



# Update processes

- 1 The Commission makes recommendations on the appropriate distribution of GST revenue among the States, based on available historical information.<sup>1</sup> To ensure that the distribution reflects changes in State circumstances the Commission is asked to update its recommendations on an annual basis as data for a new financial year become available.
- 2 This document explains the processes used by the Commission in preparing an update. That procedure responds to specific requirements included in the terms of reference and reflects guidelines and protocols developed over time with the Commonwealth and the States. Where the Commission is required by circumstances to modify methods, it is informed in its decision making by its own assessment guidelines, which are set out in the most recent methodology review report.
- 3 The Commission consults States on the data to be used in an update, especially data for the new assessment year to be incorporated into its calculations. It also consults the States on any other issues on which it needs to decide through the course of an update, for example on the appropriate treatment of a Commonwealth payment that appears for the first time in the historical record.

## The terms of reference

- 4 The Commission only undertakes updates in response to terms of reference issued by the Treasurer and prepared following consultation with the States.
- 5 The Commission usually receives terms of reference late in the calendar year, with a report due usually late the following February. However preparatory work including data collection and analysis, along with the identification of, and consultation on, new issues commences well before receipt of terms of reference.
- 6 The terms of reference usually specify that the recommended GST distribution should be calculated:
  - using the same principles and methods as were used in the previous review
  - using the latest available data for the past three financial years
  - taking account of the Intergovernmental Agreement on Federal Financial Relations (the IGA)
  - reflecting equalisation principles, except where directed otherwise.
- 7 The IGA is an agreement between the Commonwealth and all State governments, specifying that the GST will be distributed among the States in accordance with the principle of horizontal fiscal equalisation (HFE). It also specifies the default treatment of types of other Commonwealth payments for specific purposes (PSPs). For example, that National Specific Purpose Payments, National Health Reform funding and National Partnership project payments should affect the GST distribution.

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<sup>1</sup> In the rest of this document, the term State(s) means the States, the Australian Capital Territory, and the Northern Territory, unless the context indicates otherwise.

- 8 The terms of reference require the Commission to prepare its assessments so that a number of PSPs, including payments quarantined by previous terms of reference, do not directly influence the GST distribution (known as quarantined payments). Terms of reference may also provide additional instructions on how certain assessments should be undertaken. In addition, they can give the Commission the discretion to change the default treatment of non-quarantined PSPs if it considers that will improve a HFE outcome.
- 9 The terms of reference allow method changes, subject to consultation with Commonwealth and State Treasuries, where data used in existing assessments are found to be unsatisfactory or where they are required because of significant changes in federal financial relations.

## Update guidelines

- 10 Under the update guidelines agreed by the Commonwealth and the States, the Commission may make changes after consultation:
  - to take account of major changes in federal financial relations and major new or changed Commonwealth payments
  - to accommodate other State budget developments, such as the abolition of existing State taxes, or the introduction of new ones
  - to amend assessment methods where data previously used are no longer available or, after consultation, are found to be unsuitable, which may include the application of new or better data not previously considered
  - to correct errors in calculations.

## Updates protocol

- 11 In July 2006, Heads of Treasuries agreed to a protocol governing what should occur when States provide data (including revisions) late in the update process or if errors are found in the Commission's recommendations.
- 12 The protocol is as follows.
  - Practical considerations limit the ability to incorporate data revisions close to the reporting date specified in the terms of reference. The cut-off for reporting data revisions is three weeks before the reporting date in the terms of reference. Revisions notified after that date will be held over until the subsequent update.
  - To limit the need to adjust for minor errors in the Commission's recommendations, only errors that redistribute more than \$10 per capita for any State will be corrected at the time. Other minor errors will be corrected in subsequent updates.
  - Where errors are being corrected, a revised set of recommendations will be provided no later than one week before the meeting between the Commonwealth and State Treasurers (collectively referred to as the Council on Federal Financial Relations) to discuss the recommended GST distribution.

## Conducting the update

- 13 In conducting an update, the Commission:
- requests, collects, and verifies the latest available required data (principally relating to the incoming assessment year)
  - identifies any new issues that have arisen in the update, in relation to which the States are consulted
  - makes decisions on the treatment of new issues
  - performs an extensive quality assurance process to verify the accuracy of its recommendations.

