 land tax year – see <https://www.revenuesa.sa.gov.au/landtax/LandTaxChanges> or the *Land Tax (Miscellaneous) Amendment Act 2019*

What else has changed since the 2020 Review?

Since the release of the 2020 Review, foreign owner land tax surcharges across jurisdictions have changed. This includes increases to tax rates and an increase in the number of jurisdictions levying similar charges³. NSW also announced it has identified its surcharge provisions are inconsistent with international tax treaties entered into by the Federal Government with certain nations. Certain individuals from foreign countries may not be liable for the surcharge provisions in NSW. Liabilities for non-individuals may also be impacted.

Consistent with views raised as part of the 2020 Review, a separate assessment for foreign land tax surcharges would require significant information and it is not clear that the required information would be available across all jurisdictions (particularly if a jurisdiction does not impose such a levy). The current treatment would appear to capture the broad effects of a surcharge without the additional complexity. This would be further supported by the questions raised over the ability of certain jurisdictions to continue to levy such charges, with any changes in revenue collections just picked up as part of the existing assessment rather than querying the materiality of an alternative assessment approach.

Victoria also announced the introduction of the COVID-19 debt – temporary land tax surcharge as part of its 2023-24 Budget. In essence, this appears to be the same as an increase in land tax rates in Victoria. South Australia's view, subject to any further information on the operation of the levy, is that it should just be treated as land tax revenue for the purpose of the Commissions assessment.

2. Stamp Duty on Conveyances

Question 1: Do states agree that the overall approach to assessing revenue from stamp duty on conveyances remains appropriate?

Yes, but consideration should be given to the reinstatement of a differential assessment of the capacity to raise revenue from non-real property.

South Australia believes that the overall approach to assessing revenue from stamp duties on conveyances remains appropriate. The assessment uses the total value of property transferred in each state which is then disaggregated by the class of property transferred and value range.

It is essential that the assessment continues to be undertaken by value range. This captures the progressivity of stamp duty rates and more accurately reflects the revenue capacity of states that have above average levels of property transactions in higher value ranges.

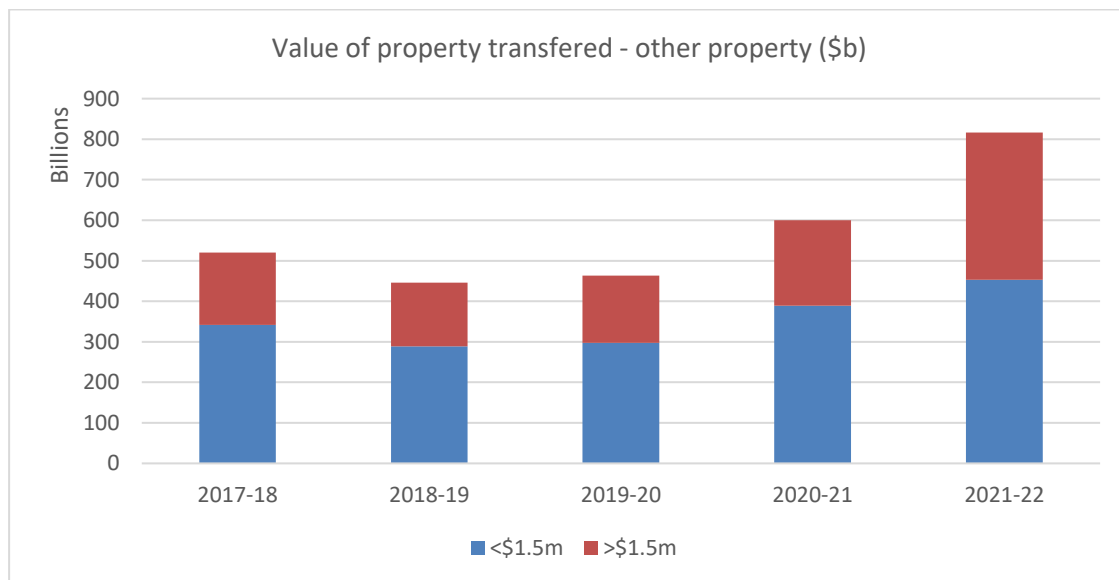
³ For example, NSW increased the surcharge land tax rate from 2 per cent to 4 per cent from the 2023 land tax year. A foreign investor land tax surcharge of 2 per cent applies where a foreign person acquires land in Tasmania on or after 1 July 2022.

Value distribution adjustment

The Commission should consider whether the value ranges used to determine the value distribution adjustment should be updated.

Data is currently collected in \$100,000 value range increments up to \$1.5 million and then from \$1.5 million to \$3.0 million, \$3.0 million to \$5.0 million and \$5 million plus. There has been significant growth in the value of properties transferred since the 2020 Review, with the value of transactions above \$1.5 million growing significantly faster than the value of transactions below \$1.5 million.

Based on CGC value of transaction data, between 2017-18 and 2021-22 the total value of transactions across all jurisdictions increased by 57%. with the value of transactions valued above \$1.5 million increasing by 104%, far exceeding growth in the value of transactions below \$1.5 million of just 33%.⁴



There has also been changes to the thresholds and tax rates across jurisdictions, including the top thresholds and rates⁵.

Given these changes, the Review is an appropriate time to consider whether the value increments for transactions above \$1.5 million should be reduced (increasing the number of value ranges), similar to lower values ranges, reflecting the large shift in value and changes in rates and thresholds.

South Australia would have no concerns sourcing or providing data across an increased number of a value bands.

⁴ CGC simulator data, other property transactions.

⁵ For example Victoria introduced a premium rate of general stamp duty of 6.5% on transactions above \$2 million.

Non-real property

As part of the 2020 Review, a decision was made to assess duties from non-real property transactions on an equal per capita basis. This reflected that only Queensland, Western Australia and the Northern Territory (at that time) continued to impose duties on these transactions. In addition, the base for non-real transactions varied to the real property base and it would be difficult to reliably estimate a capacity measure for states that no longer impose this duty.

South Australia supported the Commission's position at the time of the 2020 Review. This, in part, reflected that all jurisdictions agreed to abolish these duties as part of the *Intergovernmental Agreement on the Reform of Commonwealth State Financial Relations 1999* (the IGA) and not reintroduce them. It is noted that since the 2020 Review the Northern Territory has now abolished stamp duty on the conveyance of non-land property⁶. However, duty still applies in Queensland and Western Australia. We are unaware of any timeframe or commitment to the removal of the duty in jurisdictions where it still applies.

On the basis of 'what state do', it is therefore recommended that the Commission investigate the ability to re-introduce a differential assessment of the capacity to raise revenue from non-real property.

It is recognised that this will require the identification of a capacity measure for states that no longer impose duty. However, this work should be undertaken. An adjustment was previously made to jurisdictions tax bases based on the historical relationship between non-real transaction values and total transactions. In the 2015 Review the CGC increased the revenue bases of jurisdictions that did not levy duty on non-real transactions by 6 per cent. The application of a more contemporary adjustment may produce material GST redistributions. Undertaking further analysis may provide guidance on alternative capacity measures.

Question 2: Do states agree that revenue from the New South Wales property tax be assessed with land tax for as long as it exists?

South Australia acknowledges that the New South Wales property tax has the characteristics of a land tax, but its application differs in nature to traditionally imposed land tax. As such, the drivers may be different. However, as New South Wales has committed to abolish this tax, it will never become material from an assessment perspective. South Australia is comfortable with the Commission continuing to assess revenue from the NSW property tax with land tax noting this is where the revenue is currently recorded by the ABS.

⁶ Abolished form 9 May 2023.

Question 3: Do states support the Commission not adjusting states' value of property transferred for the elasticity effects of recent reforms on materiality grounds?

South Australia supports not adjusting states' value of property transferred for the elasticity effects of recent reforms. There is no robust way of estimating appropriate adjustments to the assessment and differentiating the impact of behavioural changes from the impact of general changes in market conditions.

As noted by the Commission, any possible adjustments are likely to be immaterial for the tax changes specifically mentioned in the paper – the NSW First Homebuyer Choice Scheme (which is being abolished) and the ACT long term tax reform (including a gradual switch from duty to general rates).

South Australia has abolished duty on non-residential real property transactions. Duty was progressively reduced from December 2015 and fully abolished from 1 July 2018. Unlike the reforms in other jurisdictions, there was no replacement revenue source. As such, the change is more likely to have induced a larger elasticity impact. While that is the case, South Australia has not advocated for an elasticity adjustment to reflect the impact of our policy choice. This reflects the view that no reliable, robust measure of the impact of the reform on our revenue base has been identified. While high level estimates of the impact could be made, these would be a proxy and not sufficiently reliable enough to base an assessment upon. It is very difficult to split the impact of tax changes from broader market movements.

There is also broader concern with the selective consideration of the impact of future tax reforms on revenue bases. Numerous policy changes have been implemented over time and only considering future reforms may disadvantage jurisdictions that have previously undertaken reforms.

More broadly, South Australia retains the general view that elasticity adjustments should not be introduced for assessments.

3. Insurance Tax

Question 1: Do states support the continuation of the insurance tax assessment in its current form?

