

Adjusted budget

Overview

- 1 On 6 October 2023, the Commission issued a [consultation paper](#) on the adjusted budget. The Commission considered changes since the 2020 Review and their implications for the adjusted budget method.
- 2 The Commission proposed to retain the 2020 Review method with 2 additional elements: the use of the Australian Bureau of Statistics (ABS) preliminary Government Finance Statistics data for the most recent assessment year and clarification on methods for making an adjustment to Government Finance Statistics data.
- 3 A summary of state and territory (state) responses to each consultation question, responses to states' other issues, the Commission's draft position and the draft 2025 Review assessment method are included below.
- 4 State submissions can be viewed [here](#).

Consultation questions

Q1. Do states agree with the Commission's preliminary view to use:

- **ABS preliminary Government Finance Statistics data for year 3?**
- **a state's year 3 data if the ABS preliminary data are not available?**
- **the final ABS Government Finance Statistics data for the first 4 assessment years (year minus 1 to year 2)?**

State views

- 5 There was broad support from New South Wales, Victoria, Queensland, Western Australia, South Australia, Tasmania and the Northern Territory for the Commission's proposal to use preliminary ABS Government Finance Statistics data for year 3, use a state's year 3 data if preliminary ABS data were not available, and continue to use final ABS Government Finance Statistics data for the first 4 years of data. The ACT did not support using preliminary ABS data for year 3.
- 6 New South Wales, Victoria, South Australia and the ACT raised concerns about the late availability of the preliminary ABS data.

- 7 New South Wales said in cases where preliminary ABS data are not available for all states, the Commission should determine whether it is appropriate to use data from 2 sources (states and the ABS) to compile the adjusted budget. New South Wales noted, however, that this issue may not cause a material difference since only national totals are relevant for the Commission's purposes.
- 8 Victoria had concerns over whether there will be sufficient time for states to respond to late requests for year 3 data if the preliminary ABS data are not available on time, particularly if further state engagement is required to verify data. Victoria asked the Commission to outline the process for managing this challenge.
- 9 Victoria also said the Commission should provide more information to states regarding the adjustments made by the ABS to states' raw data when preparing the preliminary ABS year 3 data.
- 10 South Australia said that if there were delays in receiving ABS preliminary data resulting in the use of state year 3 data, further consideration may need to be given to the data source for year 3 data.
- 11 While the ACT supported using final ABS data for the first 4 assessment years, it did not support using preliminary ABS data for year 3. The ACT noted that not all jurisdictions would be able to provide their preliminary data in time for the annual updates. Further to this, the ACT said it was unable to reconcile the adjustments made by the ABS to its preliminary data at the category level (such as at the health, education or transport level).
- 12 The ACT also referred to the Commission's analysis of 2021-22 data indicating significant revisions to the preliminary ABS data compared with the final ABS data for both the ACT and the national totals. In the case of investment expenditure for the ACT, the total was revised down in the preliminary ABS data and then revised back up in the final ABS data.¹
- 13 The ACT also noted its year 3 data reflects the implementation of the Australian Accounting Standard Board (AASB16) Leases accounting standard. This means its year 3 data will not require an adjustment, while such an adjustment will be required if the preliminary ABS data are used for year 3.

Commission response

- 14 The Commission considers that final ABS Government Finance Statistics data are the most reliable and fit-for-purpose source of state budget data. This is because the data are audited by the ABS for consistency of coding and quality across all states.

¹ As part of its yearly adjusted budget process, staff provide states (typically in December each year) with the revisions made by the ABS to their previous years' category level revenue, expense, and investment data. In early 2024, staff also provided states with similar revisions (made by the ABS) to states' ABS preliminary data compared with their ABS final data.

