



**Government
of South Australia**

Department of Treasury
and Finance

2025 REVIEW CONSULTATION PAPERS TRANCHE 2

Submission from the South Australian Department of
Treasury and Finance

MARCH 2024

We welcome the opportunity to comment on the 2025 Review tranche 2 consultation papers, including:

1. Adjusted Budget
2. Administrative Scale
3. Housing
4. Investment
5. Net Borrowing
6. National Capital
7. Natural Disaster Relief
8. Other Revenue
9. Other Expenses
10. Payroll Tax
11. Services to Industry
12. Gambling
13. Roads
14. Geography
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16. Changing Methods between Reviews

1. Adjusted Budget

Question 1: Do states agree with the Commission's preliminary view to use:

- ABS preliminary Government Finance Statistics data for year 3
- a state's year 3 data if the ABS preliminary data are not available
- the final ABS Government Finance Statistics data for the first 4 assessment years (year minus 1 to year 2).

South Australia supports the staff proposal to use ABS preliminary Government Finance Statistics (GFS) data for year 3.

South Australia notes that under the current method of compiling the adjusted budget, discrepancies can arise between states' year 3 data and the ABS final GFS data. The variance in the urban transport component of the investment category between states' 2021-22 data and the ABS final GFS 2021-22 is an example of variances that can have a material impact on GST distribution between states.

While there will also be variances between the ABS preliminary GFS data and the final data, in general, the ABS preliminary data should theoretically be a better match for the final data used in the assessment. With the ABS preliminary data now available in time for the annual update process, South Australia supports adopting ABS preliminary GFS data for year 3.

Should there be ongoing delays in the availability of preliminary ABS GFS data resulting in the use of state data for some jurisdictions, further consideration may need to be given to the data source used for year 3.

Question 2: Do states consider the proposed process for implementing adjustments in the 2025 Review adjusted budget is appropriate?

South Australia has no objections to the proposed process for implementing adjustments in the 2025 Review adjusted budget. If any new adjustments are proposed, states and territories should be consulted.

2. Administrative Scale

Question 1: Do states support the continuation of the administrative scale expense assessment in its current form?

South Australia supports continuation of the administrative scale expense assessment in its current form. It is important to recognise that there are minimum fixed costs involved in the delivery of services.

There is no data that we are aware of which would indicate that the minimum fixed costs of government have not increased in line with other general increases in the cost of delivering government services. This is also consistent with our practical experience, noting that in many instances the role of government increased during COVID, increasing minimum costs. In the absence of a broader review such as that undertaken as part of the 2020 Review, annual indexation using the ABS State and Local

Government Final Consumption Expenditure deflator will assist in keeping the quantum of administrative scale costs relevant over the review period.

South Australia does not believe there is sufficient evidence that technological or other workplace developments have affected the fixed costs of running government or there is any evidence that this will materially affect costs over the 2025 Review period.

3. Housing

Question 1: Do states agree that the housing assessment remains fit for purpose notwithstanding recent developments in the housing market?

South Australia agrees that the current assessment remains fit for purpose noting the comments below.

Question 2: Do states agree that there should be separate assessments for public and community housing if it results in material change in GST distributions?

South Australia notes the Commission's intention to test if a separate assessment of public and community housing results in a material change in GST distribution. Data to support the testing of this assumption will be provided as part of the data collection process. South Australia will consider the implications of a revised assessment after data has been returned from jurisdictions, factoring in any concerns around data quality or comparability.

Question 3: Is the ABS census data on households with members that have long-term health conditions a suitable proxy for households that have high service needs?

The ABS census data on households in social housing that have a member with long-term health conditions is broadly consistent across jurisdictions at around 70-75%, noting the Northern Territory is a bit of an outlier (56%). The fact that the Northern Territory has lower identification of social housing tenants with long-term health conditions may be an issue that needs investigating. More broadly, apart from the Northern Territory, the relative consistency between jurisdictions means that its inclusion in the assessment would be unlikely have a material impact on GST distribution. That does not discount the conceptual case for a different assessment approach, it just highlights that the data source may not be reflective of such an outcome.

Question 4: Do states have data on the cost of servicing different household types that would enable the calculation of a cost gradient?

Advice from our Housing Authority is that they do not have comprehensive information on the different costs of providing high need public housing relative to other public housing that would be required to support the development of a cost gradient for servicing different households.

4. Investment

Question 1: Do states support smoothing user population growth to reduce volatility, with an associated reduction in contemporaneity?

Question 2: If user population growth rates were to be smoothed, do states support a 3-year moving average of growth rates?

The Commission has noted the volatility of state and territory population growth rates over time, particularly in more recent years. Given the significance of the investment assessment in influencing relative fiscal capacities, South Australia agrees that the stability of the assessment should be enhanced if this can be done in a reliable way that still achieves HFE over time.

The Commission's proposal to average user population growth rates would enhance stability but would also reduce contemporaneity. While there is a trade-off between stability and contemporaneity, as the Commission has noted, the proposed approach would achieve a similar assessment of investment need over time as it would still capture changes in user population, just more slowly. On this basis, South Australia generally supports the Commission's proposal noting that greater stability in the assessment will assist with the forecasting of GST revenues and broader fiscal management by state governments.

We consider that a 3-year moving average would be an appropriate method as it would be broadly consistent with the averaging approach used in calculating assessed and standard state relativities.

Urban transport investment

South Australia has concerns about the assessment of urban transport recurrent expense and investment needs. Our concerns about the recurrent expense assessment were detailed in our response to the Tranche 1 consultation papers and 2024 New Issues paper.

To assess urban transport investment needs, the Commission uses a blended approach incorporating:

- an urban transport regression model to capture the impact of urban centre characteristics (similar to the recurrent expense assessment), weighted at 75%; and
- an urban population-squared model, weighted at 25% (unlike the recurrent expense assessment, which uses urban population shares).