South Australia agrees that there have been no significant changes in what states do in relation to the insurance assessment since the 2020 Review. However, South Australia does not support the continued inclusion of duty on workers' compensation premiums and compulsory third-party insurance in the general insurance revenue base. For consistency purposes, if worker's compensation premiums and compulsory third-party premiums are removed from general insurance premiums then the associated duty should also be removed.

4. Motor Taxes

Question 1: If an assessment of revenue from electric vehicle charges becomes material in future updates, do states support the revenues being assessed as a separate component of the motor taxes category?

South Australia notes that the increased take-up of electric vehicles in Australia and the introduction of distance-based charging in some jurisdictions is a change in what states do since the 2020 Review. A separate assessment of revenue from electric vehicles could be considered when reliable data is available and the distributional impacts become material.

South Australia also notes that there may be limitations in obtaining reliable distance travelled data for electrical vehicles if not all states consistently introduce distance-based charging. The use of Bureau of Infrastructure and Transport Research Economics (BITRE) average distance travelled data could be considered by the Commission as a proxy, however, there would need to be close consultation with states and territories to ensure such a proxy is representative and fit-for-purpose.

South Australia supports the proposed Commission position to test the materiality of a separate electric vehicle assessment in future updates on the basis that there is consultation with states and territories on the assessment approach and supporting data. In the interim period, an equal per capita assessment may be more appropriate for revenue from electric vehicles as this reflects a pragmatic approach to address the current immateriality of this component of revenue, data limitations and policy inconsistency between jurisdictions.

Question 2: Do states agree that the number of registered light vehicles remains an appropriate measure of revenue capacity for revenue raised from emissions based registration fees?

South Australia notes that there are existing variations across jurisdictions in how registration fees for light vehicles are charged, with some using vehicle weight and others using engine capacity. The practical impact of the ACT adopting emissions-based registration fees is not dissimilar in nature to engine capacity and weight-based charging arrangements. All charges are based on the stock of vehicles registered within a jurisdiction. On this basis, South Australia is comfortable with the Commission retaining the number of registered light vehicles as the measure of revenue capacity for revenue raised from emissions-based registration fees.

Other issues

Stamp duty on motor vehicle transfers

In the 2020 Review, the Commission decided to assess stamp duty on motor vehicle transfers on an equal per capita (EPC) basis as a differential assessment was not material. As part of its submissions to the 2020 Review, South Australia

asked the Commission to regularly monitor the materiality of this assessment going forward.

The last time a differential assessment of stamp duty revenue on the transfer of motor vehicles was undertaken was the 2019 Update, based on actual data up to 2017-18. ABS data on stamp duty revenue on motor vehicle registrations indicates that there have been large and variable increases in revenue raised across jurisdictions since that time. The increase in revenue between 2017-18 and 2021-22 by jurisdictions has varied from an increase of 9% up to 63% - see table below. If the growth in revenue is used as a proxy for changes in the size of assessed revenue bases, then it is possible that a separate assessment of stamp duty on motor vehicles transfers would now be material.

Stamp duty on motor vehicle registrations

| | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m | 2020-21 \$m | 2021-22 \$m | Change 17-18 to 21-22 |
|-----------|----------------|----------------|----------------|----------------|----------------|--------------------------|
| NSW | 834 | 792 | 768 | 969 | 939 | 13% |
| VIC | 947 | 937 | 923 | 958 | 1,122 | 18% |
| QLD | 543 | 555 | 533 | 662 | 703 | 29% |
| WA | 355 | 363 | 375 | 514 | 579 | 63% |
| SA | 188 | 184 | 190 | 226 | 241 | 28% |
| TAS | 47 | 49 | 50 | 48 | 51 | 9% |
| ACT | 31 | 30 | 36 | 39 | 36 | 16% |
| NT | 23 | 22 | 19 | 26 | 28 | 22% |
| Australia | 2,967 | 2,932 | 2,895 | 3,441 | 3,699 | 25% |

Source: ABS taxation revenue, cat 5506.0

South Australia would like the Commission to review the materiality of reintroducing a separate assessment of stamp duty on motor vehicle transfers as part of the 2025 Review.

As all jurisdictions levy duty on the transfer of motor vehicles, such an assessment would accurately reflect what states do.

5. Mining Revenue

Question 1: Do states agree the Commission should continue to assess mining revenue capacity using a mineral by mineral approach?

South Australia supports the continuation of assessing mining revenue capacity using a mineral-by-mineral approach. Mineral resources are not distributed evenly between states and territories and each jurisdiction applies different royalty rates. As mining revenue is the revenue category that has the greatest capacity disparities between states, and is arguably the most significant factor in creating differences in relative fiscal positions, it is critical that the assessment for this category fully reflects the unequal distribution of revenue capacities. Any measures that do not reflect the differences in mining revenue capacity severely undermines achieving the objective of Horizontal Fiscal Equalisation (HFE).

The mineral-by-mineral approach allows minerals to be separately assessed (when the revenue distribution from a mineral class is material) and is the approach that most effectively reflects revenue raising capacities between jurisdictions. As there are reliable data sources to support this assessment approach⁷, there is no reason to alter the existing methodology.

South Australia also supports the ongoing assessment of each mineral category as part of annual updates to determine if a separate assessment of a mineral is material. This assessment does not need to wait until a Review.

Question 2: Do states support the dominant state for a mineral being identified having regard to a state's share of the revenue base, its population share, and the extent to which its GST distribution would be impacted by a change in the royalty rate for that mineral?

No.

South Australia recognises the potential for policy neutrality concerns where a jurisdiction dominates an overall assessment base. While this is the case, and as discussed in previous reviews and our response to the Productivity Commission review of Horizontal Fiscal Equalisation⁸, we believe there is no evidence that HFE arrangements have deterred states from pursuing mineral and energy development opportunities or undertaking policy changes. The broader economic benefits and impacts associated with a development opportunity, including additional employment, increased economic activity in regional areas and environmental impacts, will always be the relevant issues considered in the decision-making process.

Consistent with this, it is noted that both Queensland and New South Wales have recently introduced changes to coal royalty rates, a mineral where collectively they represent the majority of the value of production.

While that is the case, we welcome the exploration of options that can limit any perceived policy neutrality concerns. But the equalisation of fiscal capacities needs to be the overriding priority. This complicates the options available given the significant difference in fiscal capacities to raise revenue from royalties. Differences that are predominately based on where resources are located in the ground and the drawing of state borders – not state policy decisions.

Any investigation of options also needs to have regard to the HFE changes that are being progressively introduced through the Commonwealth Government's 2018 legislative changes. The Commonwealth's 2018 GST distribution changes now effectively remove any notion of disincentive for the only state that is truly dominant in the production of a specific mineral resource.

The 2018 changes result in Western Australia (being the jurisdiction with the strongest assessed fiscal capacity) having its relativity fixed at the GST floor or the relativity of the second strongest state. This is indirectly achieving the same outcome as that proposed by the Commission in its 'dominant state' proposal –

⁷ Noting issues where a jurisdiction may ban an activity, which is discussed in more detail in question 4 of the mining assessment.

⁸ https://www.pc.gov.au/data/assets/pdf_file/0003/218667/sub025-horizontal-fiscal-equalisation.pdf

that is, if Western Australia makes a policy decision it gets to keep the majority of the impact above its population share. This will continue as long as Western Australia is the strongest jurisdiction, which based on current forecasts, will continue for the foreseeable future.

It is South Australia's view that the 2018 legislated changes remove any need to consider policy neutrality concerns in the mining assessment. Should there be a change in the distribution of GST arrangements back to a system of full equalisation, which South Australia supports, then we would welcome the consideration of alternative options to address policy neutrality concerns.

If this were to occur, our initial view is that the dominant state approach identified by the Commission is not appropriate for addressing policy neutrality concerns. This includes:

- Whether it achieves the right mix between addressing policy neutrality concerns and the achievement of fiscal equalisation. Given that mining is such a significant driver of differences in fiscal capacity, it is not likely that this balance has been achieved under the current proposal.
- Determining a dominant state based on more than a 50% difference between a state's revenue base and population share is arbitrary. Indeed, any fixed threshold would be arbitrary. For example, a jurisdiction which only had a 49% variance and not defined as a 'dominant state' would be treated very differently from a jurisdiction that had 51% and defined as a dominant jurisdiction.
- It assumes that current settings are appropriate and any future policy changes should be discounted. What happens if a jurisdiction's policy change results in a reduction in revenue? Would only 50% of the reduction in revenue be considered as part of the assessment, just the same way that only 50% of any increase in revenue be subject to equalisation?
- The ongoing measurement of the impact of a policy change in perpetuity would be very difficult to measure and reliability quantify, especially in a situation where there could be multiple policy changes over time which have overlapping impacts.

Question 3: Do states agree that where a dominant state changes its relevant royalty rate, assessing 50% of that state's revenue arising from the royalty rate change equal per capita would represent an appropriate balance between assessing relative state fiscal capacities and policy neutrality concerns?

As previously stated, South Australia does not support the introduction of any dominant state concept into the mining revenue assessment. This includes assessing 50% of a dominant state's revenue arising from royalty rate changes equal per capita.