- 15 While preliminary ABS Government Finance Statistics data are not subject to the same validation and consolidation processes as the final ABS data, they have undergone some basic standardisation processes, including bringing all jurisdictions' files into a standard format and applying a range of fundamental business rules to carry out re-coding of particular types of data. This should improve consistency of Government Finance Statistics data between states and reduce the number of adjustments and revisions that are currently required due to the use of raw state data.
- 16 Even so, given the preliminary nature of the data, differences between the preliminary data and final data are expected. The Commission will continue to monitor differences in the preliminary ABS data and the final ABS data and consider adjustments in consultation with the relevant state and the ABS where necessary.
- 17 The Commission notes that in the 2024 Update, the preliminary ABS data from most states were available by mid-December 2023, with one state providing its file in early January 2024.
- 18 If preliminary ABS data are not available in time, the Commission proposes to use the states' year 3 data instead. This means a mix of preliminary ABS data and state year 3 data may be used to create the adjusted budget. If using preliminary ABS data from all states is not possible, using preliminary ABS data from as many states as possible is preferable.
- 19 To ensure year 3 adjusted budget data (either preliminary ABS data or state data) are available in a timely manner, the Commission proposes to send out data requests to states in July as per the usual update process. States will be asked to inform the Commission when they plan to give their raw Government Finance Statistics data to the ABS. If states anticipate data will not be provided to the ABS before December, they will be asked to complete the data request and submit their year 3 data directly to the Commission before December or as soon as possible after. If states subsequently provide preliminary ABS data to the Commission, these will be used instead of the data provided by states.
- 20 The ABS has provided a high-level outline (below) of the data adjustments made to states' raw data to turn it into the preliminary ABS data.
 - States' Government Finance Statistics data files are brought into a standard format.
 - Business rules are applied to re-code certain data combinations. For example, re-coding a current grant expense from General Government to the Public Non-Financial Corporation sector from a current grant to a subsidy.
 - Incomplete codes are identified and repaired. For example, a missing Classification of Function of Governments – Australia (COFOG-A) code on an expense transaction. The ABS may consult state treasuries in this process.
 - Any state treasury coding relating to AASB16 is not changed by the ABS in the unit record creation process. For example, if states code their Government Finance Statistics file so that the effect of AASB16 is removed, or if states leave

in the effect of applying the AASB16 accounting standard, both of these types of coding will remain in the preliminary unit record files returned to state treasuries by the ABS.

- 21 It is the Commission's understanding that the ABS provides states with the preliminary ABS data and then states in turn provide these data to the Commission. This means states can compare their raw Government Finance Statistics data with the preliminary ABS data to see what specific changes the ABS has made.
- 22 Regarding the treatment of the AASB16 accounting standard, the Commission has confirmed (as noted above) that the preliminary ABS data include the effect of the standard which means that no adjustment needs to be made to year 3 data. An adjustment for AASB16 is still required in each update for the final ABS data (for assessment years 1 and 2). This has been the case since the 2022 Update following the introduction of the new accounting standard.
- 23 The Commission will monitor the progress of using preliminary ABS data. If ongoing issues are encountered, the use of preliminary data may need to be re-examined in the next review.

Commission draft position

- 24 The Commission proposes to use preliminary ABS General Finance Statistics data from states for year 3 where they are available, and state year 3 data in cases where they are not available. This process will be monitored to ensure using preliminary ABS data remains appropriate for year 3. The Commission will continue to use final ABS General Finance Statistics data for the first 4 assessment years.

Q2. Do states consider the proposed process for implementing adjustments in the 2025 Review adjusted budget is appropriate?

State views

- 25 There was broad support from all states for the proposed process for implementing adjustments in the 2025 Review. Queensland, South Australia, Tasmania, and the ACT said, if adjustments are made, states should be consulted.
- 26 Victoria asked for further clarity on how the Commission intends to consult with states concerning the adjustments process. Victoria said all states should be made aware of adjustments that are applied to ensure transparency. This should be documented through annual updates, either in the update report, or in the assessment simulator spreadsheets.
- 27 New South Wales and Western Australia said some adjustments should be made regardless of materiality, such as where obvious errors are found.
- 28 New South Wales also said if data are required to be reclassified to align with the Commission's assessment structure, the reclassification should happen. It said that

