



**Government
of South Australia**

Department of Treasury
and Finance

2025 METHODOLOGY REVIEW

SIGNIFICANT CHANGES SINCE THE DRAFT REPORT

Submission from the South Australian Department of
Treasury and Finance

December 2024

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Introduction

1. The South Australian Department of Treasury and Finance welcomes the opportunity to provide feedback on the Commonwealth Grants Commission's proposed changes to the methods discussed in the Draft Report for the 2025 Review, as outlined in the Commission's *Significant changes since the Draft Report*.
2. South Australia's comments on substantive changes that the Commission proposed in the Significant changes since the Draft Report are outlined below.
3. South Australia notes the minor changes to the methods proposed in the Draft Report for the 2025 Review.

Motor taxes

4. We thank the Commission for testing the materiality of a differential assessment of stamp duty on motor vehicle transfers. The Commission's analysis confirmed that a differential assessment meets the \$40 per capita materiality threshold.
5. As noted in South Australia's previous submissions, the levying of stamp duty on motor vehicle transfers is consistent across jurisdictions, reflecting 'what states do'. South Australia supports the Commission's decision to separately assess stamp duty on motor vehicle transfers within the motor taxes category. This proposal is consistent with the position taken in the 2025 Review by the Commission, namely that it would monitor its materiality and re-introduce the assessment if it became material.

Schools

6. In its response to the draft report, South Australia raised concerns that the Commission's proposal to base its low socioeconomic status (SES) assessment on the most disadvantaged decile, rather than the lowest quartile, would significantly understate the resourcing needs of students in the 11th to 25th deciles. Accordingly, South Australia supports the Commission's proposal to retain the 2020 Review definition of socio-educational disadvantage.

Health

Admitted patient non-state sector indicator

7. South Australia supports the Commission's decision to retain the 2020 Review approach of using private patient separations as the indicator of non-state sector activity in the admitted patients component.
8. This is a change from the Commission's proposal in the Draft Report to use private patient expenses as measured by benefits paid by private health insurance funds. As indicated in South Australia's response to the Draft Report, we do not believe patient

expense data is sufficiently robust and non-policy contaminated to warrant a departure from the 2020 Review approach.

9. We note that the Commission will undertake further work on the non-state sector adjustment for all health assessment components as part of its forward work program.

Re-testing socio-demographic groups

10. South Australia notes the Commission's decision to use the actual distribution of Commonwealth grants to First Nations-controlled health services as the estimate of non-state sector expense needs in the Community Health assessment. This approach recognises that the Commonwealth Government's funding model for the *Indigenous Australians' Health Programme* already includes adjustments for remoteness and SES.

Rounding non-state sector substitutability levels

11. South Australia has no objections to the Commission's decision to use the exact calculated midpoint estimates of the non-state sector adjustment substitutability levels. The current approach of rounding to the nearest 5% does not reduce complexity and has GST redistribution impacts.

Non-hospital patient transport

12. South Australia notes the Commission's intention to incorporate expenses associated with aeromedical services and the Patient Assistance Transport Scheme in the admitted patients assessment before the next review if it is satisfied that all states are providing data in a consistent manner over a full three-year assessment period.
13. We request that the Commission consult the states and territories before implementing this change, in line with its usual practice.

Proxy indicator of community and public health

14. South Australia notes the Commission's decision to exclude COVID-19 clinics from the list of non-admitted patient (NAP) allied health services in the proxy indicator for community and public health. The Commission considers this to be the appropriate approach due to its intention to separately assess COVID-19 related health expenses.
15. As previously indicated, South Australia does not support the separate assessment of COVID-19 related expenses. Our position is detailed in our previous submissions and in the "COVID-19 response" section of this submission.
16. Notwithstanding this, we reiterate our previous recommendation for the Commission to reduce the NAP proportion of the proxy due to concerns about the quality of patient-level NAP data.

Discounting

17. South Australia notes the Commission's intention to apply a 12.5 per cent discount to the non-state sector adjustments for admitted patients, emergency departments, NAP and community and public health, reflecting uncertainty about data reliability and the robustness of the methods for determining the adjustments.

