

# Commonwealth payments

## Review outcomes

- The following changes were made to the assessment.
  - A default impact treatment will apply in the small number of cases where there is substantial uncertainty about whether a Commonwealth payment is for a state service for which needs are assessed. In these cases, states will continue to have the opportunity to provide evidence in support of a no impact treatment.
  - Revenue paid to states in the form of Commonwealth-own purpose expenses will not be included in the assessment.
  - Several existing payments will be treated as impact instead of no impact since the associated expense needs will be assessed in the 2025 Review.
- The Commission considered but did not change the following.
  - The 2020 Review guideline for the treatment of Commonwealth payments will be retained. Commonwealth payments that support state services and for which expenditure needs are assessed will continue to impact GST relativities.
  - In the absence of clear evidence that a payment (or part payment) is for pre-existing structural disadvantage and needs are not assessed, the payment will continue to be treated as impacting the GST distribution.
  - The Commission will continue to take into account advice of Commonwealth Treasury and the states, as well as considering published national agreements, when determining which payments are facilitation or reward payments.

## 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 The treatment of new Commonwealth payments in 2023–24 are discussed in [New Issues for the 2025–26 GST Relativities](#).
- 5 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.

- 6 A description of the assessment method, incorporating changes made in the 2025 Review, can be found in the Commonwealth payments chapter of the *Commission's Assessment Methodology*.

## Issues considered

### Deciding the treatment of Commonwealth payments

- 7 The 2020 Review guideline for deciding whether a payment should affect the GST distribution stated that:

payments which support state services, and for which expenditure needs are assessed, will impact the relativities.
- 8 In considering whether needs are assessed for the activity that the payment funds, the Commission considers the main purpose of the payment. Where the purpose of the payment broadly aligns with the Commission's expense assessments, the Commission considers that needs are assessed for the payment.
- 9 Experience suggests that, while the guideline works well for most payments, for a minority of payments making decisions on the appropriate treatment can be difficult and contentious.
- 10 The Commission proposed retaining the 2020 Review guideline, with additional guidance that a default impact treatment would be adopted in the small number of cases where there is substantial uncertainty whether a Commonwealth payment is for a state service for which needs are assessed. It would remain open to states to make the conceptual case and provide evidence to support a no impact treatment for those payments.

### State views

- 11 All states supported retaining the 2020 Review guideline. Most states supported the proposal to apply a default impact treatment for Commonwealth payments where there is substantial uncertainty about whether a payment is for a state service for which needs are assessed. Queensland said its support was subject to states having the opportunity to present a case for a no impact treatment. Victoria and Queensland said the Commission should provide additional information for payments where there is uncertainty around how the payment will be treated.
- 12 South Australia proposed an alternative approach. It said payments where the Commission is uncertain could be treated 50% impact and 50% no impact. It said this approach would moderate the redistribution compared to a default impact treatment.

## Commission response

- 13 The Commission will continue to consider Commonwealth payments on a case-by-case basis. Where it is clear that a payment is not for a state service or that needs are not assessed, the payment will be treated as no impact. The default impact treatment is only intended to apply to the minority of payments where the Commission is uncertain if they fund a state service or if they fund expenditure for which the Commission assesses needs. All states will continue to have the opportunity to present a case for no impact treatment as part of consultation on new issues for the annual update of GST relativities.
- 14 The Commission notes the South Australian proposal to adopt a 50% impact/no impact treatment to deal with payments where there is substantial uncertainty as to their treatment. However, the Commission considers that defaulting to an impact treatment, with states having the opportunity to argue for a no impact treatment, is more consistent with the objective of equalisation than an arbitrary 50/50 split.

## Commission decision

- 15 The Commission will retain the 2020 Review guideline for deciding the treatment of Commonwealth payments. Where there is substantial uncertainty about the payment's purpose, or whether relative state expenditure needs are assessed, an impact treatment will be the default. States will have the opportunity to provide evidence in support of a no impact treatment for those payments.