In relation to the other options discussed in the paper, South Australia notes the following:

Profitability measure applied to all state mining activity

South Australia believes that basing the mining revenue assessment on profitability does not reflect what states do. States generally impose royalties on production, not profitability.

A profitability approach was used by the CGC in its mining revenue assessment until the 2003 Update. However, it was discontinued due to data limitations and the complexity of having to incorporate differences in the way profitability from mining activities were transferred back to State Governments (eg transport or freight charges). An assessment based on a profitability measure would also fluctuate more with commodity cycles and result in increased volatility. An assessment based on value of production tends to move with royalty revenue.

Grouping of minerals

South Australia does not support the full grouping of minerals as it penalises states that have a greater proportion of their value of production derived from resources where lower royalty rates are applied. Such an approach would inappropriately increase the assessed capacity of these states.

Full grouping of minerals would not address all policy neutrality concerns. Although it may arguably partially address the dominant state issue, it could create policy neutrality issues for states that have mining sectors that are predominantly focused on lower value minerals. Additional production of lower value minerals (eg from approving a new mine) could theoretically result in a GST revenue loss in excess of the additional royalty revenue raised.

Grouping by multiple mineral groups (eg two groups based on royalty value) has previously been raised and is an alternative that could be explored. Although there can be concerns with determining the appropriate grouping of minerals and the shifting of minerals between groups. On balance, the grouping of multiple mineral groups may be the best option for further exploration should there be a return to full equalisation.

External standards

External standards are not reflective of the Australian context and are not directly relevant in assessing revenue capacity differences between states, which is what the assessment process is seeking to capture. South Australia does not support the use of external standards.

Global revenue assessment

South Australia is strongly opposed to any form of global revenue assessment as this does not reflect in any way how state taxes are raised and does not reflect the capacity to raise taxes in each state.

Question 4: Do states agree that uranium and coal seam gas royalty revenue should be assessed equal per capita?

South Australia notes the proposal to assess uranium and coal seam gas royalty revenues equal per capita.

Given that these activities are partially or fully banned in some jurisdictions, there is no reliable way of estimating the capacity of jurisdictions where restrictions are

in place. Where bans are in place, exploration activities may not have occurred to identify resource deposits. Where a deposit has been identified, just because it has been identified, does not mean that it would be economically feasible to extract that resource. We are not aware of any reliable source of information for an assessment where an activity is banned.

Only assessing capacity for jurisdictions where the activity is permitted disadvantages these jurisdictions due to their policy choice.

This leaves an assessment on an equal per capita basis, but does raise concerns about whether fiscal equalisation is being achieved. This is an area that would benefit from ongoing monitoring to ensure that an equal per capita treatment is not significantly impacting the achievement of fiscal equalisation.

6. Schools

Question 1: Do states support a differential assessment of primary and secondary school students and if so, support including in the regression model variables to account for differences in the fixed cost of secondary schools and the additional costs of secondary school students?

South Australia completed the transition of Year 7 to secondary school in the 2022 school year. As there is now national consistency in the classification of primary and secondary education, South Australia supports a differential assessment of primary and secondary school, including regression model variables for the additional fixed and recurrent costs of secondary education.

We note that the assessment period for the 2025 Review will include the 2021-22 financial year, which partially includes a period prior to the completion of South Australia's Year 7 transition. Given the significance of the proposed method change, and for consistency within the assessment, we recommend that the Commission backcasts the classification of primary and secondary education to the entire assessment period of the 2025 Review.

Question 2: Do states agree that, if relevant school level data are available and determined fit for purpose, an assessment of needs for educating students with a disability should be included in the schools assessment?

The provision of appropriate supports for students with a disability is an important feature of South Australia's school funding model. On this basis we support, in principle, the Commission investigating if it would be feasible to develop a reliable, policy neutral assessment of needs relating to students with a disability.

A key concern that has previously been raised in this respect is whether the Nationally Consistent Collection of Data on School Students with Disability (NCCD) is an appropriate data source on which to base an assessment. In the 2020 Review, the Commission indicated it would monitor the ongoing development of the NCCD dataset to determine whether it can be used to develop a reliable assessment of needs associated with students with disabilities.

The South Australian Department for Education has noted that while the NCCD is accurate and nationally consistent in the context of its intended purpose, this does not mean that it is representative of the cost of delivering education for students with a disability, and may be subject to change in the future.

While there may be some issues with NCCD data, we do note that the quality of the data has improved since the 2020 Review, and we are not aware of an alternative data source that could be used for the Commission's purposes if it seeks to move away from the status quo.

Given the significance of funding for students with a disability as a driver of overall school education costs, South Australia recommends that the Commission considers whether HFE would be better advanced by making an assessment rather than continuing to not assess needs in this area.

Question 3: Do states agree that the average state funding of schools is not sufficiently based on Schooling Resource Standard (SRS) funding to be adopted in place of the Commission's funding model?

South Australia agrees that average state funding of schools is not sufficiently aligned to the SRS to allow the Commission to replace its current funding model with one based on the SRS. In addition, as states are not legislatively required to adopt SRS funding arrangements when allocating funds to individual schools, it is possible that the divergence between the SRS and how states actually fund schools may not be closed over the foreseeable future.

The South Australian Government continues to meet its funding level requirements under the *Australian Education Act 2013* through its needs-based funding model. As a small state with a dispersed population, South Australia's funding model adopts a whole of system approach to support the educational needs of around 170,000 students across around 1,000 sites. This has required high investment in central office functions to generate efficiencies across the system as a whole.

Given these nuances, South Australia's view is that the SRS on its own does not reflect what states do, and the Commission should continue to use its funding model to assess state needs for education spending.

7. Post-secondary Education

Question 1: Do states agree that a course mix driver should not be introduced?

South Australia believes that the incorporation of a course mix driver, reflecting the influence of state industry profiles on course mix and costs, should conceptually produce a more accurate assessment. However, it is noted that data identified by the Commission to potentially support an assessment is not currently material for any jurisdiction.

Question 2: Do states agree that the variables used in the socio-demographic assessment of needs be retained?

South Australia is comfortable with the variables used in the socio-demographic assessment of needs being retained. Analysis undertaken by Commission staff supports continued grouping of the socio-economic status quintiles for the non-remote population and the position to not disaggregate the remote population by socio-economic status.

It is noted that the Commission is separately considering the measurement of socio-economic status. The outcome of this work may have implications for this assessment.

8. Health

Question 1: Do states agree that in a post-pandemic environment, the hospital and patient transport assessments remain fit for purpose?

South Australia agrees that the hospital and patient transport assessments remain appropriate in a post-pandemic environment, as these assessments are based on consistent national weighted activity unit (NWAU) data from the Independent Health and Aged Care Pricing Authority (IHACPA).

Question 2: Do states agree that the proposed changes to the community and public health assessment in the consultation paper will contribute to making the assessment more responsive to developments affecting this part of the health system?

The Commission considers that the community and public health assessment was not able to respond to COVID-19 related shocks that affected community and public health services differently to hospital services, due its reliance on a proxy measure of activity based on emergency department (ED) services.

Any indicator that is based on proxy data will not completely capture what is actually occurring. The robustness of a proxy will depend on how well it tracks what is trying to be measured in a policy neutral way.

There is merit in investigating alternative measures that better capture changes in community health, provided this is based on robust, consistent and reliable data; and it is not policy influenced.

South Australia's views on each of the proposed changes to the assessment are provided below.

Question 3: Do states consider the experiences with the COVID-19 pandemic have implications for the health assessment?

The COVID-19 pandemic had some implications for the health assessment. However, as South Australia has previously noted, the influence of state COVID-19 policy responses means that it is not possible to separately assess the impact of the pandemic in a policy neutral manner.

The consultation paper appears to imply that the COVID-19 pandemic demonstrated the need for the Commission to have the flexibility to change assessment methods in an update year in response to major changes in what states do. This issue requires detailed consideration, including on issues such as defining what constitutes a major change in what states do. South Australia looks forward to engaging with the Commission on this issue during the course of the 2025 Review, including through the Commission's upcoming consultation paper.

Question 4: Do states agree to:

- use the Australian Institute of Health and Welfare data on community mental health activity, adjusted to compensate for lack of cost weights, to determine per capita use rates for mental health services?
- expand the current proxy to include non-admitted patient services, applied to the balance of the component?
- continue to apply a discount of 12.5% to the community health socio-demographic assessment?

Use of AIHW data on community health activity

South Australia supports, in principle, the proposal to use data from the Australian Institute of Health and Welfare (AIHW) to assess community mental health activity, subject to the Commission being able to develop a robust adjustment to compensate for the lack cost weights, particularly for services in remote areas, in the AIHW data.

The AIHW data does not allow for the differentiation of community health services by the location in which they are delivered. As the recognition of the differential cost of providing services, particularly in different remoteness settings, is an important feature of HFE, South Australia considers that the AIHW data should only be used if an adjustment based on robust and reliable data is applied to reflect regional cost differences. In this respect, the Commission has highlighted the following potential approaches:

- applying regional cost and service delivery scale adjustments based on hospital data; or
- adjusting for differences in average expenditure by target population (based on age).

