COMMONWEALTH GRANTS COMMISSION 2026 UPDATE OF GST REVENUE SHARING RELATIVITIES

NEW ISSUES PAPER

ACT Treasury Submission

NOVEMBER 2025

Acknowledgement of Country

The Chief Minister, Treasury and Economic Development Directorate acknowledges the Ngunnawal people as traditional custodians of the ACT and recognise any other people or families with connection to the lands of the ACT and region.

We respect the Aboriginal and Torres Strait Islander people, particularly our Aboriginal and Torres Strait Islander staff, and their continuing culture and contribution they make to the Canberra region and the life of our city.

Produced by the Chief Minister, Treasury and Economic Development Directorate. Enquiries about this publication should be directed to the Chief Minister, Treasury and Economic Development Directorate.

GPO Box 158, Canberra City 2601
act.gov.au
Telephone: Access Canberra – 13 22 81

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INTRODUCTION

On 1 October 2025, the Commonwealth Grants Commission (CGC) released a Discussion Paper entitled *New issues in the 2026 Update* (New Issues Paper) to the States and Territories for comment. The paper sets out the new issues as well as Commonwealth payments identified by the CGC as relevant to the 2026 Update of GST relativities (2026 Update).

The ACT welcomes the opportunity to comment on the issues and recommendations outlined by CGC in the New Issues Paper. The ACT notes that these issues and recommendations have been prepared in advance of Terms of Reference (ToR) being released for the 2026 Update.

Overall, the ACT is broadly supportive of the CGC's recommendations for the 2026 Update. The ACT's position on each issue and the CGC's recommendations is provided below.

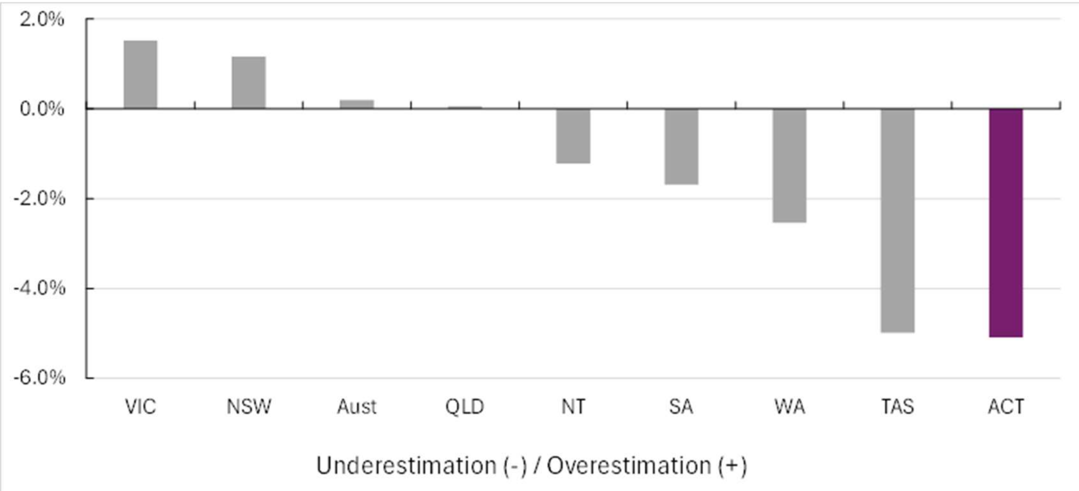
In addition to the matters raised in the CGC Discussion Paper, the ACT remains concerned about the impact of inaccurate population estimates on GST distribution, which is leading to systemic negative impacts for the ACT. ACT Treasury would welcome the opportunity to further discuss this issue with the CGC, and options to address the negative impacts for the ACT (A summary of the issues impacting the ACT population estimates is outlined below).

Lastly, the ACT is also concerned that the expenses assessments are not appropriately capturing the ACT's higher structural costs that result from its regional location, either through the Geography Assessment or other expenses assessments (for example, public hospital costs greater than the National Efficient Price). ACT Treasury will engage with the CGC on these matters ahead of the next CGC method review.

Population

At Census, the ACT estimated resident population (ERP) was underestimated by 22,000 or 5.1 per cent of its population – the largest error of any jurisdiction.

