

Adjusted budget

Review outcomes

- The following changes were made to the adjusted budget compilation process.
 - Preliminary ABS Government Finance Statistics data will be used for the latest assessment year (year 3). Where these data are unavailable, state-provided data will continue to be used. This process will be monitored to ensure using preliminary ABS data for year 3 remains appropriate.
 - A defined process has been introduced for making any adjustments to Government Finance Statistics data.
- The Commission considered but did not change the following.
 - Final ABS Government Finance Statistics data will continue to be used for the other assessment years.
 - Non-confidential data will continue to be provided to states to allow for reconciliation of preliminary ABS or state data and final ABS Government Finance Statistics data.
 - When data errors are discovered for previous assessment years, these will continue to be corrected in the corresponding assessment years of the current update. Additional adjustments will not generally be made to correct for errors in GST distribution as a result of a data error in previous updates.
- The Commission will work with states and the ABS where appropriate to improve alignment of ABS Government Finance Statistics and state budget data.

Introduction

- 1 On 6 July 2024, the Commission published the [Draft Report](#) for the 2025 Methodology Review.
- 2 The Draft Report included a detailed analysis and response to issues raised by states and territories (states) in their [submissions](#) on the Commission's [consultation paper](#).
- 3 State submissions on the Draft Report can be viewed [here](#).
- 4 This chapter includes:
 - an overview of the issues considered throughout the review
 - the Commission's response and decision on each issue
 - GST impacts of method changes.
- 5 A description of the adjusted budget method, incorporating the changes made in the 2025 Review, can be found in the adjusted budget chapter of the *Commission's Assessment Methodology*.

Issues considered

Use of ABS final and preliminary Government Finance Statistics data

- 6 The Commission sought state views on using preliminary ABS Government Finance Statistics data for the latest assessment year (year 3) and state-provided year 3 data in cases where preliminary ABS data are not available.
- 7 The Commission considered that the use of preliminary ABS data (when available), instead of state-provided data, may improve comparability of data between states, reduce the number of adjustments and provide more stable budget estimates over time. 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.
- 8 The Commission also sought views on continuing to use final ABS Government Finance Statistics for the first 4 years of data.

State views

- 9 There was broad support from most states for the Commission's proposal. The ACT did not support the use of preliminary ABS data.
- 10 Some states raised concerns about the late availability of the preliminary ABS data. New South Wales questioned the appropriateness of using a mix of ABS and state-provided data if ABS data are not available in time for an update or review process. Victoria sought more clarity on the process for collecting and verifying state data if ABS data are not available in time and on the adjustments made by the ABS to state data. South Australia proposed the use of preliminary ABS data be reviewed if there are ongoing delays resulting from the use of state-provided data.
- 11 Victoria and the ACT raised concerns regarding the transparency of adjustments made by the ABS to states' raw data when preparing the preliminary ABS year 3 data. Victoria asked the Commission to provide more details on the ABS' adjustments.
- 12 The ACT had a further concern with the observed volatility of category totals for the ACT between state raw, preliminary and final Government Finance Statistics data, and with the treatment of Australian Accounting Standard Board (AASB16) Leases accounting standard in the preliminary ABS Government Finance Statistics data. It supported using final ABS Government Financial Statistics for the first 4 years of data.

Commission response

- 13 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

ABS audits data for consistency and quality across all states. While preliminary Government Finance Statistics are not subject to the same processes, they undergo basic standardisation, formatting and some basic recoding processes.¹ As a result, the Commission considers the use of preliminary ABS data for year 3 will improve the consistency of ABS Government Finance Statistics data between states and reduce the number of adjustments and revisions.

- 14 While the use of preliminary ABS Government Finance Statistics data from all states is preferred, the Commission acknowledges that data may not be available in time for use in the yearly update. If this is the case, the Commission considers it appropriate to use a mix of preliminary ABS data and state-provided data to ensure the highest level of consistency and to reduce the data burden on states. If state-provided data are required, these will be requested through the annual data request process.
- 15 The use of preliminary ABS data will be monitored. If issues are encountered, its use will be re-examined.
- 16 The Commission notes that the ABS does not make changes to the preliminary ABS data in relation to AASB16. If a state has included the effects of AASB16, this will remain in the preliminary ABS data which means that no adjustment needs to be made to year 3 data.²

Commission decision

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

Implementing adjustments in the 2025 Review and future updates

- 19 The Commission proposed a process for implementing adjustments to Government Finance Statistics data. This included only implementing adjustments that meet the \$12 per capita materiality threshold for data adjustments and testing the materiality of all adjustments during a review year.³

¹ More details are provided in the [adjusted budget](#) chapter of the [Draft Report](#).

² 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 types of coding will remain in the preliminary unit record files. The AASB16 accounting standard is only removed by the ABS in the final ABS Government Finance Statistics data.

³ The \$12 per capita materiality threshold refers to the impact on GST distribution of a data adjustment. See the Review Outcomes chapter on fiscal equalisation, supporting principles and assessment guidelines for more information.