The Commission's analysis suggests the first approach would bring the AIHW-based measure closer to the current ED-based proxy, however, it is not clear how the second approach measures up in comparison. We also note that the

appropriateness of any alternative indicator should not necessarily be determined on the basis of how closely it matches the current proxy – the proxy itself is not a direct indicator of community health activity and has its own limitations. South Australia considers further work would need to be undertaken on the second approach to allow for an informed decision on the appropriate adjustment to the AIHW activity data.

Applying an expanded proxy to the balance of the component

South Australia notes the proposal to apply an expanded proxy including non-admitted patient (NAP) services to the balance of the community and public health component.

Since the 2015 Review, the Commission has applied a proxy based on ED triage 4 and 5 services to the community and public health component due to the lack of reliable and comprehensive national data on community and public health. The choice of proxy reflected the similarities between ED triage 4 and 5 and community and public health services, as both related to less severe and less urgent episodes with limited connection with hospital admissions.

In the 2020 Review the Commission noted that cost and activity data provided by New South Wales and Victoria, while not comprehensive enough to use in an assessment, showed notable similarities to ED services (e.g. the population groups that were high cost for ED services were also high cost for community health).

The Commission's proposal to expand the proxy to include NAP services may improve the representation of community and public services. However, the South Australian Department of Health and Wellbeing recommends that this be done on an aggregate rather than patient level to ensure the capture is complete. In the 2021 Update, South Australia expressed concerns about the quality of NAP activity data on the basis that it was not robust enough (particularly at patient level) and did not present a complete picture of the delivery of services in South Australia. While there have been some improvements in the data since then, there continue to be some concerns about the reliability of patient level data.

Applying a 12.5% discount to the community health SDC assessment

South Australia has no objections to the Commission's proposal to continue to apply a 12.5% discount in the community and public health assessment, reflecting concerns about how closely ED data reflects the socio-demographic characteristics of people using community health services. All proposed measures include some form of proxy indicator making a form of discount appropriate. The actual level of discount applied should be assessed after further examination of the final measure.

Question 5: Do states support the use of Australian Institute of Health and Welfare data to update the non-state services substitutability level for the emergency departments component, while retaining the 2020 Review method for other components?

South Australia notes the proposal to update the non-state substitutability level for the ED component. The proposed approach uses new AIHW and IHACPA data to update estimates developed on the basis of Australian College of Emergency Medicine data in the 2020 Review and appears consistent with the Commission's established practice of using the latest reliable data available where appropriate.

Other issues

Updating the substitutability level for non-admitted patients

The Commission proposes to update the substitutability level for NAP services based on updated AIHW and IHACPA data. The Commission estimates that applying the updated data to the calculation method used in the 2020 Review would result in a decrease in the NAP substitutability level from the current 30% to 25%.

In considering the proposed change, the Commission should also revisit the 50% discount applied in calculating the NAP substitutability level. The discount reflects an assumption, based on data from the 2011-12 National Health Survey (NHS), that 50% of NAP services are linked to a previous admitted patient (AP) episode.

South Australia considers that, not only is this assumption based on aged data, it also appears to be an overestimate. High level analysis of 2022-23 administrative data by the South Australian Department for Health and Wellbeing indicates that the proportion of NAP patients with a previous AP episode in South Australia is likely to be around 25%.⁹

In addition, the 50% assumption does not take into account that not all NAP patients with a prior hospital admission are accessing a NAP service *because* of that admission. As some previously admitted patients access NAP services for conditions not related to their admission, simply applying a proportion based on total NAP and AP episodes does not accurately capture the concept the Commission is seeking to reflect through the 50% discount.

We note that the final report of the 2015 Review alluded to the limitations of this approach:

*“...the NHS found that 50% of outpatients had been admitted to hospital in the past 12 months. For **most** of these people, their visit **seems likely** to be connected to their earlier admission, and there would be lower levels of*

⁹ Based on high level analysis of 2022-23 unit record data for South Australian hospitals (660,000 outpatient services), where the timing of the outpatient episode was up to 6 weeks post the inpatient separation date. Detailed further analysis would be required to determine the extent to which the outpatient episode was linked to the preceding inpatient episode, however, it is unlikely that the proportion of linked episodes would be as high as 50%.

substitutability for this group, although not negligible.” [2015 Review Final Report, Vol. 2, p.197, bold formatting added for emphasis].

On this basis, South Australia recommends that the Commission investigate the appropriateness of the 50% discount. This could be based on administrative data from the states, with an appropriate adjustment if required to recognise that not all outpatients with a previous hospital admission seek NAP services because of the admission. If the Commission considers there is insufficient time to fully explore this issue in the 2025 Review, we recommend deferring any changes to the NAP substitutability rate until this work has been undertaken.

9. Services to Communities

Question 1: Do states agree that the existing assessment methods for spending on disaster mitigation remain appropriate?

Disaster mitigation expenditure is assessed on equal per capita basis with expenses generally classified to either environmental protection in the Services to Community category or in other expenses. South Australia believes that an equal per capita assessment remains appropriate. Similar to expenditure on environmental protection, there is no reliable driver of need as each state has its own unique climatic issues and circumstances. The occurrence of natural disasters on its own is not a reliable proxy for mitigation expenditure.

Question 2: Do the definitions used in the National Partnership on Disaster Risk Reduction provide an appropriate basis for describing the type of spending that could be classified as natural disaster mitigation?

South Australia notes that the National Partnership on Disaster Risk Reduction provides a useful definition of a disaster and disaster risk reduction but leaves a high degree of ambiguity in the nature of certain programs/expenditure. Practically, it may be difficult to distinguish elements of expenditure on general infrastructure/maintenance programs from expenditure with the specific purpose of disaster risk reduction. For example, the construction of a seawall, wetland or road in a densely forested area may have disaster mitigation benefits but the main purpose is a general improvement to public amenity (not specifically related to disasters).

Question 3: Where is this spending currently classified in the Government Finance Statistics framework?

In South Australia funding is generally administered by the South Australian Fire and Emergency Services Commission (SAFECOM) and is classified under civil and fire protection services in the GFS.

As previously noted, general infrastructure funding can also have disaster mitigation components and may be classified elsewhere.

Question 4: Is spending on mitigation measures expected to increase significantly over the next five years?

South Australia's primary natural disaster mitigation programs are in partnership with the Commonwealth through the National Partnership on Disaster Risk Reduction (DRR) program and more recently the Disaster Ready Fund. The current National Partnership on DRR expires on 30 June 2024. Significant increases in disaster mitigation funding are not currently included within the forward estimates budget period.

It is understood that in some states significant resilience expenditure is undertaken through the "betterment" provisions under Disaster Recovery Funding Arrangements (DRFA) as well as through Disaster Risk Reduction (DRR) grants. The Commission will need to consider the interaction and practical distinction between recovery and resilience expenditure and funding arrangements. Betterment funding arrangements under the DFRA provide Commonwealth co-funding of asset reconstruction to a higher and more resilient standard.

10. Justice

Question 1: Do states agree that COVID-19 resulted in a temporary departure from long term patterns of justice service provision, use and costs such that the 2020 Review Justice model remains appropriate if used with fit for purpose data?

South Australia generally agrees with the Commission view that temporary COVID-19 lockdowns and restrictions on movement are unlikely to permanently change the underlying relationships between drivers and expenses in the existing Justice model. The current model broadly captures the appropriate underlying drivers of cost for the provision of justice services.

Question 2: Do states agree that data from 2019–20, 2020–21 and 2021–22 include the effects of COVID-19 related public health orders and do not reflect typical justice services and costs?

South Australia agrees that data from 2019-20, 2020-21 and 2021-22 include the effects of COVID-19 related public health orders and may not be reflective of ongoing justice services and costs. The imposition of lockdowns in all jurisdictions to varying degrees of length, the closure of state borders and the introduction of public health directives altered both positively and negatively the propensity and occurrence of criminal activity nationally.

Question 3: If data from 2019–20 to 2021–22 are not fit for purpose, do states support using data from 2022–23 to update the justice assessment? If so, can states provide an indication of when 2022-23 data could be provided to the Commission? An indication of the data required from states for the 2025 Review justice assessment is shown in Attachment A.

South Australia acknowledges that the 2019-20 to 2021-22 data may not be fit for purpose due to COVID-19 influences. However, as the 2022-23 is yet to be

collated and analysed, it is not known whether the data for this year is fit for purpose. South Australia also has concerns about the use of a single year of data which could still have a small but unknown degree of COVID-19 influence. If states are able to provide 2022-23 data in the required timeframe, the Commission should undertake some high-level analysis on the data, including consistency with pre-COVID-19 data, and advise states and territories accordingly.

Information on the timing and availability of requested South Australian data will be provided separately as part of the response to the data request.

Question 4: If data from 2022–23 are considered fit for purpose but are not available in time for inclusion in the 2025 Review, do states support updating the assessment in an update following the 2025 Review?

South Australia supports updating the assessment after the 2025 Review if 2022-23 (or alternative) data is considered fit for purpose but not available for inclusion in the 2025 Review. As per the response to the previous question, there are potential concerns with relying on a single year data point.

