



Glossary of key terms

This glossary provides a list of the main terms that have a meaning specific to the Commission. The term 'State(s)' includes the Australian Capital Territory and the Northern Territory.

actual per capita assessment method

The assessed expense or revenue for each State is set equal to its actual expense or revenue. It is used when, in the Commission's judgment, the policies of all States are the same and any differences in expenses or revenue per capita are due to differences in State circumstances.

adjusted budget

A representation of State budgets used by the Commission to calculate average per capita revenue and expenditures. The scope of the adjusted budget covers all transactions of the State general government sector and urban transport and housing public non-financial corporations.

administrative scale

A measurement of the differences in costs that States incur in providing the minimum level of administration and policy development required to deliver services. It relates to core head office functions and to specialised State-wide services provided centrally.

application year

The year in which the recommended relativities are to be used to distribute the GST pool. For example, for the 2021 Update the application year is 2021-22.

assessed differences (also known as needs)

The measure of the effect of a State's disabilities. They are calculated, for example, as the difference between assessed expenses and average expenses, assessed revenue and average revenue. Assessed differences can be either positive or negative.

assessed expenses

The expenses a State would incur if it were to follow average expense policies, allowing for the disabilities it faces in providing services, and assuming it provides services at the average level of efficiency. Assessed expenses exclude differences from the average due to a State's policy choice.

assessed investment

The expenditure on new and replacement infrastructure a State would incur if it were to follow average policies, allowing for disabilities it faces in providing infrastructure, and assuming it requires the average level of infrastructure to deliver the average level of services. The Commission's method for calculating assessed investment assumes that each State has the average per capita stock of infrastructure at the start of each year. Assessed investment excludes differences from the average due to a State's policy choice.

assessed net lending/borrowing

The transaction-based change in net financial worth that a State would require to achieve the average net financial worth at the end of each year. The Commission's method for calculating assessed net lending/borrowing assumes that each State has the average net financial worth at the start of each year.



assessed revenue

The revenue a State would raise if it were to apply the average policies to its revenue base and raise revenue at the average level of efficiency. Assessed revenue excludes differences from the average due to policy choices under the control of that State, for example a higher or lower tax rate applied by a State compared to the average.

assessment years

The Commission uses data for 3 assessment years to calculate the States' GST distribution. For the 2021 Update the assessment years are 2017-18, 2018-19 and 2019-20.

average (or Australian average)

The benchmark against which a State's fiscal capacity is assessed. It is an average derived from the policies or financial data of all States, and hence may be a financial average or a policy average.

average expense/ revenue

A per capita measure derived as the total spending, or revenue collected, divided by the total population across Australia. The average represents the experience of the average Australian, so that the more populous States generally have a greater effect on the average than the less populous States.

average policy

The average policy as reflected in the practices of the States in the collection of revenue and delivery of services. The average is usually weighted according to the size of the user or revenue base in each State.

backcasting

Changes made to assessment year data to reflect application year Commonwealth or State policies. Backcasting is mainly used to reflect major changes in federal financial arrangements. In effect, backcasting produces notional financial data that simulate a changed distribution of a Commonwealth payment, State revenue or expense. Actual data for the assessment period are adjusted to reflect what is reliably known to be happening in the application year.

blending

During transition to full application of the new arrangements, the Commission will blend the previous and the new arrangements (referred to as relative fiscal capacities and standard State capacities respectively) in proportions specified in the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018*, to derive the blended fiscal capacities.

category

A classification of in scope transactions relating to distinct services or revenue sources, used for assessment purposes. In this review, the adjusted budget is divided into Commonwealth payments, 7 own-source revenue categories, 11 expense categories, investment and net borrowing.

category factor

The combined effect of all the disability factors in a category expressed as a ratio to the average. For example, in an expense category, a category factor of 1.05 means that the State's disabilities require it to spend 5% more than the average to follow the average expense policy at the average level of efficiency.