## Excluding revenue from Commonwealth own-purpose expenses

- 16 Commonwealth own-purpose expense payments are payments by the Australian Government in the conduct of its own general government sector activities. Most are, by definition, likely to relate to Commonwealth functions, but some can be for state-type services.
- 17 In the 2020 Review, the Commission included several Commonwealth own-purpose expenses that supported state services for which needs were assessed.<sup>1</sup> However, in the absence of comprehensive data on Commonwealth own-purpose expenses, the assessment only included those that were easily identifiable or had been brought to the Commission's attention by states.
- 18 The total value of these payments has declined over the past 10 years, halving since the 2020 Review. They represented about 0.2% of total Commonwealth payments treated as impact in 2022–23. While the Commission does not apply a materiality threshold to Commonwealth payments, most of the remaining included Commonwealth own-purpose expenses would not be material at the \$40 per capita materiality threshold.

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<sup>1</sup> The Commonwealth own-purpose expenses included in the 2020 Review assessment were a 'rural and other health' grant made by the Department of Health and Aged Care, and multiple small Commonwealth own-purpose expenses for First Nations programs managed by the National Indigenous Australians Agency.

- 19 The Commission proposed to cease the assessment of Commonwealth own-purpose expenses.

### **State views**

- 20 Most states supported discontinuing the assessment of Commonwealth own-purpose expenses. New South Wales said only Commonwealth own-purpose expenses that did not meet a materiality threshold should be excluded.
- 21 Victoria supported the proposal but said the issue should be revisited if there are significant changes to the Federal Financial Relations framework or evidence of significant increases in funding outside that framework.

### **Commission response**

- 22 In keeping with the Commission's guideline for the treatment of Commonwealth payments, all payments that support states services, or that relieve a state from providing a service, should be included as impact. However, in the absence of comprehensive data on Commonwealth own-purpose expenses, the Commission is only able to consider those payments which are easily identifiable. In addition, the Commission does not have visibility of Commonwealth own-purpose expenses paid to non-government organisations, some of which may reduce the amount a state needs to spend on a service.
- 23 There has been a significant reduction in the value of included Commonwealth own-purpose expenses since the transition to the Federal Financial Relations framework in 2009. It is unclear whether this reflects an overall reduction in Commonwealth own-purpose expenses by the Commonwealth, or a shift towards funding activities through non-government organisations rather than state governments.
- 24 The Commission could continue to assess single material Commonwealth own-purpose expenses. However, given the possibility of unidentified Commonwealth own-purpose expenses paid to states, the Commission considers excluding all Commonwealth own-purpose expenses from the assessment is a more consistent and equitable approach.
- 25 If there are significant changes to the Federal Financial Relations framework, or evidence of significant increases in state funding outside that framework, the Commission may review this position.

### **Commission decision**

- 26 The Commission will exclude revenue paid to states in the form of Commonwealth own-purpose expenses from the assessment.<sup>2</sup>

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<sup>2</sup> The Commission notes that, to the extent Commonwealth own-purpose expenses are captured in ABS Government Finance Statistics data, they will be reflected in the Commission's 'balancing item'. The balancing item ensures the sum of individual Commonwealth payments sourced from the Commonwealth Final Budget Outcome matches total Commonwealth payments in Government Finance Statistics data. The balancing item does not move states' relative fiscal capacities away from an equal per capita assessment.

## Treatment of Commonwealth payments related to structural disadvantage

- 27 The Northern Territory raised the treatment of Commonwealth payments that address pre-existing structural disadvantage. It said funding agreements with the Commonwealth increasingly include elements aimed at addressing structural disadvantage, especially entrenched disadvantage for First Nations peoples. The Northern Territory said it was important that the GST treatment of Commonwealth payments does not impede the objectives of such funding.
- 28 The Commission proposed that it should apply its guideline for deciding the treatment of all Commonwealth payments, including those that might contain elements addressing pre-existing structural disadvantage. It noted however, that the guideline provided the scope to consider whether payments for structural disadvantage should be excluded from the GST calculation.<sup>3</sup> If needs for structural disadvantage were not assessed, payments for such purposes would be excluded from impacting the GST distribution under the guideline.