South Australia notes that some jurisdictions have in the past raised concerns about the population-squared model, including the underlying assumption of a linear relationship between per capita asset values and population, the age of the model, and lack of access to the underlying data to enable a reasonableness check of the model.

We also note that in the 2020 Review, the Commission indicated that it would further consider the relationship between per capita asset values and population in the following (i.e. 2025) methodology review. We are not aware of such a review occurring.

On this basis, we recommend that the Commission revisits the population-squared model in this review or provide further advice on the outcome of its review.

Question 3: Do states support freezing the component shares of the value of assets for the life of the 2025 Review?

Under the Commission's proposal, component shares of total stock values would be determined at the beginning of the review period and remain unchanged until the next review. States would be required to provide annual updates of total stock values instead of disaggregated component values. The Commission suggests this approach could reduce the administrative burden on the states.

While we welcome the investigation of any options to reduce the reporting burden, in South Australia's view it is not clear that any administrative gains arising from the proposed approach would be sufficient to warrant a less contemporaneous investment assessment. It is likely that states compile some level of disaggregated stock data as part of their other financial reporting obligations and would continue to do so even if this was no longer required for the Commission's annual data requests, limiting any administrative gains.

The Commission suggests that the proposed approach would also reduce the volatility caused by the revaluation or reclassification of some component stocks. South Australia is not convinced that freezing stock component shares would materially reduce volatility. Since the 2020 Review, the largest stock revaluations have related to the Urban Transport and Roads components, which together account for close to 60 per cent of total stock values. This means any ongoing volatility in these components would continue to be reflected in the totals reported by states in their annual data returns.

Rather than freezing component shares in the assessment, it may be more appropriate for the Commission and the states to work together to address the underlying causes of the large revaluations reported in some components.

If the Commission decides to freeze component shares for the life of the 2025 Review, there should be further consultations with the states regarding issues such as an appropriate reference period for freezing component shares and how to account for potential distortions included in the reference period (e.g. significant stock revaluations or reclassifications).

5. Net Borrowing

Question 1: Do states agree that the conceptual basis for the net borrowing assessment remains unchanged?

The net borrowing assessment seeks to provide states with the capacity to maintain their per capita share of total net financial assets or liabilities. South Australia does not consider that the conceptual basis for this assessment has changed since the 2020 Review.

Question 2: Do states support smoothing population growth to reduce volatility in the net borrowing category if a change is made to smooth population growth in the investment assessment?

If the Commission decides to proceed with the proposal to smooth population growth in the investment assessment, a corresponding change should be applied in the net borrowing assessment to maintain consistency between the two capital assessments.

6. National Capital

Question 1: Do states support discontinuing the national capital assessment if the assessment is immaterial?

Consistent with South Australia's submission on the 2024 Update New Issues paper, South Australia believes that the National Capital assessment should be discontinued if the assessment is immaterial.

The National Capital assessment considers the "unavoidable extra costs" incurred by ACT due to Canberra's status as the national capital. Two allowances are currently assessed:

- Planning, recognising the additional costs due to the National Capital Plan on planning and development activities, the administrative costs of capital works and maintenance of the leasehold system.
- Police, recognising the additional costs from using the Australian Federal Police to provide policing services.

In the 2023 Update, the assessment redistributed \$1 per capita to the ACT, which was well below the materiality threshold. South Australia notes the CGC advice that the assessment may result in negative assessed GST needs for the ACT in the 2024 Update due to the Australian Federal Police employees receiving salaries below the national average.

South Australia believes the assessment should be ceased in the 2025 Review if its impact is determined to be immaterial.

We also consider it inappropriate to selectively consider factors that may increase costs for the national capital, but not factors that may result in a cost advantage. On this basis, if the police allowance is negative, the assessment should not be based on the additional planning costs assessment only. The assessment should consider the relative cost advantages or disadvantages across both factors.

7. Natural Disaster Relief

Question 1: Do states support the continuation of the natural disaster relief assessment in its current form?

South Australia generally supports maintaining the actual per capita approach for natural disaster relief assessment, recognising that natural disaster relief expenses are beyond state control and are broadly policy neutral.

South Australia acknowledges the reliance of the current assessment on the Disaster Recovery Funding Arrangement (DRFA), as well as how state expenditures are categorised within the DRFA framework. However, as noted in our Tranche 1 submission on the services to communities assessment, the interaction and ambiguity between natural disaster relief and resilience expenditures raises growing concerns.

The Betterment Fund in Queensland is an example of this emerging issue. A considerable portion of reported expenses are classified as DRFA category D. However, the funding appears to allow for the rebuilding of essential public assets to a more resilient standard, rather than merely restoring them to their pre-disaster condition, with the aim of enhancing their ability to withstand future natural disasters. Consequently, betterment funding could be more appropriately classified as disaster resilience rather than disaster relief, falling under the category of disaster mitigation expenses.

With the independent review into Australia's disaster funding arrangements set to release its report in April 2024, this issue may need to be considered further.

8. Other Revenue

Question 1: Do states agree with the revenues classified to the other revenue category?

South Australia agrees that there have been no substantial developments that warrant changing the classification of other revenue.

South Australia's comments on gambling revenue are separately provided in the response on the gambling taxation consultation paper.

Question 2: Do states agree that other revenue should be assessed equal per capita?

South Australia agrees that other revenue should continue to be assessed equal per capita.

9. Other Expenses

Question 1: Do states agree with the expenses classified to the other expenses category?

South Australia agrees that, in general, there have been no significant developments warranting a change in the classification of other expenses.

Question 2: Do states agree that other expenses should be assessed equal per capita?