## Data

- 14 Data for the year in which the Commission makes its recommendations are unavailable and only enter the Commission's analysis in a subsequent update. The Commission uses data for the latest three available financial years, on a rolling average basis.
- 15 Data for the incoming assessment year, along with any changes to data previously provided for the earlier assessment years, are collected from the States, the ABS, the Treasury, and other Australian Government agencies. A list of major data providers is provided in Attachment A. These data are checked for consistency and providers are queried where there is any uncertainty about their accuracy.
- 16 In the report, changes to data used in the previous inquiry are classified as revisions. Revisions can be due to the following.
- The use of data revised by the provider (for example, the ABS or the States). This is the most common revision. For example, preliminary population data from the ABS are used for the last financial year. These are replaced with final data in the subsequent update.
  - The use of previously unavailable data. Some data are only available with a lag. When that occurs, data for previous years are used as estimates. When the data do become available the estimates are replaced by the actual observations. In other cases, better data become available. For example, adjusted budget data for the last year are not available from Government Finance Statistics (GFS) and must be sourced from the States. The State data are replaced by GFS in the subsequent update.
  - The correction of errors.
- 17 There is an extensive consultative process to ensure that, as far as possible, the new data accord with established definitions and are consistent over time and across the States. This process is based upon a data protocol, agreed to by the Commission based upon a recommendation of the Data Working Party, a body chaired by Commission staff and including State representatives. The protocol for data collection is outlined in Table 1 below.

Table 1 Protocol for data collection

Stage in process	Responsibility	Protocol
Data requests	Commission	<ul style="list-style-type: none"> <li>• Circulate a draft data request annually for comment when a new data request is first introduced</li> <li>• Include the previous year's data in the new request</li> <li>• Clarify definitions of requested data</li> </ul>
Data collection	States	<ul style="list-style-type: none"> <li>• Adhere to data request as closely as possible (a)</li> <li>• Perform basic checks of data</li> <li>• Explain large variations as required (b)</li> <li>• Provide timely data</li> <li>• Provide statement on data quality, including               <ul style="list-style-type: none"> <li>– Name the data set, source, and date of collection</li> <li>– the purpose for which the data were originally collected</li> <li>– whether the data comply with the specifications, and if not, the extent to which they do not comply</li> <li>– any known problems with the data, including whether the data are based on a full enumeration or extrapolated from a sample (and if so, sample size, response rate and so on)</li> <li>– whether the data show expected trends</li> <li>– whether the data have been checked by the agency and represent the best available data</li> </ul> </li> </ul>
Verification after provision	Commission	<ul style="list-style-type: none"> <li>• Check the changes in the data over time and differences between States</li> <li>• Check data quality statements for consistency of approach and make adjustments as required</li> <li>• Confirm any adjustments with States and provide feedback for the following year</li> </ul>

(a) Adhere as closely as possible to the specifications and document divergences from them.

(b) The level of variation requiring explanation is left to the discretion of Treasuries.

18 All data provided by Commonwealth and State government agencies are made available to Commonwealth and State Treasuries except for any data which an agency specifically nominates as confidential.

19 Each data request includes a Confidential Data Statement to be completed by the data provider. If the data provider indicates that data are confidential, it must provide sufficient justification for this restriction so that other parties clearly understand the need for confidentiality. Confidentiality restrictions may apply to one or more of:

- the Commonwealth Government and other State Treasuries
- other government agencies for Commission-related purposes
- other third parties.

20 Prior to the 2017 Update, the Commission's practice was that comparable State data were not shared among States unless all States allowed that data to be shared. This practice was changed in the 2017 Update after consulting all States. From the 2017 Update, the protocol for sharing data is:

sharing non-confidential data among States which have not designated their data as confidential, provided any data designated as confidential by States cannot be back solved from the assessment outcome. This means a dataset could be shared among the States that have not designated their (same) dataset as confidential. The States that said their (same) data are confidential could not see other States' data.

## New Issues

21 The Commission monitors changes in State circumstances in each update. The Commonwealth and State Treasuries are consulted on any new issues arising. New issues include:

- new or changed federal financial arrangements, in particular on the treatment of new Commonwealth payments to the States
- data and assessment issues, such as how we might deal with:
  - changes in State activities
  - changes in the data available to measure disabilities and revenue bases
  - new items in State budgets.

22 Occasionally, data used in existing assessments are found to be no longer available, or the terms of reference might specify a particular course of action, resulting in a change being required to the methods the Commission adopted in the preceding review of methodologies. Any such changes are included in the consultation process.

23 A staff discussion paper is released in July or August each year covering each new issue, including the recommendation staff propose to make to the Commission on its treatment. This serves as a basis for consultation with the States, whose views are usually received by the end of September. In some updates, there may be more than one round of consultation; for example, due to the late emergence of new issues in the update process. All new issues papers and State submissions can be found on the Commission's website ([www.cgc.gov.au](http://www.cgc.gov.au)).

