



**Government
of South Australia**

Department of Treasury
and Finance

COMMONWEALTH GRANTS COMMISSION 2026 UPDATE

NEW ISSUES IN THE 2026 UPDATE

Submission from the South Australian Department of
Treasury and Finance

November 2025

1. The South Australian Department of Treasury and Finance (DTF) welcomes the opportunity to make this submission regarding new issues and Commonwealth payments identified by the Commonwealth Grants Commission (the Commission) for the 2026 Update. DTF's views on the issues raised by the Commission are detailed below.

Data issues

Schools – Changes in state funding

2. The Commission proposes to use 2023 school funding data from the Australian Curriculum, Assessment and Reporting Authority (ACARA) in its state-funded government and non-government schools regressions.
3. South Australia is concerned about large changes in some of the 2023 regression coefficients compared to previous years, which imply changes in state funding patterns over a short period that appear implausible.
4. In particular, the government school regression coefficients shown in the New Issues paper suggest that the effective loading applied by states in funding First Nations students in government schools increased from 48.5 per cent of the average base cost per student in 2021 to 95.3 per cent in 2023, a 46.8 percentage point increase over the assessment period. Such a large change in the First Nations loading over a single assessment period is unprecedented. Since the 2020 Review, the First Nations loading has never increased or decreased by more than 19 percentage points over the three-year assessment period (even when accounting for methodology changes in the 2025 Review).
5. The New Issues paper also shows a decrease in the effective loading for students in outer regional areas from 5.5 per cent in 2021 to 1.0 per cent in 2023, a 4.5 percentage point change over the assessment period. Again, this is the largest change in this loading over a single assessment period since the 2020 Review.
6. South Australia notes that the large variances in disadvantage loadings above are the latest in a range of issues that have been identified to date regarding the data underlying the schools regression. Previous analysis of this data by the Commission has shown some counterintuitive outcomes, such as:
 - average government student costs being higher in remote areas than in very remote areas after controlling for other sociodemographic differences;
 - a negative cost weight for the second most disadvantaged quartile of the socio-educational disadvantage measure in government schools;
 - a negative cost weight for the third most disadvantaged decile of the socio-educational disadvantage measure in government schools; and
 - a larger cost weight for the second most disadvantaged quartile than for the most disadvantaged quartile in non-government schools.
7. Given there have been issues with this data over time, South Australia recommends that the Commission consider investigating how the quality of this data could be improved to support a more robust regression model. This work could potentially be referred to the Data Working Group ahead of the next methodology review.

8. In the interim, South Australia supports the Commission's proposal to retain variables that have become insignificant in the regression model as long as they remain positive (and consistent with the relevant conceptual case), and to consult the states on an appropriate approach should they become negative in the future.

Health – Community and public health activity proxy

9. South Australia supports the Commission's proposal to include the *Violence, abuse and neglect services* and *Genetic counselling* non-admitted patient (NAP) categories in the NAP component of the community and public health proxy, as these services are commonly provided in community health settings. We agree with the Commission's proposal not to include the *Long COVID* category in the proxy, given that a separate COVID-19 assessment was adopted in the 2025 Review.
10. South Australia does not object to the use of unscaled emergency department (ED) data in developing the community and public health proxy for the 2023-24 assessment year, on the basis that the coverage of this data has improved materially compared to 2022-23.
11. Notwithstanding this, South Australia does not support the proposal to use unscaled ED data as the default approach for future assessment years. The appropriateness of using unscaled ED data for each future assessment year should be considered on a case-by-case basis as part of the Commission's annual updates at least until the next methodology review – by which time the Commission will have multiple data points upon which to base a decision on an ongoing approach.