South Australia supports the continuation of assessing other expenses on an equal per capita basis, as the driver of these expenses is likely to be broadly related to population or an appropriate differential assessment has not been identified.

10. Payroll Tax

South Australia supports the current payroll tax assessment but welcomes exploration of options to improve the data underlying the assessment to reduce volatility and improve the overall equalisation outcome.

Question 1: Do states support assessing revenue from payroll tax surcharges on the same basis as payroll tax?

Yes, but investigations of alternative data sources should continue to support the consideration of revised assessment processes that better reflect what states do.

As outlined in the consultation paper, Victoria and Queensland impose mental health levies/surcharges. These are essentially additional charges on businesses with payrolls above certain thresholds (annual payroll of \$10 million). Victoria has also introduced a COVID-19 debt temporary surcharge, which applies to businesses with annual payrolls above \$10 million.

All of these charges are levied on the same base as payroll tax and are administered under the same state legislation as payroll tax. On this basis, the charges could simply be considered as an additional payroll tax surcharge or a higher marginal tax rate. This supports assessing revenue from the new charges on the same basis as payroll tax.

However, the current payroll tax assessment approach does not allow the variable tax rate to be considered, either through thresholds or value distribution adjustments, due to data limitations.

South Australia's preliminary view is that a separate assessment for these surcharges is not required, but instead an alternative assessment approach based on taxable payrolls within value ranges (eg \$0-\$10m, \$10m-\$100m and \$100m+) could be more consistent with what states do and produce better equalisation outcomes. This reflects that such a revised assessment approach could consider both payroll tax surcharges and the impact of diminishing thresholds.

A consideration in the development of any new assessment approach is the availability of state data to split payroll tax collections by value ranges. South Australia's payroll tax data would allow such an analysis for businesses liable for payroll tax. Where a business falls below the existing threshold (\$1.5 million) the use of alternative data sources may need to be considered but should not be an impediment to the exploration of alternative assessment approaches.

Question 2: Do states support retaining the 2020 Review assessment method and data sources, noting the Commission will continue to explore the feasibility of an assessment based on data from BLADE and/or PLIDA?

Question 3: Do states support the assessment method including scope for the Commission to move to BLADE and/or PLIDA data in a future update, in consultation with states, if those data would improve the assessment?

In general, the current payroll tax assessment is robust, but there is room for potential improvement.

There are two main concerns with the current assessment:

1. Volatility and movement in the assessed payroll tax base that can vary to broader movements in wages and payroll tax collections, particularly for smaller jurisdictions.

For example, in 2018-19 (based on data used in the 2020 Review) South Australia's payroll tax revenue base was assessed to have increased by 9.4%, the highest growth rate of all states and significantly higher than the aggregate increase of 3.7% across all states.

The increase appeared to be due to the assessment of private sector wages and salaries data provided by the ABS based on Quarterly Business Indicators Survey (QBIS) adjusted for the weighted average payroll tax threshold.

The table below compares the taxable private sector wages for South Australia (as calculated by the ABS) for 2017-18 and 2018-19, as applied in the CGC's 2020 Review.

Calculation of taxable SA private sector payrolls, 2017-18 and 2018-19

	2017-18	2018-19	Change	
	\$m	\$m	\$m	%
Private sector wages & salaries ¹	30 363	30 866	502	1.7
Exempt employers	7 723	7 043	- 680	-8.8
Non-exempt employers	22 640	23 822	1 182	5.2
- Below threshold ²	3 643	3 283	- 360	-9.9
- Above threshold ²	18 997	20 539	1 543	8.1

1: Based on the QBIS data.

2: The weighted average payroll tax threshold was \$760 000 for 2017-18 and \$790 000 for 2018-19.

Source: CGC Report on GST Revenue Sharing Relativities – 2020 Review (supporting data), based on ABS calculations.

Despite a marginal (1.7%) increase in South Australia's overall private sector wages and a \$30 000 increase in the weighted average payroll tax threshold, there was a significant increase in the state's taxable (i.e. above threshold) payrolls in 2018-19 of 8.1%.

Given that the threshold on which the above classifications were based increased by \$30,000 in 2018-19, total payrolls of employers in South Australia would need to have increased significantly in 2018-19 to result in an 8.1% increase in non-exempt "above threshold" payrolls. This outcome implied significantly stronger growth in taxable private sector wages in South Australia relative to all other states (see table below) and did not appear to be consistent with actual payroll tax trends in South Australia and nationally at that time. An internal exercise using actual state revenue office data for payroll tax indicated that the proportion of South Australian wages above and below the applicable weighted average threshold was consistent across 2017-18 and 2018-19 – contrary to the results from the QBIS data request.

**Above threshold payrolls – non-exempt employers,
2017-18 and 2018-19**

	2017-18	2018-19	Change	
	\$m	\$m	\$m	%
NSW	127 771	131 025	3 255	2.5
Vic	94 566	99 729	5 163	5.5
Qld	65 410	68 003	2 594	4.0
WA	50 531	52 036	1 505	3.0
SA	18 997	20 539	1 543	8.1
Tas	4 864	4 874	10	0.2
ACT	5 255	5 187	- 67	-1.3
NT	4 866	4 575	- 291	-6.0
Total	372 259	385 970	13 711	3.7

Advice received from the ABS at the time of the results noted that the QBIS was not designed to provide estimates at this level. As such, it can be subject to high degrees of sampling error and other non-sampling effects.

Similar results appear to have occurred across the smaller jurisdictions on multiple years.

2. As discussed in response to Question 1, data limitations prohibit the current assessment from fully reflecting the impact of diminishing tax-free thresholds applied in a number of jurisdictions or the impact of recently introduced payroll tax thresholds.