Any change should be subject to detailed consultation with states and territories prior to the relevant Update.

Question 5: Do states agree that the Commission:

- apply a cost weight for juvenile detainees in the prisons assessment if material?
- not make any changes to the juvenile detainees age groups in the prisons assessment?

South Australia notes that cost per juvenile detainee is higher than for an adult prisoner and the cost of detaining juveniles has increased at a greater rate in recent years. However, the growth in cost per juvenile detainee has been unusually high in recent years. South Australia believes that the Commission should wait until 2022-23 prison cost and prisoner number data has been provided (as part of the 2025 Review data request process) to confirm the strength of this growth trajectory and to test materiality. South Australia would also like further information on how the cost weight would be determined.

Noting that the minimum age of criminal responsibility currently varies between jurisdictions, and the low overall numbers of detainees in the 10-12 year age group, South Australia supports not making any changes to the juvenile detainees age groups in the prisons assessment at this time. Given the ongoing changes in the age of criminal responsibility, this position may need to be retested ahead of finalisation of the 2025 Review if a revised uniform position is adopted by jurisdictions.

11. Transport

South Australia has concerns with the transport assessment including the weight and policy neutrality of conceptual drivers on the determination of expenditure requirements, and the comparability of data used in the assessment. The shifts in transport usage following COVID also raise significant contemporaneity concerns.

Unless suitable alternatives can be identified, a discount or an increase in the blending ratio should be introduced.

The recently released 2024 Update New Issues Paper highlighted concerns regarding the calculation of population weighted density. These impacts are being considered further and South Australia may raise additional points relevant to the transport assessment for consideration as part of our response to the New Issues paper.

Question 1: Do states agree that the 2020 Review model for assessing urban transport needs remains appropriate?

No. The 2020 Review model for assessing urban transport needs is not appropriate.

COVID has significantly disrupted the public transport market. The model based on 2016 Census data is no longer contemporaneous and it is not clear when reliable data will be available to update the model (further detail is provided in response to subsequent questions).

COVID has produced a shift in working arrangements that has reduced the overall demand for daily commutes. While public transport usage appears to be recovering, it is not clear when or whether demand will return to previous levels. The change between jurisdictions may also vary reflecting different shifts in working patterns based on city size. Given that the model is significantly driven by the population weighted density and public transport costs in Sydney and Melbourne, which has previously been raised as a concern, this tests the veracity of the existing model based on outdated information.

It is acknowledged that jurisdictions generally sought to maintain service level provisions during the main peak of COVID. Now that the main disruptions have passed, it is likely that jurisdictions will consider the level of service provision required. If the change in shifting work and commuter patterns (such as working from home and other lifestyle changes) results in an overall lower level of demand for public transport, jurisdictions will likely adjust the level of service provision to match the demand.

While the public transport market may reach a new equilibrium during the period of application of the 2025 Review period, the current CGC assessment model will not be reflective of this under any approach proposed in the consultation paper.

The model used by the Commission is also based on information relating to commuting for work, with the model extrapolating this relationship to account for public transport usage for other reasons. The shift to working from home post

COVID may mean that, even when reliable data on public transport usage (journey to work data) is available, the assumption that it is a reliable predictor of broader public transport demand is less clear. The change in work patterns have also varied by jurisdiction and this may reduce the comparability of existing estimates across jurisdictions.

In short, any relationships that existed at the time of the 2016 Census are not necessarily fit for purpose.

General concerns with model

Separate to the concerns regarding the impact of COVID on the data underlying the CGC model and contemporaneity, there are broader concerns with the urban transport assessment model.

The urban transport model was introduced as part of the 2020 Review. It is acknowledged that states had the opportunity to review the model as part of the consultation process for the 2020 Review. However, it is also useful to reconsider the model and its suitability now that there is real world experience with how it has operated.

The model does not appear to fully untangle policy choices from disabilities driving service costs. For example, increased population density should also allow efficiency gains and a higher rate of cost recovery through higher utilisation. Data suggests that Sydney, with the highest rates of population density, has cost recovery rates similar to smaller Australian cities. The policy choice of having lower cost recovery rates can drive demand. This would inflate the need for public transport expenditure in the Commission's model resulting in policy choices impacting the overall assessment of need.

The model is also heavily driven by population weighted density (PWD). PWD is calculated by summing the population density multiplied by the proportion of each individual SA1 in a Significant Urban Area (SUA). There are inconsistencies in the treatment of certain SA1s that impact the calculation of PWD, making them inappropriate for an assessment of public transport needs. This includes how geographic features; zoning features; and new developments are treated across SA1s. There are over 60,000 SA1s and it is not expected that the treatment of SA1s across SUAs would be consistent - density calculations are not the primary purpose of an SA1. However, this inconsistent treatment can result in large differences in PWD reducing the effectiveness of it as a comparable measure across SUAs. Attachment A provides a very simple example of the different treatments. A range of other examples can be provided to the Commission.

The 2024 Update New Issues Paper included information on the change in population and density due to new urban area geography in the 2021 Census. This showed large increases in the density of some large capital cities despite little, or even negative, growth in overall capital city population. Other cities had changes in density more in line with population.

Given anecdotal evidence around a shift away from urban living in large cities due to COVID, do these results make sense? Could other factors such as shifts in the

boundary and treatment of non-populated areas within SA1s be contributing to the results? These issues will be explored further in response to the New Issues paper.

Question 2: Do states consider the urban transport net expense data from 2019–20 to 2021–22 are likely to be overstated?

Yes. Data from 2019-20 and 2021-22 were impacted by COVID and are not fit for use as part of the regression model.

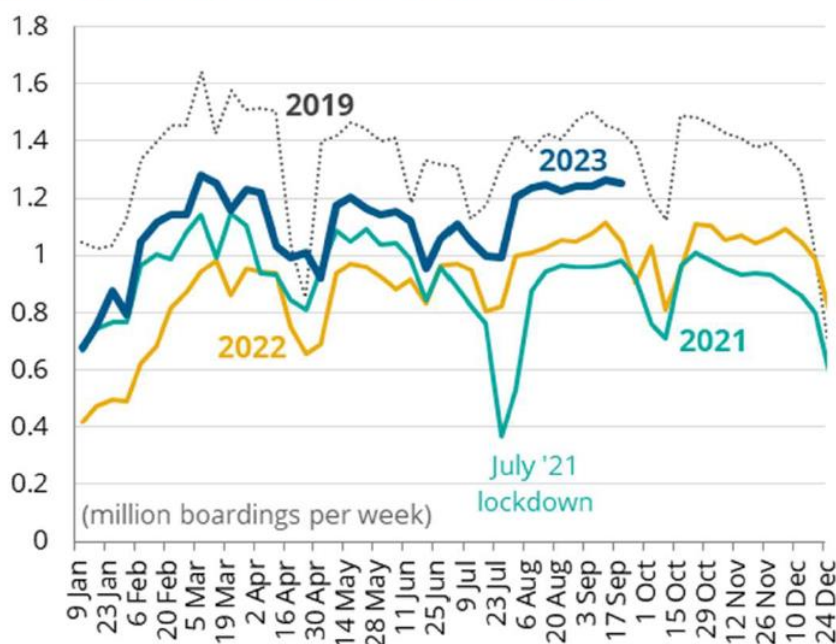
The level of cost recovery reduced during COVID due to a decline in passenger numbers, while service levels were generally maintained.

The market is beginning to adjust, but it is not clear where the new level of passenger demand will settle, or when this level will be reached. Supply decisions will also need to be made to account for any shifts in demand and are not currently reflected in net expenditure data.

Question 3: If 2019–20 to 2021–22 data are not fit for purpose, do states support updating the regression with data from 2022–23? Can states provide an indication of when this data could be provided to the Commission? (See Attachment B).

Based on initial indications, it is unlikely that 2022-23 data will be fit for purpose. For example, public transport passenger boardings in the week to 17 September 2023 were up 20% on the same period in 2022, but still down on 2019 levels prior to COVID in South Australia (see chart below).

Public transport boardings: in the week to 17 Sep 2023 were up 20% on the same week in 2022.



Note: internal SA Government data – not for publication

In addition, the regression model used for the 2020 Review utilised data from three years over 2013-14 to 2015-16. Given uncertainty around the suitability of net expenditure data, there are significant concerns using a single year data to update the regression.

Information on the timing of data will be provided separately as part of the response to the data request.

Question 4: If 2022–23 data are considered fit for purpose but are not available for inclusion in the 2025 Review, do states support updating the assessment in an update following the 2025 Review?

Even if 2022-23 data or a subsequent year was considered fit for purpose, as previously noted there are significant concerns using a single year data point for the regression.

Given the significant distortions in the public transport market, any updates should only be done based on consultation at the time, after significant interrogation of the data.

Question 5: Do states support retaining the 2020 Review proxy variable data in the regression model until fit for purpose net expense data are available?

It is not clear when fit for purposes net expense data will become available. Retaining 2016 census data for the 2025 Review period implies that the underlying data will be over 10 years old. This is not appropriate given the significant changes that have occurred in public transport since 2016. A discount should be applied to the assessment reflecting the reliability of the data, or an increase in current blending of states shares of squared urban population.