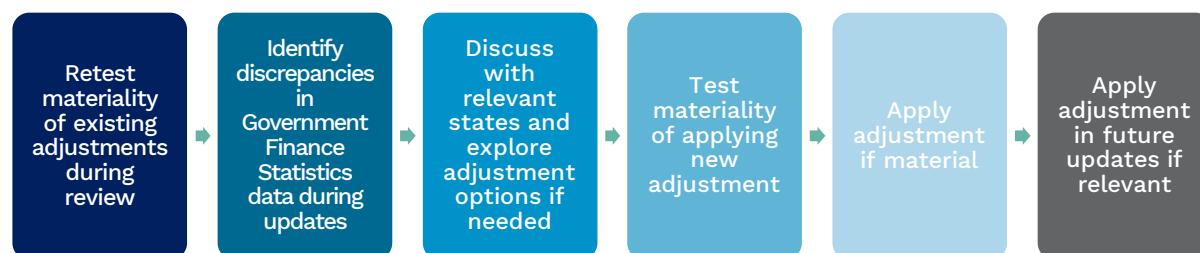
a materiality threshold of \$12 per capita equates to nearly \$100 million for New South Wales.

- 29 Western Australia provided an example where the adjusted budget included mining revenue (a water extraction charge) for the ACT for the years 2015–16 to 2017–18, despite the ACT being assessed as having zero revenue raising capacity for mining revenue. It said that if such an error is not corrected it has the potential to confuse stakeholders and should be corrected regardless of materiality.
- 30 New South Wales asked the Commission to clarify whether adjustments found to be immaterial in one update will be tested again in subsequent updates.
- 31 The Northern Territory noted that many adjustments are likely due to the discrepancy between the adoption of accounting standards by states, and different reporting rules used by the ABS, such as on the treatment of leases (AASB16).² The Northern Territory said ABS data will continue to diverge from state data over time and may not be able to be reliably adjusted. The Northern Territory said a long-term solution may be desirable to resolve this issue and prevent the proliferation of adjustments. However, it acknowledged this may be an issue for the ABS to consider in its Government Finance Statistics reporting framework, such as through the Heads of Treasury Accounting and Reporting Advisory Committee, rather than a method change for the Commission.

Commission response

- 32 The Commission proposes the following process for implementing existing and new adjustments in the 2025 Review and subsequent updates.

Figure 1 Proposed adjustment process for the 2025 Review



- 33 **Existing adjustments** - The materiality of all adjustments applied in the 2024 Update will be tested for the 2025 Review. If an existing adjustment is not material (at \$12 per capita) it will not be applied in the review or in subsequent

² New accounting standards were introduced around 2019–20. These were the introduction of leases (AASB 16), revenue recognition (AASB 15 & 1058), and service concession arrangements (AASB 1059). The ABS has not adopted the new standards and therefore its Government Finance Statistics data are consistent with its historical treatments. States have generally implemented these changes in their Government Finance Statistics data. This situation has resulted in increased divergences between ABS economic statistics publications and state government financial reporting. Australia Bureau of Statistics (ABS) [Government Finance Statistics 2021-22 revisions-and-changes](#), ABS website, 2023, accessed 5 September 2023.

updates. The materiality of an existing adjustment will not be retested in future updates unless there is new information to suggest it has become material. If a state considers there has been a change to a previously immaterial adjustment, and it now considers the adjustment is material, this can be brought to the Commission's attention during the New Issues process for each update.

- 34 ***New adjustments*** – If the Commission or any state identifies a new issue with Government Finance Statistics data, the Commission will consult with the relevant state(s) and determine materiality before applying any new adjustments. The consultation process will be undertaken as soon as possible after a potential adjustment has been identified.
- 35 If new adjustments are identified that impact most or all states, early in the update process, the Commission will inform all states during the yearly New Issues process. These will likely be related to any adjustments required for the Year minus 1 to Year 2 ABS final data as they are received earlier than the year 3 data. Regarding adjustments for year 3 data, the Commission notes that due to timing constraints, some of the consultation with relevant states is likely to occur in December or January.
- 36 Once an adjustment has been implemented, the Commission will continue to apply that adjustment in subsequent updates, if required. The materiality of the adjustment will not be retested until the following review.
- 37 To ensure transparency, the Commission seeks to provide all calculations to states in the assessment system simulator.³ Where confidential data prevent the calculation from being shared in its entirety to all states, the Commission will endeavour to provide as much detail in the calculation as possible without compromising data confidentiality protocols. A state can also separately request data on the adjustments made to its budget data.
- 38 The Commission agrees that it would be optimal to ensure the adjusted budget for each state aligns perfectly with the Commission's category structure regardless of the materiality of any required adjustments. However, the Commission also sees value in reducing the manual manipulation of Government Finance Statistics data to avoid introducing complexity and reducing transparency of the calculations. The Commission recognises its limitations in being able to identify all such misclassification errors, particularly if they are small. Therefore, where errors are identified for one state or across all states due to the COFOG-A coding not aligning between the Commission's category structure and ABS coding framework, the Commission will consider making an adjustment in accordance with the adjustment process (including materiality thresholds) outlined above.