Commonwealth payments

Payments to States made by the Commonwealth, including general revenue grants (other than the GST pool), payments for specific purposes and Commonwealth own-purpose expenses. The Commission examines the purpose of each payment using an established guideline to decide whether the payment has an impact on State fiscal capacities.

component

A sub-set of an expense or revenue category that the Commission has assessed differently from the rest of the category because the drivers of States' expense requirements or revenue raising capacity are different.

cross-border factor

A disability factor that measures the net effects on a State's costs of the use of its services by residents of other States and vice versa.

disabilities

Influences beyond a State's control that require it to:

- spend more (or less) per capita than the average to provide the average level of service, or
- make a greater (or lesser) effort than the average to raise the average amount of revenue per capita.

disability factor

A measure of a State's use, cost or revenue raising disability, expressed as a ratio of the State's assessed expense or assessed revenue over the corresponding average figure. Policy differences between States are specifically excluded when calculating disability factors. The population weighted average of a disability factor is 1.0.

discount

Where the Commission establishes a case for including disabilities in a category, but the measure of those disabilities is affected by imperfect data or methods, the Commission may decide to apply a discount. When the Commission discounts an assessment, it uses a uniform set of discounts — 12.5%, 25% or 50% — applying higher discounts where there is more concern about the data or method.

distribution

State shares of the GST pool based on the recommended pool sharing relativities.

distribution model

A mathematical formulation of the way in which State general revenue assistance pool requirements are calculated using assessed expenses, investment, revenue, Commonwealth payments and net borrowing. A mathematical presentation of the model is provided on the [Commission's website](https://www.cgc.gov.au/about-us/fiscal-equalisation) (<https://www.cgc.gov.au/about-us/fiscal-equalisation>).

equal per capita (EPC) assessment method

Each State's assessed expense or assessed revenue in a category is set equal to the Australian average per capita amount. The Commission typically uses this when it judges there to be no material disabilities between the States, or where it cannot develop reliable assessments due to data or other limitations. This type of assessment means that no needs are assessed for any State and that there is no impact on the GST pool distribution.

equalisation

See horizontal fiscal equalisation.



expenditure

Refers to expenses and investment.

expenses

Operating outlays under an accrual budgeting framework as defined in Government Finance Statistics.

GST pool

The funds made available by the Commonwealth for transfer to the States as untied financial assistance, consistent with the principle of horizontal fiscal equalisation. From 2021–22 it comprises Good and Services Tax (GST) revenue plus pool top-up payments.

GST pool requirement

A State's requirement for GST, relative to the needs of other States.

horizontal fiscal equalisation (HFE)

A central government policy that seeks to reduce fiscal disparities between sub-central governments. Australia gives effect to HFE by distributing the GST pool to States in a way that aims to ensure that each of Australia's States has a similar fiscal capacity, under average policies, to provide services and the associated infrastructure to its communities. From 2021-22 the horizontal fiscal equalisation system in Australia will begin to transition to new arrangements that will ensure States have the capacity to provide services at the standard of New South Wales or Victoria, whichever is higher. Separate equalisation arrangements apply to local government in Australia.

impact on relativities (in reference to Commonwealth payments)

Treatment applied to a Commonwealth payment that provides budget support for State services for which expenditure needs are assessed. The expenditure funded by payments that affect the relativities are assessed in relevant categories and the revenue (or payment) is included in State revenue.

indexation amount

An adjustment made to the pool top-up payments under the new arrangements. The indexation amount is equal to the growth in the GST pool.