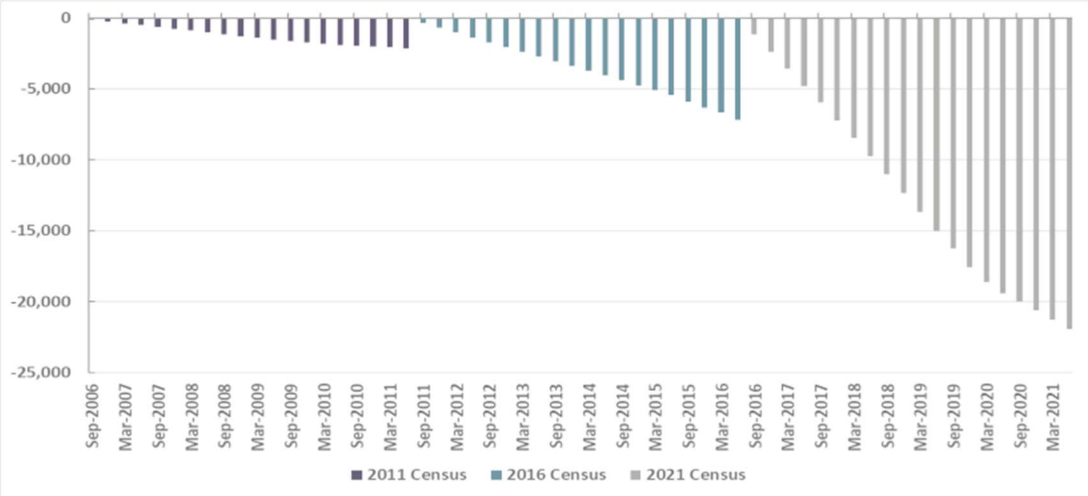
Figure 1: Census rebasing on 30 June 2021 ERP



Source: ABS

This is the third census in a row that the ACT population has been underestimated by the ABS, with ERP errors tripling in size at each census.

Figure 2: ACT ERP Underestimation, people



Source: ABS

The underestimation was mainly driven by the ABS estimates of net interstate migration (NIM), which is based on Medicare's change of address data. The ABS notes this is the weakest component of the ERP methodology.

There is no requirement for individuals to update Medicare address details and there is usually no need to update this data unless visiting a GP or a pharmacist (which is where and when it is usually checked). The ACT particularly exposed to this reliance on Medicare change of address data, noting the ACT's high interstate migration flows and a relatively young workforce.

In recognition of this systemic issue, the ABS applied method updates to NIM for its December quarter 2024 ERP data and retrospectively applied these back to Sep Q-21 (starting from last Census).

The method updates related to adjustments to the expansion factors the ABS applies to the Medicare data:

I. a one-time adjustment to account for base effects in the data from COVID-19

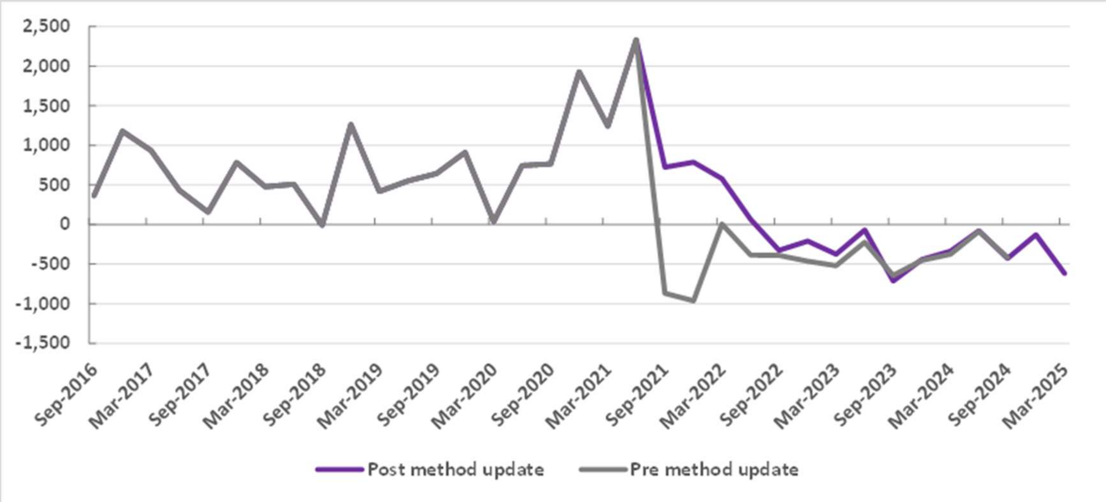
II. the removal of caps and age ranges on the expansion factors applied to the Medicare data

III. improved capture of 18-19 year-olds migrating for defence/uni; and

IV. adjustments based on annual tax return data.

The net result from the ABS method update, is that after the one-time COVID adjustment, the tax adjustment completely offsets the other two adjustment factors, and the revisions revert to the original estimates of NIM for the ACT (Figure 3).