³ The assessment system simulator is a copy of all non-confidential calculations that contribute to the relativities. It allows for states to view data and methods providing greater transparency of the Commission's methods.

39 The Commission acknowledges that the use of final ABS Government Finance Statistics data and preliminary ABS or state data, will result in some inconsistencies between years that require adjustment. The different treatment of AASB16 is an example. While it would be preferable for both sources to align, the Commission acknowledges that state financial data and Government Finance Statistics data serve different purposes, and states and the ABS have different reporting obligations. The Commission is open to working with states and the ABS to better understand these differences.

Commission draft position

40 The Commission proposes to implement adjustments according to the proposed process described above.

Other issues raised by states

Reconciliation of data used by the Commission back to original state data

41 New South Wales said that to assist states in understanding the data used by the Commission, it would be beneficial for states if the Commission provided a comprehensive reconciliation of adjusted budget data used by the Commission back to original state data, including all adjustments.

Commission response

42 The Commission seeks to provide all calculations to states in the assessment system simulator. A state can also separately request data on the adjustments made to its budget data if these are not visible due to confidentiality concerns. The Commission will work towards providing greater clarity of the adjustments made to states data during the process of creating the adjusted budget.

43 Currently, disaggregated ABS Government Finance Statistics data are confidential and cannot be shared with states. Therefore, only aggregated GFS data can be provided in the simulator which limits the extent to which states can reconcile data. The ABS has informed the Commission that each state can be provided with its own disaggregated Government Finance Statistics data as this is covered under the return-to-source provisions.

Commission draft position

44 The Commission proposes to provide non-confidential data to states to allow for reconciliation of state and ABS Government Finance Statistics data.

Process for correcting data errors in prior years and the relative GST distribution for the impacted year

- 45 New South Wales said the Commission should introduce a defined process for correcting prior year data errors, as well as correcting the relative GST distribution for the impacted year.
- 46 New South Wales says the Commission should clearly articulate its position on retrospective data adjustments, including whether there is a materiality threshold or other factors that influence the Commission's assessment of whether a retrospective adjustment is fair and appropriate. New South Wales considers retrospective adjustments should be rare and subject to a high materiality threshold.

Commission response

- 47 The Commission does not generally make retrospective data adjustments to correct GST distribution for an impacted year. Retrospective data adjustments have been made in the natural disaster assessment where expenses are assessed on an actual per capita basis. In this situation, the accuracy of an individual state's expenses is more important than for assessments that rely on average spending of all states. In addition, it is difficult for the Commission to independently validate the natural disaster relief expense data reported by states in a timely manner. These conditions arise in rare situations only and do not apply to most assessments.
- 48 The Commission will only make retrospective data adjustments in very rare circumstances. In these instances, it will use its judgement on a case-by-case basis. It considers this approach is appropriate given the unknown nature and impact of data errors.
- 49 The standard process for correcting previous years' data errors is that the Commission will correct these errors in the update in which they are found. This ensures that they do not impact future GST distributions. Using a 3-year average mitigates the impact of a data error for the update in which the error was made.

Commission draft position

- 50 When data errors are discovered in previous assessment years, the Commission proposes to correct these errors in the corresponding assessment years of the current update. The Commission will generally not make an additional adjustment to correct for errors in GST distribution as a result of the data error in previous updates.