In the 2020 Review, the Commission noted that the decision to blend the urban transport assessment was based on concerns about the reliability of net urban transport expense data and the use of proxy variables in the model to capture supply and demand.

- 22 The Commission's decision to blend the urban transport assessment is based on two main data-related issues:
- concerns about the reliability of net urban transport expense data provided by the States, which informed the regression model as the dependent variable
 - for policy neutrality and data availability reasons, several proxy variables are used in the model to capture supply and demand.

Any concerns about the reliability of net urban transport expenditure and proxy data at the time of the 2020 Review would be significantly increased in 2025 given that the data is now very outdated.

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Question 6: Do states agree that the 2021 Census journey to work data were distorted by the COVID-19 lockdowns and are not a fit for purpose measure of current passenger numbers?

Yes. Given a number of jurisdictions were in lock down on the night of census they may not be an accurate representation of journey to work data.

Question 7: If the 2021 Census journey to work data are not fit for purpose, do states support the continued use of 2016 Census journey to work data in the model?

Retaining 2016 census data for the 2025 Review period implies that the underlying data will be over 10 years old. This is not appropriate given the significant change in the transport market.

Question 8: Do states agree that 2021 Census distance travelled to work data were not significantly distorted by COVID-19 lockdowns and are a reliable measure of network complexity?

On the basis that the 2021 Census instructed residents to list their ordinary place of work even if they were staying at home due to COVID-19, the distance to work data is less likely to be impacted by COVID. However, there is no way to accurately test this. The fact that the distance to work was relatively similar in the 2021 Census to the 2016 Census is not a reliable indicator in itself.

Question 9: Do states agree that, if material, 2016 Census journey to work data should be adjusted using the Bureau of Infrastructure and Transport Research Economics measure of passenger kilometres travelled until the 2026 Census data are available.

2016 Census journey to work data are not reflective of current public transport usage levels.

Adjustments should be made to the data to more accurately reflect usage level. BITRE data is an option, but further work may be required to determine its suitability.

The concerns about using state ticketed data are noted.

Question 10: Do states agree that if net expense data are available before the 2026 Census passenger numbers it is appropriate to use Bureau of Infrastructure and Transport Research Economics data to index actual passenger numbers?

If fit for purpose net expense data becomes available, then updated passenger data is required to update the regression. The use of BITRE data to index actual passenger numbers would appear to be the most appropriate option. Concerns about the reliability of the data would remain given it is blending data sources. This supports the case for an ongoing increase in the discount/blending.

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Question 11: Do states support retaining the 2020 Review blending ratio for the urban transport assessment.

As previously mentioned, a discount should be introduced reflecting the increase in data reliability concerns and the use of proxy data within the model.

Alternatively, the blending ratio should be increased noting that the Commission has previously suggested population is a driver of public transport needs.

Question 12: Do states support replacing the ferry dummy variable in the urban transport model with the proportion of total commuters using ferry services?

There are significant differences in the usage, complexity and availability of ferry services between the jurisdictions that offer the service. Despite this, the dummy variable assumes all areas with ferries are estimated to spend the same amount per capita on the service. This raises concern given the differences in actual service offerings.

Given the large standard errors of the ferry variable in the 2020 Review regression, the issues with having a fixed dummy variable, and the very low overall usage of ferry services nationally, an alternative would be to just remove the variable from the regression all together.

Question 13: Do states agree that using a regression model to recognise the growth in passenger numbers in urban areas is a more suitable method for modelling passenger numbers?

As part of the 2020 Review the Commission considered two methods to derive passenger numbers – a regression analysis of passenger numbers or the current approach based on urban centre size and the presence of heavy rail in urban centres. The Commission noted that the regression approach did not produce sensible approaches for some jurisdictions. The current method was chosen as *“This method proved simpler and the outcomes are more consistent with what states do.”*

On this same basis, it is considered that the value ranges should be updated by the Commission to account for the growth of urban centres while retaining the existing approach to modelling passenger numbers.

Question 14:

Do states support the following changes to the non-urban transport assessment:

- assessing non-urban rail passenger expenses based on shares of non-urban train commuters?
- assessing all remaining expenses based on shares of non-urban populations?

No, South Australia does not support the proposed changes.

As part of the 2020 Review the Commission changed to assessing non-urban transport expenditure on an equal per capita basis. In making this decision it noted that *“The Commission has investigated alternative policy neutral indicators*

but has been unable to find an appropriate broad indicator that is material for the four most populous states."

Information on the share of non-urban train commuters was available in the 2020 Review. What has changed now for the Commission to consider that actual rail passenger usage levels are policy neutral?

Actual passenger transport usage levels are significantly impacted by policy choices. This can include things such as fares, concessions and service availability. In the case of rail services specifically, the availability of fit for purposes and cost-effective alternative options are also a factor. This can even extend to the quality of the road network.

The Commission (partially¹⁰) recognises policy neutrality concerns as part of the urban transport assessment by using modelled numbers of public transport passengers in the regression, rather than actual public transport passenger numbers.

There are significant policy neutrality concerns with using actual passenger numbers for the non-urban transport assessment and therefore the approach is not supported.

A relevant example can be provided in the context of an ongoing discussion in South Australia around the provision of passenger rail services between Adelaide and Mount Barker¹¹. There have been requests to extend the rail network from Adelaide to Mount Barker. These requests have not been supported to date, with analysis indicating that bus services can be more cost effective and deliver similar travel times. Investments to date have been made to improve the bus network between Adelaide and Mount Barker, rather than the introduction of rail services. Under the Commission's proposed measure of actual train passenger numbers, South Australia would be penalised for investing in cost effective service provision as we would have an increase in bus passenger numbers rather than train passengers.

It is also noted that the Commission's analysis is based on 2016 Census data. As previously discussed, this is out of date and potentially no longer reflective of actual transport usage patterns. It is not clear why the Commission is seeking to change an assessment process based on out-of-date data, noting that this same data was available as part of the 2020 Review to inform the Commissions' decision to assess non-urban transport on an equal per capita basis.

¹⁰ South Australia has other concerns about policy neutrality of the Urban transport assessment which are not addressed.

¹¹ While this is within the broader significant urban area of Adelaide, it provides an example of the concerns with the proposed approach noting the same issues would occur within a broader regional context.

12. Native Title and Land Rights

In 2016, the then South Australian Minister for Aboriginal Affairs and Reconciliation announced an intention to explore Aboriginal treaty negotiations. More recently, the South Australian Government has committed to a State-based implementation of the Uluru Statement from the Heart – Voice, Treaty and Truth – commencing with the South Australian First Nations Voice to Parliament.

The State has entered into treaties with the Narungga Nation Aboriginal Corporation and the Ngarrindjeri Regional Authority. Both agreements are aspirational in nature and, while they do not involve the payment of monies, they establish a joint commitment to invest in mutually beneficial projects and initiatives.

Question 1: Do states agree that the APC assessment of Native Title expenditure remains appropriate?

South Australia believes that the APC assessment of Native Title expenditure remains appropriate at this time. South Australia approaches the assessment of native title claims in a manner consistent with the *National Guiding Principles for Native Title Compensation Agreement Making*, confirming the state's adherence to Principle 3 (committing states to work to ensure, where possible, national consistency and best practice in approaches to assessing, valuing and resolving native title compensation).

South Australia agrees that the factors outlined in section 36 of the consultation paper are relevant to assessing the size and scope of compensation expenditure, reflecting the circumstances and nature of each claim. South Australia generally seeks to resolve native title claims as a 'once and for all' settlement, including provision for compensation as part of a comprehensive *Indigenous Land Use Agreement*. In some cases, this includes an agreement that the State will facilitate the transfer of Crown Land to native title holders as part of compensation.

Question 2: Do states anticipate that treaty processes will affect how they negotiate Native Title and land rights claims?

South Australia notes that, in contrast to native title compensation determined in accordance with principles common to all jurisdictions, treaty outcomes could be more reflective of specific policy decisions by individual state governments. The treaty processes set up by states may lead to a divergence in the way states administer and negotiate claims. Whether that will actually occur is not yet clear.

The Commission should continue monitoring the impact of treaty-negotiations and their implications for the assessment.

13. Commonwealth Payments

1. Do states agree the guideline for deciding the treatment of Commonwealth payments remains appropriate?

South Australia is supportive of the Commission's assessment approach for Commonwealth payments. The current actual per capita approach provides a high degree of certainty by using the broad principle that a Commonwealth payment will be impacting if the payment supports state services where corresponding expenditure needs are assessed.

2. Do states agree to a default treatment of 'impact' in cases where there is substantial uncertainty about the payment's purpose or whether relative state expenditure needs are assessed? It remains open to states to provide evidence in support of no impact.

South Australia believes that the current (and proposed) position of treating Commonwealth payments as impacting by default if there is substantial uncertainty about the purpose of the payment, or whether relevant state spending needs are assessed, could be modified.

An alternative approach would be to treat uncertain payments as 50% impacting (similar in nature to a discount). This approach would reflect the uncertain nature of the payment and moderate the distributional impact compared to a default position of inclusion. It would still remain open to jurisdictions to provide evidence in support of no impact.