Figure 3: ACT NIM, people



Source: ABS

The ACT is not supportive of the ABS using tax data to adjust the Medicare data. It is an annual database, has long lags, there is no time requirement to update change of address details and was previously not recommended by the ABS in their own post-census review.

> “Taxation change of address data are not suitable for use as a data source for estimating quarterly interstate migration. In addition to the incomplete coverage, the data source's lack of timeliness makes it inappropriate for producing up-to-date estimates. Also, the data are only available annually making it an inappropriate source for quarterly estimates.”[1]

After each Census, the ABS relies on its NIM methodology to estimate ERP. The approach consistently shows a negative NIM for the ACT, which is subsequently revised after each Census.

The ACT requests the CGC give consideration to:

- assessing the degree of under / over estimation that is present in ABS ERP data and the materiality of this on GST allocations; and
- the possibility of an adjustment to its method for applying ABS ERP data to account for any systemic estimations problems.

[1] 3127.0.55.001 - Information Paper: Evaluation of Administrative Data Sources for Use in Quarterly Estimation of Interstate Migration, 2006 to 2011

2026 UPDATE NEW ISSUES

DATA ISSUES

SCHOOLS – CHANGES IN STATE FUNDING

Issue

The CGC proposes to use the 2023 Australian Curriculum, Assessment and Reporting Authority (ACARA) data without adjustment to recalculate the school regression and determine the relative cost of different groups of students.

The CGC's analysis points out there are statistically significant changes to several regression coefficients across models using data from different year, as shown in Table 1 of the New Issues Paper.

Specifically, the cost weight for First Nations students increased from $4,116 per student in 2021 to $9,100 in 2023. The cost weight for remote or very remote student decreased from $3,550 per student in 2021 to $2,084 in 2023. The regression coefficient of outer regional student variable became statistically insignificant in 2023.

ACT Position

The New Issues Paper suggests the shift in First Nation student coefficient was driven by changes in States' funding distribution, especially in New South Wales where in 2023 an 8 per cent funding increase was disproportionately provided to schools with high proportions of First Nations students.

To ensure transparency, the CGC must make explicit the degree to which investigated factors drove changes in 2023 coefficients. This includes the degree to which spending in New South Wales (as a statistically significant state) alone was the cause of the shifts or whether it was a combination of factors.

ACT Treasury also requests the CGC further elaborate whether other causes were investigated explaining the variations in the value of these variables across all jurisdictions, including whether additional funding provided by New South Wales were driven by specific policy choices of that state rather than an actual change in assessed need. The CGC should provide a detailed explanation of these variations and understand the drivers before forming a position toward the CGC's proposal to use the 2023 ACARA data without adjustment.

HEALTH – COMMUNITY HEALTH ACTIVITY PROXY

Issue

The community and public health assessment uses a proxy measure of activity based on a combination of emergency department (ED) triage 4 and 5 activity and selected non-admitted patient (NAP) activity. The CGC identifies two changes in the data used to calculate this proxy: (1) the inclusion of 3 new Tier 2 clinic categories in 2023-24 data on NAP activity from the Independent Health and Aged Care Pricing Authority (IHACPA); and (2) coverage of ED triage 4 and 5 improved markedly in the 2023–24 IHACPA activity data.

Corresponding to these changes, the CGC proposes to include NAP allied health services relating to violence, abuse and neglect services and genetic counselling in its proxy for community and public health activity, but not to include services relating to long COVID in the 2026 Update.

The CGC also proposes to cease scaling the ED part of the community and public health activity proxy from 2023–24 because of the data improvement.

ACT Position

ACT Treasury **supports** the CGC's proposals to address the data issues in Health assessment. The ACT notes that the 2025 Review methodology specified that COVID-19 NAP services would be excluded from the proxy indicator for the 2025 Review and 2026 Update, and that COVID-19 expenses are separately assessed in a temporary health expense component.