Transport – Regression re-estimation

12. South Australia supports the Commission's proposal to retain the 2025 Review urban transport regression coefficients in the 2026 Update due to concerns about the comparability of 2023-24 state net expense data. The significant variances between Queensland's net urban transport data and other states' data – which the Commission notes were not present in the 2022-23 data used in the 2025 Review – mean that 2023-24 data is not appropriate to use in the Commission's model for the 2026 Update.
13. In the 2025 Review, South Australia raised concerns about updating the regression model using 2022-23 net expense data only. This reflected the risks associated with using a single year's data in the regression (compared to three years previously) noting previous data quality issues, compounded by the uncertainty around the suitability of net expense data immediately post-COVID.
14. Recognising this and other COVID-19 related data issues, the Commission decided in the 2025 Review to increase the weight applied to the urban population driver in the blended recurrent urban transport assessment by 10 percentage points. The Commission intended for this to be a temporary approach until fit-for-purpose 2026 Census data becomes available in 2027.
15. Given the issues with the 2023-24 net expense data, the Commission has indicated that it intends to investigate the underlying causes and proposes to refer this issue to the Data Working Group. While DTF supports the investigation of this matter by the Data Working Group, it is recommended that the Commission clarifies its broader strategy in managing this issue going forward.

16. In addition, we recommend that the Commission's decision on whether to revert to the previous blending proportions be deferred until the Commission has demonstrated that the available net expense data is of a sufficient quality to support a robust assessment. This could be further informed by the outcomes of the proposed urban transport consultancy to be undertaken as part of the Commission's forward work program.

Assessment issue – Better and Fairer Schools Agreement (BFSA)

17. The 2025 Review supplementary terms of reference (ToR) provide the following direction regarding the treatment of the BFSA:

"The Commission will ensure that the GST distribution process will not have the effect of unwinding the recognition of educational disadvantage, or the differential funding proportions, embedded in the Better and Fairer Schools Agreement (BFSA) funding arrangements. The Commission will also ensure that no state receives a windfall gain through the GST distribution from non-participation in BFSA funding arrangements."

18. The Commission notes that it could give effect to the 2025 Review supplementary ToR by either excluding the Commonwealth funding for government schools under the BFSA and the associated expenses from its assessments, or including the Commonwealth funding and assessing the associated expenses on an actual per capita (APC) basis. Under either approach, the objective would be to ensure Commonwealth BFSA funding for government schools has no impact on GST relativities.
19. South Australia considers that the first option (excluding the Commonwealth payment and the associated expenses) is the more appropriate approach as it would be consistent with the treatment of other non-impacting Commonwealth payments, including Commonwealth funding provided to non-government schools through the states.
20. If the Commission prefers the second option due to the significance of state expenses associated with the BFSA as a proportion of total state expenditure, these expenses should be assessed APC with no adjustments, including for wage costs. This would ensure that the Commission's assessment adheres to the 2025 Review supplementary ToR, including the requirement not to unwind the differential funding proportions under the BFSA.
21. Prior to the 2025 Review, the Commission's ToR required it to ensure that the GST distribution process would not have the effect of unwinding the recognition of educational disadvantage embedded in Commonwealth school funding arrangements (i.e. initially Students First, then Quality Schools), and that no state would receive a windfall gain from non-participation in the funding arrangements. There was no direction on whether or not to unwind differential funding shares.
22. The Commission's assessments therefore used the Schooling Resource Standard as the basis for assessing state spending of Commonwealth funding for government schools, rather than the Commission's schools regression model. This was then overlaid with the wage cost adjustment to account for the impact of interstate wage differences on the cost of providing education services.

23. This approach meant that while the recognition of educational disadvantage was reflected in the Commission's assessments, the differential funding proportions between states, once adjusted for wages, differed from the proportions outlined in the Commonwealth funding agreements.
24. The 2025 Review supplementary ToR differ from previous ToR in that they require the Commission ensure that there is no unwinding of the differential funding proportions in the BFSa. Adhering to this direction requires the Commission to adopt an APC assessment with no adjustment for wages or any other cost drivers.

Treatment of Commonwealth payments that commenced in 2024-25

25. South Australia does not support the Commission's proposal to treat the *Assistance for the Whyalla Steel Industry* Commonwealth payment as impacting. We note that the Commonwealth Government has formally advised the South Australian Government that the ToR for the 2026 Update will direct the Commission that a Commonwealth payment to support the Whyalla Steelworks will not affect the Commission's GST distribution calculations.
26. South Australia notes the Commission's proposed treatment of other Commonwealth payments that commenced in 2024-25, as presented at Attachment A of the New Issues paper.