Health investment

18. South Australia does not support the Commission's intention to exclude COVID-19 expenses in the health component of the investment assessment.
19. The Commission considers that including COVID-19 related expenses in determining health investment needs in the 2025 Review (when Victoria's needs are declining) would be inappropriate because these needs were not included in previous updates (when Victoria's needs were increasing).
20. The Commission's investment assessments seek to provide states with the capacity to invest in the physical assets required to meet the service needs of their residents as reflected by the corresponding recurrent expense assessments. South Australia considers that the Commission's proposal to exclude COVID-19 expenses from the health investment assessment, despite proposing to include these expenses as a separate component in the recurrent expense assessment, appears to be inconsistent with this concept.
21. South Australia notes that the anomaly highlighted by the Commission is a direct result of the proposed actual per capita assessment of expenses associated with the *National Partnership on COVID-19* in the recurrent assessment – despite evidence provided by South Australia and other states showing that at least some of these expenses were policy influenced. South Australia's position on the assessment of COVID-19 related expenses is detailed in the "COVID-19 Response" section of this submission.

Housing

22. South Australia notes the Commission's proposal to assess net expenses for social housing on an average household size-based approach, rather than the individual-based approach as proposed in the Draft Report.
23. While the average household size approach does not fully reflect what states do, it represents an improvement on the individuals-based approach.
24. South Australia considers that if the Commission adopts the average household size approach, it should reconsider the need for a First Nations cost weight in this assessment.
25. In the 2020 Review, the Commission applied a 20 per cent First Nations cost weight (reduced from 30 per cent in the 2015 Review, reflecting updated data) to recognise the additional cost of providing housing services due to overcrowding and the relatively high mobility of the remote First Nations population. To the extent that the average household size approach captures some of these impacts, it would be appropriate for the Commission to reduce the size of the cost weight to avoid overestimating the impact of overcrowding.

Roads

26. South Australia supports the Commission's decision to retain the 2020 Review method for assessing rural road length, citing insufficient data to justify the exclusion of routes to mines, gas wells, ports, and national parks.

COVID-19 response

27. South Australia's views on the Commission's proposal to exclude COVID-19 expenses in the health component of the investment assessment are detailed in the Health section above. The following comments relate to the proposed treatment of COVID-19 related expenditure more broadly in the 2025 Review.
28. South Australia opposes any change to the treatment of COVID-19 state expenditures in the 2025 Review. This position reflects the fundamental principle that assessments should be policy neutral and based on reliable data, of which both elements are not present in the context of COVID-19 related expenses.
29. COVID-19 expenditures across states were driven by both jurisdictional circumstances and state-specific policy decisions. Rating agencies and independent reviews have commented that state policy responses, including lockdowns, border controls, and quarantine measures, significantly influence health and economic outcomes. These policy choices directly shape expenditure patterns and do not allow an assessment free of policy influence.
30. The Commission has not identified any reliable policy-neutral data for assessing COVID-19 related health or business support expenditures. The presence of significant policy differences across jurisdictions makes an actual per capita approach inappropriate. South Australia also holds concerns about the consistency in how states reported expenditures under the National Partnership Agreement on COVID-19 Response and business support programs. The assessment of relative fiscal capacities will be distorted by separately assessing the COVID-19 recurrent expenditures based on the actual per capita approach.
31. South Australia notes that the Significant Changes since the Draft Report makes no reference to the Commonwealth Government's COVID-19 Response Inquiry (released 25 October 2024) which made multiple references to states and territories making different policy decisions throughout the management of the COVID-19 pandemic. This report provides further support for not adopting an actual per capita assessment or moderating the distributional impact of any assessment.
32. South Australia is disappointed that there is no discussion on the application of a discount to the proposed assessment approach for COVID-19 expenditures in the Significant Changes since Draft Report. Should the Commission decide to undertake a separate assessment, we believe that some level of discounting must be applied to moderate the impact of policy choices and data limitations.

Transport

33. South Australia notes that while there have been no further method changes in the transport assessment since the Draft Report, the Commission has significantly revised its estimates of the indicative GST impact of the proposed changes. Commission staff have advised that the revisions reflect the impact of correcting errors in the Draft Report relating to the calculation of 2022-23 net expenses and passenger numbers as part of updates to the regression model.
34. South Australia remains broadly supportive of the methodology changes proposed in the Draft Report. While we continue to hold concerns about the use of a single year's net expense data in the regression (the area where the calculation errors occurred), we recognise that the increase in the blending ratio helps to address these concerns.
35. We reiterate our recommendation that the impact of using 2023-24 net expense data be critically analysed before it is introduced in the 2026 Update to ensure it is fit for purpose.