South Australia supports the investigation of alternative data sources which may improve the reliability of the assessment and allow for the consideration of options to address the issues outlined above. We support this work being investigated even if it extends beyond the 2025 Review, subject to rigorous discussion and time for consideration by jurisdictions prior to any changes.

11. Services to Industry

Question 1: Do states support replacing total factor income as a measure of industry size with the chain volume measure of industry value-add to assess the need for spending on industry regulation?

South Australia notes that basing the assessment of business regulation expenses on the value of production does have the inherent issue of volatility in commodity prices and note that a shift to a chain volume of industry value added could address changes in relative prices. However, South Australia believes that the issue of selecting an appropriate base period for a chain volume approach makes a change away from value of production problematic (discussed further below).

Question 2: Do states support the development of an average or representative base year to index charges in the chain volume of production?

South Australia believes that both options presented by the Commission – use of an average over time or use of single year (reflecting the business-as-usual) outcomes in commodity prices could create arbitrary winners and losers. The length of time over which an average is determined will influence outcomes and distribution impacts. Selection of a representative single year is more problematic as it will be difficult to determine what a “business as usual” year looks like. Business as usual will differ across sectors as factors such as droughts, floods, supply shock issues, international conflicts, etc will have differing impacts.

Question 3: Do states support the reintroduction of the number of businesses as a driver of need for regulatory spending if it is material?

South Australia supports the reintroduction of the number of businesses as a driver of need for regulatory spending. Number of businesses is an indicator of the number of interactions that regulatory agencies have to have with business entities and therefore a driver of cost.

In the 2020 Review, the South Australian submission on the Draft Report provided data from our Department for Energy and Mining demonstrating that simply using the value of mining output as a proxy for the cost to regulate the industry is not a reasonable assumption. This approach incorrectly assigns a greater cost to service a mining industry where there is a greater proportion of very large mines. In 2018-19, it was estimated that over 90 percent of mining regulation expenditure was incurred in regulating construction material quarries and small/medium mining operations in South Australia. The value of production of these small and medium mines is only a small proportion of South Australia’s value of production for the mining industry.

Question 4: Will states be able to identify spending on the net-zero transition and provide it to the Commission to develop an assessment?

South Australia is not currently in a position to easily identify state spending on net zero transition. Expenditure would be spread across classifications and in several agencies. Provision of such data would require the development of a framework clearly specifying the definition/scope of net zero activities and would have to be collated from multiple agencies. As net zero transition programs expand and develop, agencies may start to include their spending in their reported programs and sub-programs.

Our Department for Environment and Water has been undertaking an exercise to identify net zero programs across the South Australian Government. This exercise has been challenging to undertake as many activities that could contribute to net zero are not clearly distinguished from regular service delivery. For example, the inclusion of solar panels on a social housing project may not be separately identified and just included in the overall cost of construction. This highlights the potential problems with identifying expenditure for the Commission’s purposes, noting that this exercise has not attempted to determine the accounting classification of all net zero expenditure which would require further additional work.

Question 5: Can states identify and provide data on potential drivers of state spending on the net-zero transition?

Spending on the transition to net zero is a policy driven process. Each state has its own net zero transition strategy, and each state will approach transition objectives differently. As such, South Australia cannot identify a policy neutral driver of expenditure at this time.

Question 6: Do states expect there to be sufficient increase in state net-zero transition spending to warrant a separate assessment, within or outside of the business development assessment?

South Australia believes that there will be an increase in net zero transition expenditure over time, but as current expenditure is not specifically captured / identified, it is difficult to form an opinion on future expenditure levels with any confidence.

12. Gambling

Question 1: Do states agree there is no reliable method of differentially assessing gambling taxes? If not, what do states consider to be a reliable method of assessing state gambling taxes?

From a system presentation and integrity perspective, it would be beneficial if there was some form of differential assessment for gambling revenue if it can be demonstrated that the relative revenue raising capacities of the states differ.

We recognise that the Commission's analysis of gambling expenditure to state household income as a potential broad indicator of capacity to raise revenue did not find any statistically significant relationship. We also recognise that for a range of gambling activities such as gaming machines and casino gambling, a direct assessment based on gambling revenue raised in each jurisdiction would not be appropriate due to significant policy differences across jurisdictions. However, given recent moves towards a consistent Australia-wide approach to wagering taxation, South Australia considers that the Commission should test whether a separate direct assessment of wagering revenue across jurisdictions would be material. A similar direct assessment could also be considered for lotteries.

Wagering

Recognising the national market for wagering activity that currently exists, all jurisdictions apart from the Northern Territory have implemented a wagering tax based on the place of consumption. As outlined in the table below, the tax bases across all jurisdictions are similar, making a direct assessment a potential option. While tax rates vary across jurisdictions, online wagering providers generally operate on a national basis with similar odds offered regardless of the location of the punter. From a harm minimisation perspective, all jurisdictions have committed to the national consumer

protection framework¹ providing a broadly consistent harm minimisation framework nationwide. These factors further support the use of a direct assessment approach.

It is recognised that the Northern Territory has not introduced a place of consumption wagering tax. However, it is considered that a reliable base could be produced for the Northern Territory, similar to the approach taken for the land tax assessment.

South Australia recommends that the Commission requests data from jurisdictions on net state wagering revenue and total tax collections to determine if a differential assessment of wagering taxation is material.