## Decisions

24 The Commission makes its decisions on the treatment of new issues for the update, taking into consideration the staff recommendations and the views (including countervailing views) of the States. Its decisions on new issues are set out in a specific chapter of the update report.

25 However, the report does not address all cases, such as where, within the existing methodology, the use of revised and improved data relating to some State activities has only small effects on the GST distribution.

## Quality assurance

26 Prior to finalising its report, the Commission undertakes an extensive quality assurance process aimed at verifying the accuracy of its recommendations, consistent with the Quality

Assurance Strategic Plan adopted by the Commission as part of the 2015 Review. These processes include checking and verification of newly obtained data and consistency of methods applied in the assessments with Commission decisions. The process encompasses both internal and external audits. Further details on the quality assurance processes followed for each update are included in an appendix to each update report.

- 27 In addition to the report itself, the Commission makes available a substantial amount of supporting material, including data supporting the calculation of relativities such as population data, the adjusted budget and analysis of relativities and of change. Stakeholders are provided with the complete suite of Commission calculations and data (unless specified to be confidential) used in the assessments which gives them the capacity to replicate the Commission's analysis.
- 28 Once the update is completed, the Commission reviews the update process, and seeks feedback from States on ways to improve the process.

## Timetable

- 29 An overview of a typical update process is provided in Table 2.

Table 2: Update processes

Indicative timing	Actions
July to January	Request and receive data from data providers Advise States of New Issues and receive State submissions Terms of reference received
July to February	Final decisions made on new issues Quality assurance processes completed Recommended GST distribution for the following financial year provided to the Treasurer via an update report
March to April	Review of the update processes, including State feedback

## The GST distribution process

- 30 Box 1 sets out the process for distributing the GST revenue among the States after the Commission has reported to the Commonwealth Treasurer. The Commission's involvement is but one aspect of the GST distribution. The overall process, and in particular the actual payments to States, is managed by the Commonwealth Treasury.
- 31 Because the final populations and the amount of GST to be distributed in the application year are not known at the time of the update, distributions in the report are only illustrative. They are based on current projections of both the population and GST. The distributions shown throughout the report are not projections and forecasts, they are simple extrapolations of estimates for the period based on estimates of population growth and growth in the GST pool.

- 32 In addition to the GST revenue the Commonwealth will make top-up and HFE transition payments under the HFE reform package<sup>2</sup> to
- deliver an outcome equivalent to a relativity of 0.70 to Western Australia and 4.66 for the Northern Territory (to 2021-22)
  - include a relativity floor of 0.7 from 2022-23 increasing to 0.75 in 2024-25 ensuring no State is worse off under the new HFE system for the 6 years from 2021-22 to 2026-27.

**Box 1: GST distribution process**

After the Commission provides its report to the Treasurer, the process for distributing the GST revenue among the States usually involves the following steps.

- The Treasurer consults with the State Treasurers regarding the Commission's recommended GST revenue sharing relativities for the upcoming financial year. The Treasurer then makes a formal determination of each State's GST relativity for that year.
- During the year, each State receives a monthly payment based on its estimated GST entitlement for that year, calculated by the Commonwealth Treasury as derived from:
  - Australian Taxation Office (ATO) estimates of the GST revenue received
  - the State's per capita relativity
  - the State's projected population as at 31 December in the application year.
- The amount of GST to be paid to each State each month is updated several times as new estimates of the GST collections and projections of State populations become available.
- In June, the Australian Statistician determines the preliminary estimated resident population as at December the previous year.
- After the end of the financial year, the ATO finalises the amount of GST revenue collected for that year. The Treasurer then makes a formal determination of GST revenue, including each State's GST entitlement for that year.
- The Treasury makes a balancing adjustment to the (following year's) monthly GST payments to ensure that each State receives the GST to which it is entitled — reflecting the formal determinations of GST relativities, population, and GST revenue.

<sup>2</sup> Productivity Commission inquiry into horizontal fiscal equalisation: Australian Government interim response July 2018; *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018*

# Attachment A: major data providers

Australian Bureau of Statistics  
Australian Curriculum and Reporting Authority  
Australian Institute of Criminology  
Australian Institute of Health and Welfare  
Australian Prudential Regulation Authority  
Bureau of Infrastructure and Transport Research Economics  
Centrelink  
Department of Education, Skills and Employment  
Department of Health  
Department of the Prime Minister and Cabinet  
Department of the Treasury  
Department of Veterans' Affairs  
Independent Hospital Pricing Authority  
Medicare  
National Centre for Vocational Education and Training  
National Transport Commission  
Private Health Insurance Administration Council  
Productivity Commission  
State Revenue Offices  
State Treasuries and other State government agencies