### State views

- 29 Most states supported the application of the treatment guideline to all payments, including those aimed at addressing structural disadvantage. The Northern Territory said that while it supported retaining the 2020 Review treatment guideline, there could be additional clarification that payments aimed at addressing structural disadvantage fall into the category of services for which the Commission does not assess need.
- 30 Queensland said, while it supported the application of the guideline to all payments, payments relating to socio-demographic disadvantage should be comprehensively examined in the next review. It said a material proportion of those payments may be related to pre-existing structural disadvantage.

### Commission response

- 31 The Commission considers there is scope within the existing guideline to consider whether payments relating to structural disadvantage should be excluded from the GST calculations. Where payments are identified as relating to structural disadvantage and needs are not assessed, the payment will not impact the relativities.
- 32 The Commission considers it would be preferable for the terms of reference for an update to exclude payments for structural disadvantage. If the terms of reference do not quarantine such payments, it will not necessarily preclude the Commission from making a no impact decision in accordance with its guideline.

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<sup>3</sup> Payments quarantined by terms of reference will continue to be treated as no impact.

### **Commission decision**

- 33 The Commission will assess payments for structural disadvantage on the same basis as other payments by applying its treatment guideline. If there is clear evidence that a payment (or part payment) is for pre-existing structural disadvantage and needs are not assessed, it will be treated as no impact.

### **Commonwealth-state disagreements about the nature of a payment**

- 34 New South Wales said it had concerns about cases where the Commonwealth Treasury and a state disagree on the nature of a specific payment. It cited the example from the 2020 Review of a payment under the Skilling Australia Fund that New South Wales considered a reward payment, but the Commonwealth Treasury did not. It said, in such cases, the Commission should come to a decision on the matter through its own analysis, rather than solely relying on the Commonwealth Treasury's position.

### **State views**

- 35 Other states did not comment on this issue.

### **Commission response**

- 36 Terms of reference specify a default no impact treatment for National Partnership facilitation and reward payments. The Commission may not always be well placed to determine whether a payment meets the definition of a facilitation or reward payment. It notes that facilitation and reward National Partnership Payments have not been separately identified in the Commonwealth Budget since 2014–15.

### **Commission decision**

- 37 The Commission will continue to take into account advice of Commonwealth Treasury and the states, as well as considering published national agreements, when determining which payments are facilitation and reward payments.

### **Changes to the treatment of existing payments**

- 38 Changes to assessment methods resulted in the Commission reconsidering the treatment of existing payments in the following areas:
- Social Impact Investments/People at risk of homelessness
  - Perth City Deal/Homelessness Projects
  - COVID-19 public health response
  - Support of businesses impacted by COVID-19.

## Commission decision

- 39 The Commission will change the treatment of these payments from no impact to impact.
- 40 The change to the treatment of the homelessness payments reflects the introduction of an assessment of homelessness services in the welfare category.
- 41 More information on the decision to change the treatment of the COVID-19 payments from no impact to impact is in the health and services to industry chapters of Review Outcomes.

## GST impacts of method changes

- 42 The impact on the GST distribution from the method changes is shown in Table 1.

**Table 1** Impact on GST distribution of method changes, Commonwealth payments, 2024–25 to 2025–26

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
\$m	-23	-26	-11	-1	3	-1	2	57	62
\$pc	-3	-4	-2	0	2	-1	3	222	2

- 43 Removing Commonwealth own-purpose expenses from the assessment increased the Northern Territory's assessed GST needs, since it received an above average share of this revenue. Removing this revenue from the assessment reduced the assessed GST needs of the other states. The change in the treatment of the homelessness payments changed assessed GST needs by less than \$1 per capita.
- 44 Table 1 does not include the impact of changing the treatment of the Commonwealth payments *COVID-19 public health response* and *Support for businesses impacted by COVID-19* from a no impact treatment to an impact treatment.