Interstate Comparison

BETTING TAX							
WA	NSW ^(a)	VIC	QLD	SA	TAS	ACT	NT
15% of Net State Wagering revenue with a \$150,000 tax-free threshold	15% of Net State Wagering revenue with a \$1,000,000 tax-free threshold	10% of Net State Wagering revenue with a \$1,000,000 tax-free threshold	20% ^(b) of Net State Wagering revenue with a \$300,000 tax-free threshold	15% of Net State Wagering revenue with a \$150,000 tax-free threshold	15% of Net State Wagering revenue with a \$150,000 tax-free threshold ^(c)	25% of Net State Wagering revenue with a \$150,000 tax-free threshold ^(d)	N/A ^(e)

(a) The NSW totalisator licensee, Tabcorp, is entitled to offset its existing betting tax requirements against its point of consumption (POC) tax liability to avoid double taxation. As a result, in some periods Tabcorp may not pay POC tax and instead will pay the betting tax under the *Betting Tax Act 2001* as the POC tax liability may be lower than the combination of betting tax and tax reduction payments. To ensure competitive neutrality between Tabcorp and other corporate bookmakers, Tabcorp pays a headline tax rate of 15% on its fixed odds bets to match the POC tax rate.

(b) Comprises a 15% betting tax rate and a 5% racing levy.

(c) Since 1 January 2020, a fixed annual Totalisator Wagering Levy, paid by the licence holder, has been replaced by a lower Annual Wagering Levy. The levy is 925,000 fee units and is indexed annually.

(d) A fixed annual totalisator licence fee (which is subject to annual indexation) is payable by Tabcorp. The forecast for 2023-24 is \$1.262 million.

(e) A point of consumption based betting tax does not apply in the Northern Territory. However, other forms of taxes apply as follows: wagering tax rates are 40% of the licensee's commission on thoroughbred, harness and greyhound races; 10% of the licensee's commission on international races, events, sports and other activities; and 20% for other such events held in Australia. Bookmakers and betting exchanges are taxed at 5% of gross betting profits with an indexed annual cap of 1,000,000 revenue units (\$1.35 million in 2023-24).

Source: WA Overview of State Taxes and Royalties 2023-24

Lotteries

A direct assessment approach could also be considered for lotteries revenue. In each jurisdiction apart from Western Australia, lotteries are effectively operated / managed by The Lottery Corporation (TLC)². While lotteries in Western Australia are operated by Lottery West, not TLC, Lottery West is part of the Lotteries Bloc. Under the Lotteries Bloc agreement, tickets purchased through Lottery West access the same lotteries pool as ticket purchased through other jurisdictions. This means Australian residents have similar access to the same lotteries pool / jackpot regardless of where they are located. Given the effective national market for lotteries, a direct assessment approach for lotteries revenue could be considered.

It is recommended that the Commission seeks data from jurisdictions to test if a direct assessment of lotteries³ is material. Part of the consideration will also be whether the

¹ <https://www.dss.gov.au/communities-and-vulnerable-people-programs-services-gambling/national-consumer-protection-framework-for-online-wagering-national-policy-statement>

² In South Australia the Lottery Corporation is the Master Agent for the SA lotteries Commission.

³ Note that there are differences in the availability of Keno across jurisdictions which means that it should likely be excluded from any direct assessment. A similar approach may also be required for Instant Scratchies.

data is policy neutral. Given the Bloc arrangement, it is considered that policy across jurisdictions is largely consistent and minor differences in marketing (eg between Lottery West and TLC) would have minimal impacts on the overall tax base.

Question 2: Do states agree that state gambling taxes should be assessed equal per capita in the other revenue category?

As noted above we support further investigation of whether a differential assessment can be made for wagering tax or lotteries.

If no material policy neutral differential assessment can be found, then we support continuing to assess gambling taxes equal per capita in the other revenue category.

13. Roads

Question 1: Do states support retaining the 2020 Review method of assessing urban road length, using population as the driver for large towns?

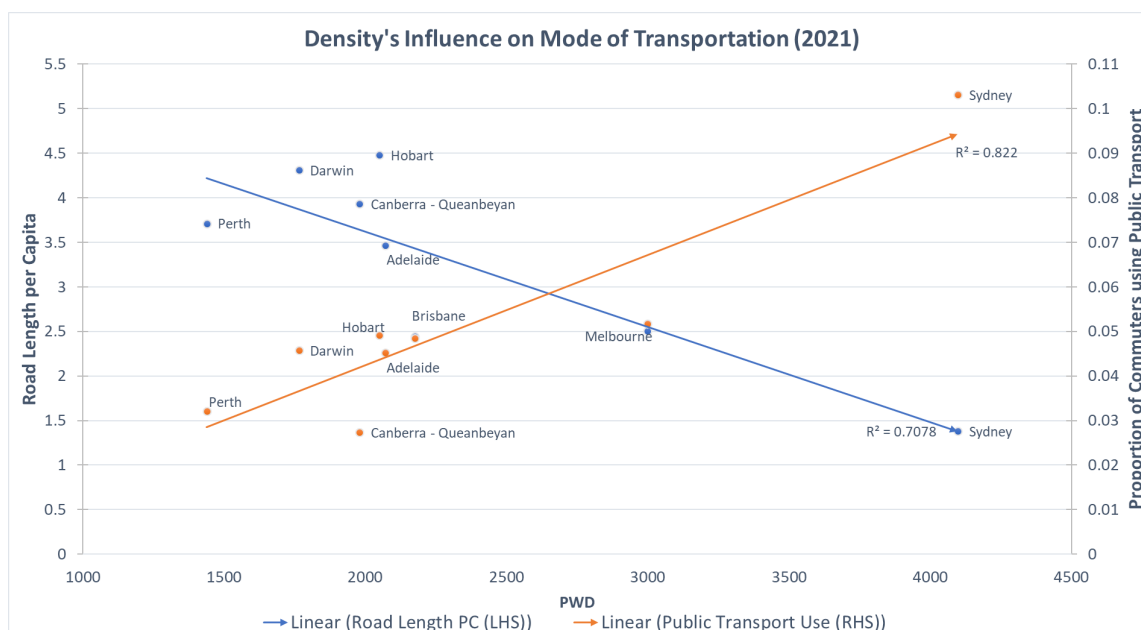
South Australia believes that further investigation of the relationship between urban road length and population weighted density is required.