TRANSPORT – REGRESSION RE-ESTIMATION

Issue

In the 2025 Review, the CGC decided to use 2022-23 and 2023-24 data to re-estimate the urban transport regression to reflect post-COVID-19 urban transport spending patterns. As only 2022-23 data were available at the time of the 2025 Review, the CGC used 2022-23 data in the model, which was supported by most States and Territories.

The CGC has analysed the 2023-24 net expense data and found large and significant variations between state net expenses data for urban areas, particularly for smaller areas with population less than 50,000. These variations were not present in the 2022–23 data. This raises concerns about the comparability of state data.

The inclusion of 2023–24 data in the urban transport regression model results in a decrease in the explanatory power of the model from 0.777 to 0.463. The coefficient of distance to work variable became negative, which is inconsistent with the conceptual case.

Given these results, the CGC does not consider the 2023-24 data suitable for use in re-estimating the regression model. The CGC proposes to retain the regression model coefficient based on 2022-23 data for use in the urban transport assessment. The CGC will continue to investigate the cause of the variation, including through the Data Working Group.

ACT Position

ACT Treasury **supports** the CGC's proposal to retain the regression model coefficient based on 2022-23 data for use in the urban transport assessment. The use of 2022-23 data enables the regression results to remove the impact of COVID-19 lock down on urban transport spending patterns and reflect post-COVID-19 patterns.

ACT Treasury looks forward to exploring this issue further through the Data Working Group and working with the CGC on the review of the urban transport assessment as part of the forward working program.

ASSESSMENT ISSUE

SCHOOLS – BETTER AND FAIRER SCHOOLS AGREEMENT

As directed by the supplementary ToRs for the 2025 Review, the CGC is required to ensure that the GST distribution 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) arrangements. The CGC also needs to ensure that no state or territory receives a windfall gain through the GST distribution from non-participation in BFSA funding arrangements.

To give effect to these requirements, the CGC proposes to two technical options implementing the quarantining indicating that both of these options have equivalent impacts on GST distribution:

- **the standard approach**, which would involve excluding the entirety of the Commonwealth funding from the Commonwealth grants revenue assessment as well as decreasing the assessed expenses of all 'BFSA recipient' States in the Schools expense assessment; and
- **an alternative** approach, which would involve - on the revenue side - retaining the BFSA payment in the Commonwealth grants revenue assessment and on the schools' expense side assessing the Commonwealth funded need on an equal per capita basis.

In addition, the CGC proposes three sub-options for applying the quarantining across all three assessment years: (i) back casting, (ii) simple phasing and (iii) complex phasing.

ACT Position

ACT Treasury **supports** the CGC's proposed treatment of the Commonwealth payment under the BFSA, noting that this is directed by the supplementary ToRs for the 2025 Review.

In the interest of transparency however, ACT Treasury seeks further information from the CGC showing the impact of each of the two 'technical' options on the GST distribution across States in 2024-25, as well as in future years up until BFSA funding reaches its highest point in 2028-29.

The ACT also conditionally supports the complex phasing option as it more closely matches the actual circumstances faced by States however this support is conditional upon the CGC providing evidence of the relative impacts of each sub option across States' GST distributions. The ACT notes that the complex phasing option would involve applying the *Quality Schools* treatment in 2023-24, 2023-24 and the first half of 2024-25, and only applying the BFSA payment from 1 January 2025 (second half of 2024-25).

NEW COMMONWEALTH PAYMENTS

The CGC has examined new Commonwealth payments commencing in 2024-25, as listed in the Commonwealth Final Budget Outcome.

ACT Position

The ACT supports the CGC's proposed treatments of new Commonwealth payments commencing in 2024-25 listed in Attachment A of the New Issues Paper.

ABBREVIATIONS

Term	Definition
ACARA	Australian Curriculum, Assessment and Reporting Authority
ACT	Australian Capital Territory
BFSA	Better and Fairer Schools Agreement 2025
CGC	Commonwealth Grants Commission
ED	Emergency department
GST	Goods and Services Tax
IHACPA	Independent Health and Aged Care Pricing Authority
NAP	Non-admitted patient
2025 Review	2025 Methodology Review
2026 Update	2026 Update of GST relativities