Infrastructure

Refers to the stock of fixed assets owned by a State's general government sector and its urban public transport and housing public non-financial corporations for the purpose of delivering services. It includes buildings, non-building construction (such as roads and railways) and plant and equipment for economic and social purposes.

investment

The acquisition of produced assets less disposals of produced assets, before depreciation is deducted. This mainly comprises the acquisition less disposals of fixed produced assets. Fixed produced assets are goods and services that are used in production for more than one year.

material, materiality

A test the Commission uses in making decisions about whether to undertake separate assessments of disabilities, or to make data adjustments. The Commission defines materiality levels in terms of the amount of the GST pool redistributed per capita for any State. Different thresholds are used for disabilities and data adjustments. An assessment or adjustment is said to be material if it exceeds the materiality threshold (see the assessment guidelines in the 2020 Review report).



national capital disability

A disability that measures the additional costs that the ACT incurs because of Canberra's status as the national capital or because of legacies inherited from the Commonwealth at self-government, that continue to affect its costs of service delivery.

national partnership payments

Payments from the Commonwealth to States to support the delivery of specified projects, facilitate reforms, or reward jurisdictions that deliver nationally significant reforms. A subset of payments for specific purposes.

national specific purpose payments

Payments from the Commonwealth to States, to be spent in key service delivery sectors. A subset of payments for specific purposes.

native title and land rights disability

A disability that measures differences in costs that States incur because of the operation of the Australian Government *Native Title Act 1993*, the additional costs that the Northern Territory incurs because of the operation of the Australian Government *Aboriginal Land Rights (Northern Territory) Act 1976* and the land rights expenses of other States under their land rights legislation.

natural disaster relief

Expenses incurred by States under the Disaster Recovery Funding Arrangements 2018. These are assessed on an actual per capita basis.

needs

See assessed differences.

net financial worth

The sum of financial assets minus the sum of liabilities.

net borrowing

The outcome of an operating budget calculated as the sum of expenses and gross investment less the sum of State own source revenues and revenues received from the Commonwealth. Negative net borrowing is referred to as net lending.

new arrangements

The *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018* specifies that, when fully implemented, no State will receive a per capita GST share less than the lower of New South Wales or Victoria. For an explanation of how this is being implemented, see *Report on GST Revenue Sharing Relativities 2020 Review*, Volume 2, Chapter 4.

no impact on relativities (in reference to Commonwealth payments)

Treatment applied to a Commonwealth payment that does not provide budget support for State services or for which expenditure needs are not assessed. Both the payment and the expenses relating to it are removed from the adjusted budget to ensure they have no impact on a State's fiscal capacity. Occasionally the terms of reference instruct the Commission to ensure a particular payment has no impact on relativities. (See quarantine).



no worse off

A concept to explain the provisions of section 5(3) of the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018*. Under those provisions, over the transition years (2021-22 to 2026-27), a State will be entitled to additional financial assistance if it receives a lower GST pool grant under the new arrangements than it would have received if the legislative changes had not been enacted. This additional financial assistance will be funded by the Commonwealth.

payments for specific purposes

Payments from the Commonwealth to the States relating to policy areas for which the States have primary responsibility. They cover most functional areas of State (and local government) activity, including health, education, skills and workforce development, community services, housing, Indigenous affairs, infrastructure and the environment. They include national specific purpose payments and national partnership payments.

policy neutral assessment

An expenditure or revenue assessment that is unaffected by the policies of an individual State, other than through the influence of its policies on the averages.

pool top-up payments

Additional funds provided by the Commonwealth, along with GST revenue, to form the GST pool, as specified in section 8A(1) of the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018*.

previous arrangements

The process for equalisation that applied prior to the commencement of new legislative arrangements from 2021.

quarantine

The treatment of a Commonwealth payment, and where possible the expense for which it is used, in such a way as to have no impact on the relativities. Quarantining always results from instructions given directly to the Commission in its terms of reference and the term is used only in this context.

ratio of actual expenses to assessed expenses

A ratio that reflects how a State's policies on the level of services provided and the relative efficiency with which they are provided vary from the average policies. It is measured by dividing actual expense per capita by assessed expense per capita.

ratio of actual investment to assessed investment

A ratio that reflects how a State's policies on the level of capital provided varies from average policies. It is measured by dividing actual investment per capita by assessed investment per capita.

ratio of actual revenue to assessed revenue

A ratio that indicates the actual effort made by a State to raise revenue relative to the average effort. It is measured by dividing actual revenue per capita by assessed revenue per capita.