Due to the unavailability of nationally comparable state road length data, the Commission's assessment of urban roads in the 2020 Review assumed that all urban centres required the same length of state roads per capita. Since the 2020 Review new road length data has become available. The Commission has used Geoscience Australia's national roads dataset to test whether the assumption that all large urban centres have the same per capita needs for urban roads is appropriate.

The Commission advises that although road lengths per capita decline with increasing population size for the capital cities, this relationship is not evident among other towns.

While acknowledging the limitations to the Commission's analysis of state urban road lengths, the data shows a strong relationship between road length and density among capital cities. As shown in the chart below, as density increases, there is a corresponding decline in the road length per capita from around 4 meters per capita to around 1.5 meters per capita. The relationship has an R^2 value of 0.71.

The Commission's urban public transport assessment recognises that density is a driver of public transport usage – i.e. as density increases, public transport usage increases. The flip side of this argument is that as density increases, then you should also expect to see a reduction in personal vehicle usage and the required provision of roads per capita. In other words, a journey is a journey, with the form of the journey substitutable. A trip taken on public transport (or walking or cycling) is one less trip taken by alternative means – for example by private vehicle. As shown in the chart, the relationship between population weighted density (PWD) and public transport usage and PWD and road length per capita for capital cities move in opposite directions, with the strength of the relationship similar.



Source: SA DTF calculations using CGC road length data by SA1, ABS Census 2021, BITRE mode of transportation

While only limited investigation has been undertaken to date, the assumption that roads per capita reduce with population is also supported in studies internationally, for example:

- Mattson, J., *Relationships between density and per capita municipal spending in the United States* finds that there is general negative relationship between density and per capita expenditure on streets and roads. The elasticity of the operational cost of streets and highways was -0.27, and for construction was -0.32. In other words a 10% increase in density reduces operating costs by 2.7% and construction costs by 3.2%⁴.
- Cleveland, Dec and Rainham in *Shorter Roads go a long way: The relationship between density and road length per resident within and between cities*, find that there is a clear relationship between population density and roads per resident, with between 84% and 94% of the variation in road length per resident being accounted for by net density in the nine cities across Canada included in the study⁵.

We recognise that the relationship between density and road length in non-capital cities is also not as strong. This could be reflective of other factors that are not picked up in a simple analysis of density and per capita road length. We also recognise that the analysis of urban road lengths by the Commission was based on an estimate of road lengths managed by state governments. This analysis may be able to be improved as further data becomes available over time.

⁴ <https://www.mdpi.com/2413-8851/5/3/69>

⁵ The study looked at 7 medium sized cities across Canada: Halifax, London, Oshawa, Saskatoon, Sherbrooke, Victoria and Windsor, plus two larger cities of Calgary and Edmonton to test if the results apply to larger cities. <https://www.google.com.au/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwil3aXJopOEAxXk0KACHQBtCtcQFnoECDkQAQ&url=https%3A%2F%2Ffojs.library.queensu.ca%2Findex.php%2Fcpp%2Farticle%2Fdownload%2F13406%2F9382%2F31196&usg=AOvVaw0667bg2c2jM1VkJZAHJpbq&opi=89978449>

We recommend that further work be undertaken on the assumption that all urban centres require the same length of state roads per capita.

Question 2: Do states agree that the 2020 Review synthetic rural road network should not be updated?

South Australia notes the Commission's view that a repeat of the 2020 Review process of calculating a synthetic road network is not warranted given that any changes in the number of towns above or below the 1,000-population threshold, or the opening and closing of national parks, mines etc is likely to have a very small impact on the total calculated size of the road network.

If an update of road length is not undertaken as part of the 2025 Review, we consider that this is an area which should be examined as part of the 2030 Review.

Question 3: Do states agree that traffic volume should continue to be assessed using data from the Bureau of Infrastructure and Transport Research Economics and the National Transport Commission?

Advice from our transport department is that the need to replace the ABS Survey of Motor Vehicle Use is an ongoing issue and potential solutions are being considered. In the interim, the Bureau of Infrastructure and Transport Research Economics and the National Transport Commission are appropriate data sources at the national level for traffic volume data.

14. Geography

Question 1: Do states support continuing the current methodology for estimating regional costs and service delivery scale effects?

Regional costs and/or service delivery scale (SDS) drive interstate differences in the cost of providing services and infrastructure across all expenditure categories. It is therefore important that these factors are calculated on the basis of robust and reliable data.

Under the Commission's current methodology, regional cost and SDS factors are calculated based on a range of category-specific data (e.g. the schools funding econometric model, data on state loadings for post-secondary education, and hospital cost data from the Independent Health and Aged Care Pricing Authority). Where the Commission considers that a conceptual case for regional cost disabilities exists but there is a lack of reliable data, it applies a general regional cost factor derived from the schools and admitted patient factors.

The Commission has conceded that the current approach may not be capturing all the cost disabilities faced by some locations, particularly those classified as remote or very remote. It considers that data limitations have in the past impeded the development of a more detailed indicator of cost and has invited state views on potential data sources that could inform future work in this area.

Developing appropriate alternative measures of regional costs and SDS would be a significant undertaking that would require a substantial amount of time to identify, collate and test a broad range of data in consultation with all jurisdictions. Given timing constraints for the 2025 Review, it is unlikely that there is sufficient time to fully consider changes to the current methodology in the 2025 Review. We look forward to engaging with the Commission on this issue as soon as possible after the 2025 Review to ensure work is well advanced ahead of the next review.