3. Do states agree to discontinue the assessment of Commonwealth own-purpose expense payments?

South Australia agrees that there is no reliable and comprehensive list of Commonwealth own-purpose payments (COPEs) published by the Commonwealth Government.

The current approach of only considering COPE payments when they are specifically brought to the attention of the Commission by states and territories is ad hoc and inconsistent. Collection of data from states and territories on COPE receipts and expenditures would be resource intensive and not feasible. As COPEs by their nature primarily relate to areas of Commonwealth responsibility, and noting they are relatively low in value, South Australia supports the Commission proposal to cease including all COPE payments in the assessment.

This position should be monitored and retested in the event that there appears to be any significant change in the quantum of COPE payments that could be characterised as expenditure where state needs are assessed by the Commission.

4. Do states agree that the guideline for determining the GST treatment of Commonwealth payments should be applied in cases where payments include elements aimed at addressing pre-existing structural disadvantage?

South Australia agrees with the Commission's view that it should not attempt to determine whether a Commonwealth payment is either fully or partially addressing pre-existing structural disadvantage when determining its treatment for assessment purposes.

More broadly, the Commissions' assessments seek to determine policy neutral drivers of needs and costs as part of the assessment process. There is a risk that excluding certain payments may result in an effective level of 'overcompensation' relative to actual state needs if payments are excluded where needs are assessed. This concern remains regardless of whether the decision to exclude a payment is made by the Commission based on an assessment of pre-existing structural disadvantage or through the terms of reference by the Commonwealth Treasurer.

14. Socio-economic Status

Question 1: Do states agree that an annual MADIP-based measure of socio economic status for non-Indigenous people has the potential for a more contemporaneous assessment?

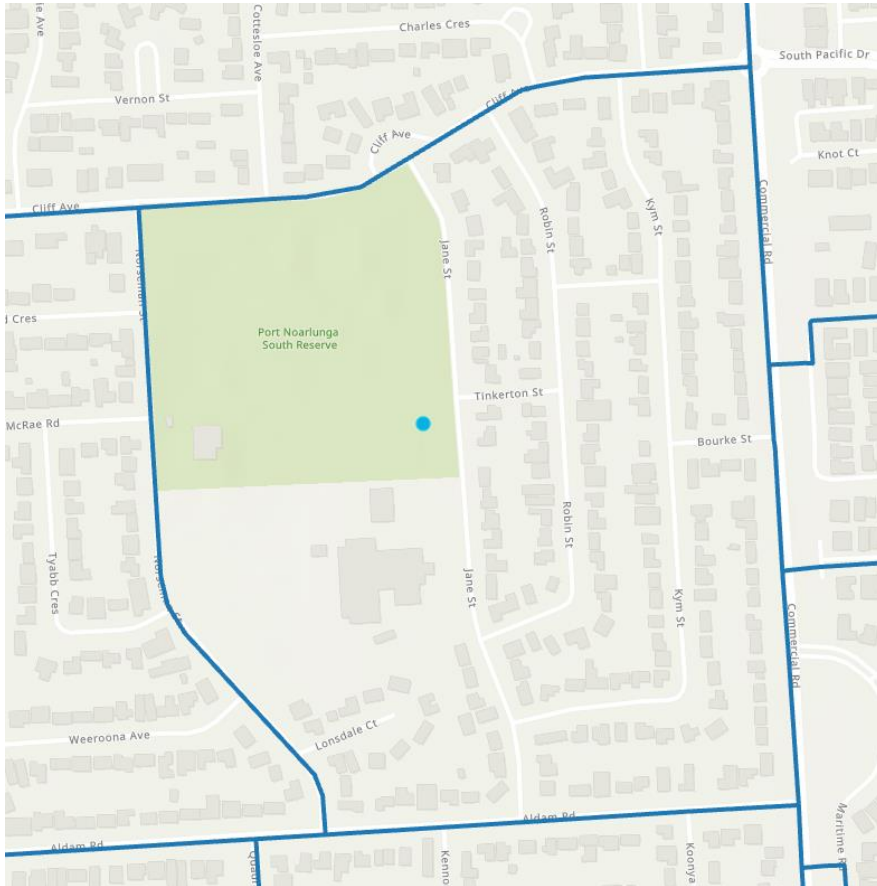
Socio-economic status is a significant driver of state expenditure needs. We agree that the availability of new data sources such as the Multi-Agency Data Integration Project (MADIP) provide an opportunity to consider if there are better, more contemporaneous data sources available to use as a proxy for the driver of differences in expenditure requirements between jurisdictions due to socio-economic status. The 2025 Review is the appropriate place to consider potential new data sources.

Given the importance of the driver, any proposed changes must be subject to thorough investigation and review. While a more contemporaneous measure will pick up changes that occur between census data updates, the volatility of the measure will also need to be considered. On this basis, we note the shift to measuring wages costs on an annual basis has resulted in significant year-to-year volatility in the assessment of expenditure needs, particularly for smaller jurisdictions. The majority of these annual variances fall within the confidence bands of the estimates. There are benefits associated with the predictability and stability of needs that will also need to be considered as part of any change to the socio-economic status assessment.

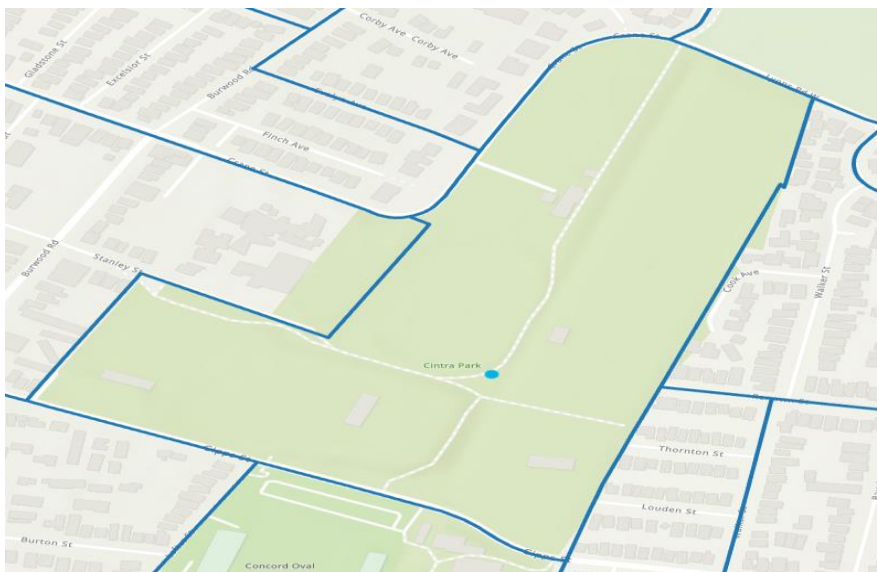
We understand that the Commission will share the outcome of analysis undertaken on 2021 based MADIP when it is completed. We look forward to reviewing the outcomes of the work when it is available.

Attachment A: Comparison of the treatment of SA1s across SUAs between Adelaide and Sydney

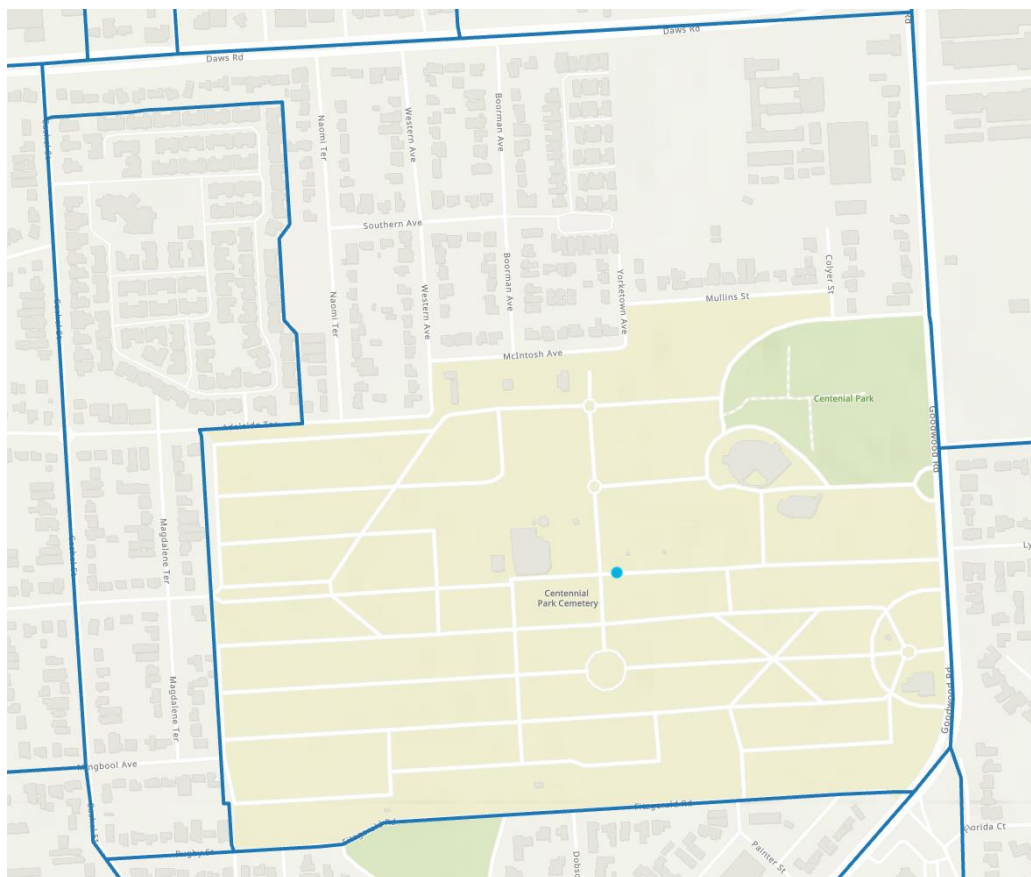
Adelaide: Port Noarlunga South Reserve - SA1: 40,304,108,734 (2016-based Geographies) & 40,304,117,715 (2021-based Geographies)