ratio of assessed expenses to average expenses

A ratio of a State's assessed per capita cost of providing services at average standards, relative to average per capita cost. It is calculated by dividing per capita assessed expenses by per capita average expenses.



ratio of assessed investment to average investment

A ratio of a State's assessed investment per capita to the Australian average investment per capita. It is measured by dividing per capita assessed capital by per capita average capital.

ratio of assessed revenue to average revenue

A ratio that indicates the capacity of a State to raise revenue relative to the average. It reflects the size of a State's revenue base per capita relative to the average and is measured by dividing assessed revenue per capita by average revenue per capita.

redistribution

The difference between an equal per capita distribution of GST pool and one based on the principle of horizontal fiscal equalisation.

regional costs disability

A disability that measures cost differences within a State due to differences in the wages paid, and in the price and/or quantity of other inputs to State services.

relative fiscal capacity

A State's relative fiscal capacity is a measure used to inform the distribution of the GST pool. Relative fiscal capacities are determined for each State such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own-sources and operated at the same level of efficiency. The measure is designed so that the higher a State's GST requirement, the higher the value of the measure.

relativity

A per capita weight used to calculate the share of the GST pool a State will receive. From the 2021 Update, it is derived by blending the relative fiscal capacities with the standard State capacities to transition to the new arrangements.

relativity floor

A minimum GST pool sharing relativity, with an initial value of 0.7 to apply from 2022-23, then raised to 0.75 to apply from 2024-25. For 2021-22, the Northern Territory will have a GST pool share at least equivalent to a relativity of 4.66.

revenue base

A measure of the transactions, activities, or assets that are taxed by the States. Differences between the revenue bases of each State are used by the Commission to determine the relative capacities of each to raise revenue.

revenue effort

The intensity of use of a revenue base (the implied tax rate) measured as actual revenue divided by assessed revenue. It is influenced by the rate of tax or charge, the exemptions, and concessions provided, actual scope of the revenue base in a State, and the effort it puts into ensuring compliance.

review

The process in which the Commission reconsiders the methods used to calculate the GST distribution, according to terms of reference given to it. From 1988 onwards, reviews have usually occurred every 5 years. By contrast, an update is conducted every year other than a review year and updates the distribution using the methods determined in the last review and the latest data.



service delivery scale

Service delivery scale (SDS) is a measurement of the additional costs of providing a service because the population served is small and isolated from other points of service delivery.

sociodemographic composition

Sociodemographic composition (SDC) is a measurement of differences in both the average use and cost of providing services due to differences between States in the relative size of various sociodemographic groups. It can reflect differences between States in some or all population characteristics such as age, socioeconomic status, Indigenous status and location.

standard state

The fiscally stronger of New South Wales and Victoria, used in the context of the new arrangements.

standard state capacity

A measure of a State's ability, benchmarked to the standard state, to provide average services, including infrastructure, to its population if it raised revenue from its own revenue bases at average effort taking account of its actual other Commonwealth payments. Collectively for all States, these are referred to as standard State capacities.

State(s)

Unless the context indicates otherwise, the term 'State(s)' includes the Australian Capital Territory and the Northern Territory.

tax base

See revenue base.

transition year

Refers to the transition to the new arrangements. The transition years are 2021–22 to 2026–27. These are the payment, or application, years not the assessment years.

update

The annual assessment of the GST pool distribution undertaken by the Commission between reviews. Updates incorporate new budgetary developments and the most recent available data. In general, the methods used are those adopted in the most recent review. From the 2021 Update, the recommended relativities also reflect the transition to the new arrangements.

user charges

Fees and charges raised by States through the provision of goods or services. In the adjusted budget, user charges for some functions or categories are deducted from related expenses. Other user charges are included in the Other revenue category and have no effect on a State's fiscal capacity.

wage costs disability

A disability that recognises that otherwise comparable public sector employees in different States are paid different wages, in large part due to differences in labour markets beyond the control of State governments.