Question 2: Can states identify any data to measure differences in non-wage costs between major cities?

In the 2020 Review, the Commission discontinued an adjustment previously applied to recognise additional non-wage costs faced by isolated major cities (e.g. additional freight and interstate travel costs). This decision reflected the Commission's view that the adjustment was not sufficiently robust, nor was it clear that the HFE impacts of the adjustment were appropriate.

South Australia is not aware of any material changes since the 2020 Review that warrant reconsideration of the Commission's position. We note the Commission's observation that "fuel prices, construction costs and supplies from major national chains all suggest that prices in Perth are not significantly different to those in other major cities."

15. Welfare

Question 1: Do states agree that the state NDIS contributions can be collected from the Commonwealth Budget papers rather than from states?

Question 2: Do states agree that the current NDIS assessment is fit for purpose?

South Australia notes that the expiration of the Western Australian NDIS transitional agreement will mean greater harmonisation of NDIS funding arrangements across all jurisdictions. Based on current arrangements, funding contributions will be based on ABS 2021 Census data.

However, on 6 December 2023, National Cabinet noted the need for reform to the NDIS to ensure its future sustainability and agreed an initial response to the final report of the Independent NDIS Review (led by Professor Bruce Bonyhady and Ms Lisa Paul). This will see National Cabinet working together to implement legislative and other changes to the NDIS. It will also see an increase in state and territory NDIS contribution growth rates, increasing from 4 per cent to be in line with actual scheme growth, capped at 8 per cent from 1 July 2028.

National Cabinet also agreed to jointly develop a framework for additional foundational supports outside of the NDIS which would primarily be delivered by states and territories in existing government service settings where appropriate (e.g. child care, schools), phased in over time. Funding would be agreed through new Federal Funding Agreements, with additional costs split 50-50.

Although these arrangements have not been fully defined and agreed, it is clear that current NDIS funding contribution arrangements will change to some degree and there

is a possibility that the changed funding arrangements may not be fully uniform across all jurisdictions.

Given these circumstances, particularly the as-yet undefined scope of foundational supports, it is not clear whether the existing NDIS assessment will be fit for purpose going forward. It will not be possible to make such an assessment until the scope of NDIS changes have been developed and agreed. It is unclear whether funding contribution data from Commonwealth Budget papers can be solely relied on at this point in time.

Question 3: Do states support the development of a homelessness services assessment?

South Australia is open to the development of a separate assessment of homelessness services if the redistribution of GST revenue is material and appropriate/reliable data can be sourced by all jurisdictions to support the assessment.

Question 4: Will states be able to identify spending on homelessness services and identify where that spending is reported in the Government Finance Statistics classifications?

In South Australia homelessness spending is predominantly included in COFOG 10, Social protection and, specifically in 1051 Housing and 1069 Social exclusion n.e.c. However, these two COFOG codes will include more than just spending on homelessness and include data from a number of agencies. A specific data request, with clear definitions would be required to obtain accurate homelessness services expenditure.

In relation to more detailed homelessness reporting, our housing agency has advised that the focus of their reporting is to meet ABS requirements and also to meet National Housing and Homelessness Agreement (NHHA) acquittals obligations. In both cases, they have advised that they are quite limited in what can be reported (financially) in terms of breakdowns of expenditure via cohort and geographic area. They have also advised that their Specialist Homelessness Services system and data capture (and therefore, reporting) is restricted to a main 'presenting factor' - so whilst there may be multiple presenting factors, only the main one is captured.

Our housing agency has also advised that they administer an Emergency Accommodation Program (not part of the homelessness component of NHHA) and therefore not reported as homelessness expenditure. They also note that their Private Rental Assistance Program has a preventative/diversionary component. This further highlights the need for a clear definition of services.

Question 5: Do states support the proposed drivers to assess homelessness spending, noting further work is to be undertaken on mental health conditions as a potential driver?

The Commission proposes to use Indigenous status, age, socio-economic status (income support recipients) and remoteness as the primary drivers of homelessness services. South Australia believes that in addition to these drivers, rates of

domestic/family violence, disability and culturally/linguistically diversity also influence the rate of access to homelessness services. It is also acknowledged that mental health is also a major driver of homelessness as deteriorating mental health can trigger a range of negative outcomes that ultimately lead to insecure housing. These include loss of employment, drug dependence, inability to secure rental accommodation, relationship breakdowns and deteriorating physical health.

Question 6: Do states support combining the other welfare, non-NDIS aged care and National Redress Scheme components and assessing spending using the 2020 Review method for other welfare (equal per capita assessment method with regional and wage cost factors)?

As discussed above, National Cabinet has agreed to consider a range of NDIS/disability reforms including the development of a framework of foundational supports that would provide certain disability services outside of the NDIS. Given the current uncertainty surrounding the scope of foundational supports, South Australia does not believe it is appropriate to combine non-NDIS disability services into a combined assessment. This could be reconsidered once the scope of non-NDIS disability services, delivered by states and territories, has been developed and agreed.

Question 7: Do states support the Commission ceasing to collect state spending on the National Redress Scheme?

South Australia does not have concerns about ceasing the separate collection of National Redress Scheme data.

16. Flexibility to consider method changes between reviews

Question 1: Do states agree that there may be situations, such as a significant unanticipated shock or major policy reform, such that there is a case to extend the circumstances when the Commission may need to consider alternative methods between reviews?

There is a trade-off between stability in methods that support more accurate forecasting and budget planning and equalisation that reflects the current circumstances faced by jurisdictions. In general, South Australia supports the current approach, with method changes limited to Reviews rather than annual updates providing an appropriate mix between these priorities, while also recognising resourcing requirements associated with more frequent method changes.