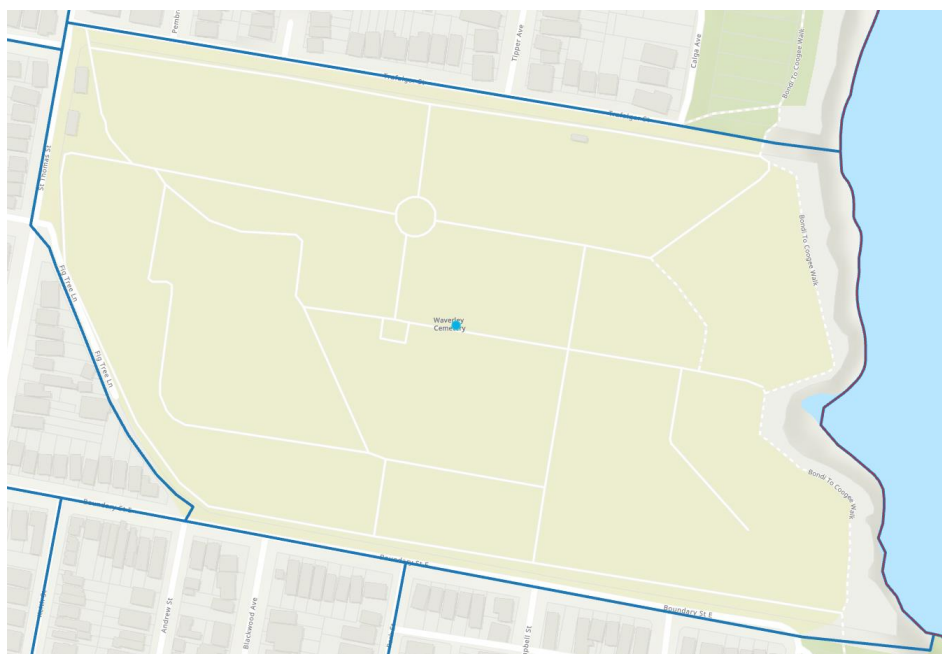
Sydney: Cintra Park – SA1: 12,001,138,336 (2016 & 2021) – zero population in assessment



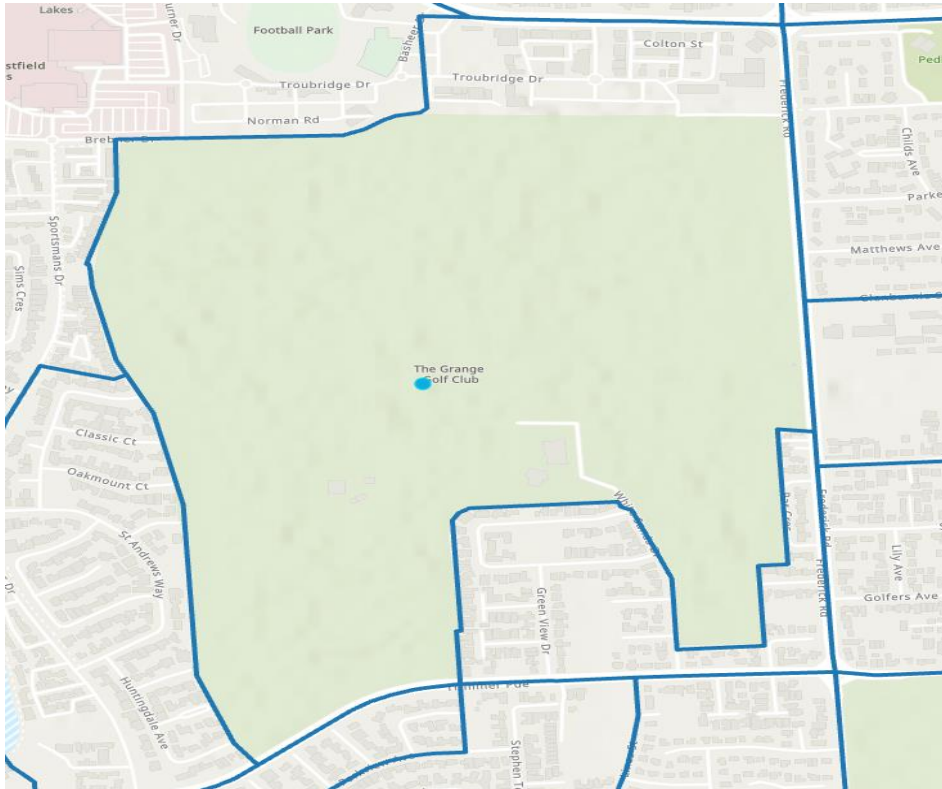
Adelaide: Centennial Park Cemetery & Centennial Park – SA1: 40,303,107,015
(2016 & 2021)



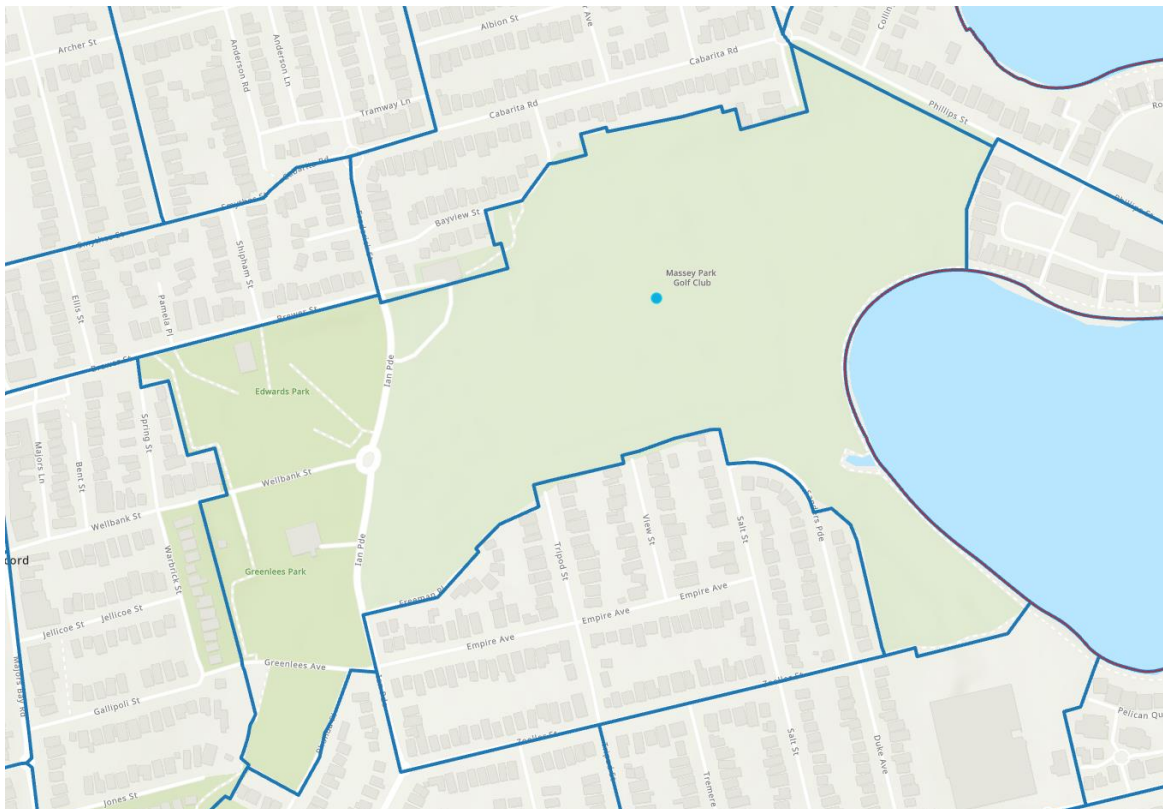
Sydney: Waverley Cemetery – SA1: 11,801,133,916 (2016 & 2021) – zero population in assessment



Adelaide: The Grange Golf Club – SA1: 40,401,109,501 (2016 & 2021)



Sydney: Massey Park Golf Club – SA1: 12,001,138,305 (2016 & 2021) – zero population in assessment



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