



ACT
Government

COMMONWEALTH GRANTS COMMISSION 2025 METHODOLOGY REVIEW OF GST REVENUE SHARING RELATIVITIES

***CONSULTATION PAPER – FLEXIBILITY TO
CONSIDER METHOD CHANGES BETWEEN
REVIEWS***

ACT Government Submission

ACT GOVERNMENT SUBMISSION
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ABBREVIATIONS

Term	Definition
CGC	Commonwealth Grants Commission or Commission
HFE	Horizontal Fiscal Equalisation
NDIS	National Disability Insurance Scheme
2025 Review	2025 Methodology Review

EXECUTIVE SUMMARY

In October 2023, the Commonwealth Grants Commission (CGC) released a consultation paper on the flexibility to consider method changes between reviews for the 2025 Methodology Review (2025 Review). The consultation paper sets out the CGC's preliminary views, seeks views from states and territories on the proposals and seeks answers on specific consultation questions.

The ACT welcomes the opportunity to comment on the CGC's proposals and consultation questions.

The Submission outlines the ACT's responses to the consultation paper on the flexibility to consider method changes between reviews, addressing the CGC's consultation questions.

The ACT supports the CGC's proposal to extend the flexibility to change assessment methods between reviews on limited circumstances, with thorough consultation with states and territories. The ACT recommends, in consultation with states and territories, the CGC to develop guidelines for undertaking method changes in between reviews.

CONSULTATION PAPER

CHANGING METHODS BETWEEN REVIEWS

Summary

The Terms of Reference for the 2025 Review asks the CGC to be given the flexibility to consider alternative methods should there be a case of significant unanticipated shocks or major policy reforms in between reviews.

The CGC's preliminary view is that it would be beneficial for the CGC to have additional flexibility to change methods between reviews should there be significant changes in state fiscal circumstances that result in existing methods no longer able to appropriately measure state fiscal capacities. The CGC would exercise such flexibility in very limited circumstances.

Overall, the ACT is supportive of the CGC's proposal to have the flexibility to change assessment methods between reviews on limited circumstances, with thorough consultation with states and territories. The ACT recommends, in consultation with states and territories, the CGC to develop guidelines for undertaking method changes in between reviews.

CONSULTATION QUESTIONS

Question 1

Do states and territories 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?

ACT Position

The ACT agrees that major shocks or events could occur in between reviews, which would extend the circumstances where the Commission may need to consider alternative methods between reviews.

The ACT notes that fixed methods over the life of each review can limit the CGC's ability to determine states and territories' relative fiscal capacities. This is especially critical when major events occur that significantly affect states' fiscal capacities such as from undertaking tax reform. Without in between reviews, the CGC cannot adequately capture these events in a timely manner within the prevailing assessment methods. This extends to new data availability that could enable the development of better assessment methodologies.

The ACT considers there is a strong case for method changes in between reviews. There are several new Commonwealth and state and territory governments' funding commitments, which are significant or will become significant during the next review period. This includes funding for social and affordable housing, the net-zero transition programs and initiatives, and changes to the National Disability Insurance Scheme (NDIS) and non-NDIS support provision.

In addition, as outlined in the Tranche 1 Submission Stamp Duty consultation paper, the ACT is continuing with its tax reform program of phasing out stamp duties on property transactions. Hence, it is critical for the CGC to consider applying elasticity adjustment to states' value of property transfers, to address Policy Neutrality concerns from second order effects of tax reforms in between reviews.

The flexibility for considering alternative methods in between reviews will allow the CGC to ensure its assessment methods remain as appropriate as possible when facing significant changes in circumstances.

Question 2

Do states and territories 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 and territory 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?

ACT Position

The ACT agrees that the CGC should extend the flexibility to change assessment methods between reviews if the described major unexpected events occur.

The ACT recommends, in consultation with states and territories, the CGC to develop guidelines for undertaking method changes in-between reviews. This should include defining the circumstances of what constitutes a major unexpected event, consistent with the objective of Horizontal Fiscal Equalisation (HFE) and the supporting principles. Clear guidelines will also enable states and territories to manage the needs for resources and the associated workloads.

Question 3

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

ACT Position

The ACT supports the CGC's proposal to first consult with states and territories.

The CGC should present its proposed alternative method and the availability of fit for purpose data, along with the analysis and the impact on GST distributions resulted from the proposal for a change in methods, for states and territories' consideration during the consultation process.

The ACT also supports the CGC to exercise such flexibility in very limited circumstances.

Question 4

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

ACT Position

The ACT supports the CGC's proposal to operationalise the additional flexibility to change assessments between reviews in standing terms of reference for updates.