While that is the case, South Australia recognises that there may be situations where unanticipated extreme circumstances warrant the consideration of alternative methods between reviews. These circumstances would be rare. However, we believe that there is a distinction between an unexpected external shock and a major policy change that has been initiated by a state or territory government, in particular, state taxation reform.

The COVID-19 pandemic was clearly an example of a major unanticipated shock that affected state and territory fiscal capacities. The fiscal impact of the pandemic on states started to occur just after the release of the 2020 Review. Although an alternative assessment may have been appropriate to capture changes in the drivers of

expenditure (especially for health), there was no reliable basis to construct an alternative assessment. The additional expenditure was significantly influenced by differing policy decisions across states and territories (eg lockdowns, border closures, restrictions on movement, etc). Policy influenced expenditure captured under the National Partnership on COVID-19 Response could not be used as a reliable basis to construct an alternative assessment. Although the COVID-19 pandemic could be regarded as the ultimate example of an unanticipated shock, it also demonstrated the difficulty in developing a robust, policy-neutral alternative assessment based on reliable data in a relatively short period of time.

The introduction of major policy changes, in particular, single state tax reform, is a different scenario to a major unanticipated external shock. The inclusion of clause 6 to the Terms of Reference for the 2025 Review⁶ appears to be largely in response to the COVID-19 pandemic but also the NSW Government proposal to replace stamp duty with a new property tax.

In April 2021, the Commission prepared an Occasional Paper on *GST Distribution and State Tax Reform* (the Paper). The Paper was driven by the finding in the *NSW Review of Federal Financial Relations* that HFE may be an impediment to state taxation reform, in particular replacing stamp duty on conveyances with a broad-based land tax. In relation to that reform the Commission's paper noted that efficiency and welfare gains would be large but the effective implementation of such a reform would be gradual. This, together with the averaging process used in the Commission's assessments, would spread any GST distribution impacts over a long period. It was also noted that estimates of potential GST distribution impacts from tax reform would be highly influenced by elasticity assumptions.

South Australia believes that for major taxation reform, GST distributional impacts are not a material or driving issue in developing reform proposals.

For NSW's proposed plan to either pay stamp duty upfront or elect to pay an annual land tax, an alternative assessment approach would have been premised on untested estimates of anticipated future elasticity impacts. Such assumptions would not have been a sufficiently robust base to support the development of an alternative assessment. Also given the implementation timeframe (ie from announcement of the measure to actual implementation), combined with the phased introduction, it is unlikely that there would be any material impact on GST distribution between the five-year review periods. That is, the impacts and methodology changes could be considered as part of a Review.

While that is the case, if it assists with any 'perception' that HFE can act as an impediment to reform (which is not a notion supported by South Australia), then providing the ability to make changes between reviews for policy changes in extreme circumstances is tentatively supported. However, the actual consideration of any change in methods due to state policy reforms should only occur after the policy has been implemented and any impacts of the reform can be reliably identified and measured.

⁶ Clause 6 of the 2025 Methodology Review: *6. The Commission should also consider if there is a case for the Commission to be given the flexibility to consider alternative methods in cases where there is a significant unanticipated shock (such as a pandemic) or where major policy reforms are enacted between reviews.*

In summary, South Australia believes that there may be situations where unanticipated extreme circumstances warrant the consideration of alternative methods between reviews, but the case for change for alternative methods between reviews as a result of proposed state policy reforms is less clear.

Question 2: Do states agree that the circumstances supporting the case to extend the Commission's flexibility to change methods between reviews should include major unexpected developments that have a significant impact on state fiscal positions, are not captured in existing assessment methods, and a change in methods is required for the Commission to achieve the objective of fiscal equalisation?

South Australia's primary position for all methodology issues is that five-yearly methodology reviews are the most appropriate mechanism for considering proposed changes. This should be the case for the vast majority of issues. We also recognise that in limited circumstances, some issues may remain unresolved as part of a review process and could be flagged for further consultation outside of a review process. The review of the wages assessment after the 2015 Review is an example of such a process.

South Australia is open to considering alternative assessment methods between reviews in extreme circumstances:

- on a case-by-case basis;
- where existing assessment methods do not capture the impact of the shock;
- where reliable data is available;
- where policy influences can be addressed;
- where a change in method is needed to achieve the objective of fiscal equalisation; and
- where the change in method will have a significant impact on GST distribution (see below).

South Australia notes that it would be conceptually and practically difficult to assign a monetary or other threshold for what constitutes a significant shock. If a shock is genuinely unanticipated, there is unlikely to be reliable data to estimate the financial impact of the shock across all impacted assessment categories and there could be a high degree of policy influence/choice if states are addressing the shock separately (as in the COVID pandemic). The Commission, in consultation with the states, would have to agree on a case-by-case basis on what constitutes a shock and how differences in policy responses could be addressed prior to considering method changes.

Question 3: Do states agree that any consideration of whether method changes are warranted between reviews be undertaken in consultation with the states and the expectation should be that this flexibility would only be exercised in very limited circumstances?

South Australia agrees that the need to consider an alternative assessment between reviews would be extremely rare.

South Australia strongly believes that the Commission, in close consultation with states and territories, would have to agree on a case-by-case basis on what constitutes a

shock, whether the shock is material, whether existing methods capture the impact of the shock, whether there are differences in policy responses and if these policy differences can be addressed in assessing whether an alternative method should be pursued. Alternative assessment decisions should not be based on proposed legislation or estimated future impacts based on untested assumptions.

Question 4: Should the extended flexibility to change assessments between reviews in certain circumstances be operationalised in standing terms of reference for updates?

Five-year reviews should be the primary vehicle for method changes. Any changes to the standing terms of reference for annual updates to allow method changes between reviews in extreme circumstances would need to be carefully considered.