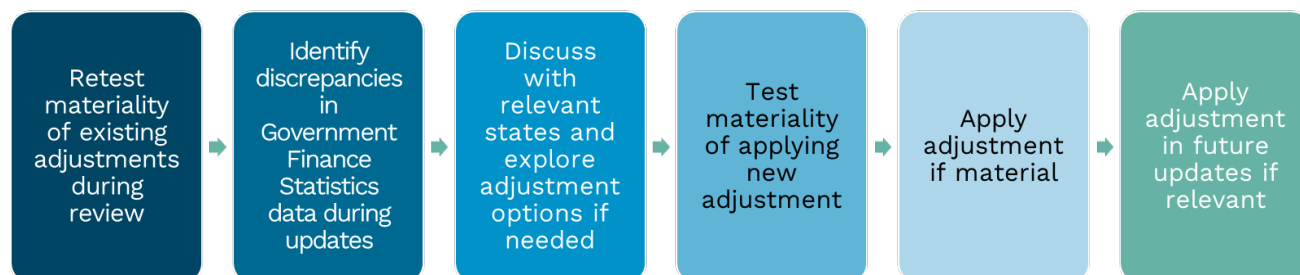
State views

- 20 There was broad support from all states for the proposed process. Some states said states should be consulted if adjustments are made.
- 21 Victoria asked for further clarity on the adjustment consultation process and considered all states should be made aware of adjustments that are applied to ensure transparency.
- 22 New South Wales asked the Commission to clarify whether adjustments found to be immaterial in one update will be tested again in subsequent updates.
- 23 New South Wales and Western Australia said some adjustments should be made regardless of materiality, such as where obvious errors are found or when required to align with the Commission's assessment structure.
- 24 The Northern Territory noted that the continued divergence of state and Government Finance Statistics accounting rules may lead to a proliferation of potential adjustments that might not be able to be reliably applied. The Northern Territory considered that the issue of divergence may be an issue for the ABS and states to consider through the Heads of Treasury Accounting and Reporting Advisory Committee rather than a method change for the Commission.

Commission response

- 25 The Commission developed a process for implementing existing and new adjustments in the 2025 Review and subsequent updates, see Figure 1.

Figure 1 Adjustment process for the 2025 Review



- 26 **Existing adjustments** – A \$12 per capita materiality will be applied to existing adjustments.⁴ If these adjustments are found to be material, they will be retained for the period of the review. Materiality will not be re-tested in future updates. States can raise any issues concerning potential changes to an adjustment's materiality status in future updates.
- 27 **New adjustments** – If the Commission or any state identifies a new issue with Government Finance Statistics data, the Commission will consult with the relevant

⁴ Existing adjustments are those that were applied in the update prior to a review. For the 2025 Review this is the 2024 Update.

state(s) and determine materiality (\$12 per capita) before applying any new adjustments.⁵

- 28 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.
- 29 The Commission seeks to provide all calculations to states in the assessment system simulator.⁶ Where confidential data prevent the calculation from being shared in its entirety to all states, the Commission will 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.
- 30 The Commission acknowledges that the use of final ABS Government Finance Statistics data and preliminary ABS or state-provided data will result in some inconsistencies between years that require adjustment. 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 decision

- 31 The Commission has followed a defined process (outlined above) for implementing adjustments in the 2025 Review and will follow this process for subsequent updates.

Process for correcting data errors in prior years

- 32 In response to state comments, the Commission considered the issue of whether it should introduce a defined process for correcting prior year data errors, as well as correcting the GST distribution for the impacted year.

State views

- 33 New South Wales said 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.

⁵ Any new adjustments are made to all relevant assessment years in the current review or update. New adjustments are not applied retrospectively.

⁶ 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.

Commission response

- 34 Given the unknown nature and impact of data errors, the Commission considers retrospective data adjustments (to correct errors in GST distribution in previous updates) should only be applied in very rare circumstances. In these instances, the Commission considers it appropriate to exercise judgement on a case-by-case basis.
- 35 The standard process for correcting data errors from previous updates is to only correct them in the corresponding assessment year of the current update.⁷

Commission decision

- 36 When data errors are discovered in previous assessment years, the Commission will continue 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 data errors in previous updates.

Improving the quality and transparency of data used to inform the adjusted budget

- 37 In response to state comments, the Commission considered concerns about the quality of the classification of the functions of government – Australia (COFOG-A) data from ABS Government Finance Statistics. It also noted concerns that states had trouble reconciling adjusted budget data back to original state data.