Improving COFOG-A data across states

- 51 New South Wales said the Commission, along with the ABS and states, should engage in a structured process to improve the quality of COFOG-A data.

- 52 New South Wales said there are a number of implausible actual to assessed expenditure ratios for individual states. It said this implies there are significant issues with the quality of COFOG-A data provided by states to the ABS, or there are fundamental errors in the assessment of drivers in these expenditure categories. It noted that assessments are based on state total expenditure figures and considered the misclassifications will impact the distribution of GST between states.
- 53 New South Wales said it has also carried out analyses of expenses across categories for the same assessment year, over consecutive updates. It said that putting aside the year 3 to year 2 estimates of expense for an individual financial year, which it accepts is impacted by the use of preliminary data, the per capita differences for individual states significantly exceed the materiality threshold set by the Commission.

Commission response

- 54 The Commission considers ABS data are the most comprehensive and comparable data available. It notes the ABS does on occasion make revisions and changes to how it codes its Government Finance Statistics data, which may include revising previous years' data. These revisions are outlined on the ABS Government Finance Statistics website.⁴
- 55 The Commission acknowledges there are differences in data across states, however, analysis undertaken by the Commission to identify differences (at the category level) between state and ABS Government Finance Statistics data that would potentially result in a material revision indicates that there are very few differences that warrant adjustment. Where material differences occur repeatedly, the Commission works closely with the relevant state to resolve the issue.
- 56 The Commission also uses ABS year 2 data proportions to create the component level splits in most expense categories for year 3, which smooths data differences between states and the ABS.
- 57 It is possible that differences in COFOG-A coding could contribute to the difference in a state's assessed and actual data for a particular category. However, there are many reasons why assessed and actuals diverge, including the influence of individual state policies. Disentangling these impacts is not always possible.
- 58 The Commission does not consider it is best placed to ensure consistency in Government Finance Statistics reporting across states. The ABS advised the Commission its Government Finance Statistics section works very closely with state treasuries during the production of Government Finance Statistics data. As part of this process, the ABS provides states with comparison tables that identify and explain changes made by the ABS to state provided data. States have the

⁴ Australian Bureau of Statistics (ABS), [Government Finance Statistics, Annual](#), ABS website, 2023, accessed 19 March 2024.

opportunity to review these tables and seek clarification from the ABS prior to the publication of final data.

- 59 The ABS advises that the Government Finance Statistics are governed by the International Monetary Fund (IMF). The IMF has committed to a new endorsed Government Finance Statistics manual by the end of 2027. Australia will then likely update its current Australian System of Government Finance Statistics (2015) (AGFS15) manual to align with the updated IMF manual. This would be a natural point for the ABS to engage with state treasuries and influence the improvement of COFOG-A and other Government Finance Statistics reporting.
- 60 The Commission is happy to assist states and the ABS understand the implications for the Commission's work and provide assistance where possible.

Commission draft position

- 61 The Commission proposes to work with states and the ABS, where appropriate, to improve alignment of ABS Government Finance Statistics and state budget data.

Draft 2025 Review adjusted budget

- 62 Following consideration of state views, the Commission proposes 3 changes. These are listed below.
- The Commission proposes to use preliminary ABS Government Finance Statistics data for year 3.
 - If the preliminary ABS data are not available for a particular state, the Commission proposes to request the year 3 data directly from the state.
 - The Commission proposes to apply the process described above when implementing adjustments in the 2025 Review and in subsequent updates.
 - The Commission proposes to assist states and the ABS, where appropriate, to improve the consistency of Government Finance Statistics data across states.

Proposed structure of the adjusted budget

- 63 The Commission's starting position for the structure of the 2025 Review adjusted budget is the category and component structure used in the 2020 Review.
- 64 The adjusted budget structure is driven by the needs of the category and component assessments. During the process for settling the category and component assessments for the 2025 Review period, the structure of the adjusted budget may need to change. Any changes will be outlined in the 2025 Review final report.

New data requirements

- 65 No new data are proposed for the adjusted budget for inclusion in the draft report. Any new data requirements that arise during the 2025 Review will be discussed with states.