State views

- 38 New South Wales said that providing a reconciliation of adjusted budget, including all adjustments, and state data would assist states in understanding the data used by the Commission.
- 39 New South Wales also said there are a number of implausible actual to assessed expenditure ratios for individual states. These imply there are significant issues with the quality of the COFOG-A data provided by states to the ABS, or fundamental errors in the assessment of drivers in these expenditure categories. New South Wales noted the misclassifications will impact the distribution of GST between states.
- 40 New South Wales said that even putting aside differences between state-provided and final ABS data, the per capita revisions to assessment year data for individual states significantly exceed the materiality threshold. It suggested the Commission, along with the ABS and states, should engage in a structured process to improve the data.
- 41 Queensland recommended a review of the reliability and comparability of state Government Finance Statistics data be included as a priority in the forward work

⁷ For example, an error identified in year 2 of a previous update will be corrected in year 1 of the current update.

program. Queensland said that Government Finance Statistics data for some assessments are not reliable because of differences in the way states classify data. As a key data user, Queensland considers it imperative that the Commission is actively involved in improving these data to ensure outcomes are not compromised.

- 42 Queensland proposed adding a review of ABS Government Finance Statistics data and state budget data quality and reliability to the forward work program.

Commission response

- 43 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.
- 44 Currently, disaggregated ABS Government Finance Statistics data are confidential and cannot be shared with states. Therefore, only aggregated Government Finance Statistics 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.
- 45 The Commission acknowledges there are differences in data classification across states. However, analysis undertaken by the Commission to identify differences (at the category level) between preliminary year 3 and final ABS Government Finance Statistics data indicates that there are very few differences that are material. Where a material revision occurs more than once, the Commission works closely with the relevant state to identify the source of the issue and explore options for resolving it.⁸
- 46 To mitigate differences across states, the Commission uses final 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.⁹
- 47 It is difficult to disentangle why assessed and actuals diverge as differences may be attributed to a variety of causes including state policy differences. The Commission considers the ABS Government Finance Statistics data are the most comparable data available and notes the ongoing work between the ABS and state treasuries to ensure accuracy and transparency.

⁸ For example, the ABS might make a revision to preliminary year 3 data due to ad-hoc classification differences. If this has a material impact on GST distribution the Commission will follow up with the ABS and the relevant state to understand the cause of the revision. If the ABS makes a similar revision in 2 consecutive updates the Commission will investigate a potential adjustment to year 3 data in consultation with the ABS and the relevant state to avoid material revisions in the following update.

⁹ Preliminary ABS data are used to derive investment component expenditure because investment is too volatile to estimate using year 2 ABS data, and any COVID-19 business support payments are large and need to be reflected in the correct component in the year they occur. Preliminary ABS data are used to create the component split for services to industry year 3 in the 2025 Review as the 2023–24 data may still contain residual amounts of COVID-19 payments. If no COVID-19 payments are being included in the preliminary ABS data going forward, components can revert to being based on final ABS year 2 proportions.

48 The Commission will continue to monitor data for inconsistencies and assist the states and the ABS with any projects aimed at improving the consistency and accuracy of state Government Finance Statistics data.

Commission decision

49 The Commission will continue to provide non-confidential data to states to allow for reconciliation of state and ABS Government Finance Statistics data. It will continue to monitor data for inconsistencies and work with states and the ABS where appropriate to improve consistency and accuracy of Government Finance Statistics data used in the Commission's assessments.

GST impacts of method changes

50 Table 1 shows the GST impacts of removing adjustments that were not material.

Table 1 Impact on GST distribution of method changes, adjusted budget, 2024-25 to 2025-26

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Payroll Tax	-4	0	6	-9	4	2	0	0	13
Land tax	-29	-9	19	7	7	3	2	1	39
Motor Taxes	1	0	0	0	0	0	0	0	1
Other Revenue	0	0	0	0	0	0	0	0	0
Schools	-3	-7	7	3	-2	0	0	2	12
Post-secondary education	2	3	-3	-1	1	-1	0	-2	6
Services to communities	0	0	0	0	0	0	0	0	0
Roads	-4	-8	5	5	1	0	-2	3	14
Other Expenses	0	1	0	-1	0	0	0	0	1
Investment	7	-10	-3	5	0	0	0	1	13
Net Borrowing	0	1	0	0	0	0	0	0	1
Total	-31	-29	31	9	12	4	0	4	60
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Payroll Tax	0	0	1	-3	2	3	1	0	0
Land tax	-3	-1	3	2	4	5	4	2	1
Motor Taxes	0	0	0	0	0	0	0	0	0
Other Revenue	0	0	0	0	0	0	0	0	0
Schools	0	-1	1	1	-1	0	-1	9	0
Post-secondary education	0	0	0	0	0	-1	0	-8	0
Services to communities	0	0	0	0	0	0	0	0	0
Roads	0	-1	1	2	1	0	-5	10	1
Other Expenses	0	0	0	0	0	0	0	-1	0
Investment	1	-1	-1	2	0	0	1	4	0
Net Borrowing	0	0	0	0	0	0	0	0	0
Total	-4	-4	5	3	7	6	0	15	2

Note: The impact of changes to adjustments in health, housing, welfare, transport, and services to industry are presented within the corresponding table in the relevant category assessment chapter of *Review Outcomes*.