



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 (APC) 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 the 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 disability

A disability that measures 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 revenue. For example, for the 2020 Review the year of application is 2020-21.

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 policy choices under the control of a State.

assessed GST requirement

A State's requirement for funds from GST revenue in an assessment year. It is measured as the sum of its assessed expenses and assessed investment, less the sum of its assessed revenue, assessed Commonwealth payments and assessed net borrowing.

assessed investment (also referred to as gross 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 infrastructure at the start of each year. Assessed investment excludes differences from the average due to policy choices under the control of that State.

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 financial years used in a review or an update for which annual relativities are calculated. The Commission uses data for three assessment years to calculate the three year average relativities. For example, the relativities recommended in this review for the 2020-21 application year are based on the relativities for three assessment years, 2016-17, 2017-18 and 2018-19.

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 expenses

The average per capita expense in a category or component, is calculated as the sum of expenses of all States, divided by the Australian population.

average policy

The average policies as reflected in the practices of the States in the collection of revenue and delivery of services. These averages are usually weighted according to the size of the user or revenue bases in each State.

average revenue

The average per capita revenue in a category or component is calculated as the sum of State revenues, divided by the Australian population.

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.

capital assessments

In the report, the term capital assessments refers to the Investment and Net borrowing assessments.

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, seven own-source revenue categories, eleven expense categories, investment and net borrowing.

category factor

The combined effect of all the disabilities 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 Australian Government, including general revenue grants (other than GST revenue), payments for specific purposes (PSPs) 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 part of an expense or revenue category that is separated from others in the category because different disability factors apply to it.

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.

disability

An influence beyond a State's control that requires 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.

discounting

Where a case for including a disability in a category is established by the Commission, but the measure of that disability is affected by imperfect data or methods, the Commission may decide to apply a discount. When an assessment is to be discounted, a uniform set of discounts is used (12.5%, 25%, 50% or 100%), with higher discounts being applied where there is more concern attached to the data or method.

distribution

State shares of GST revenue based on the principle of horizontal fiscal equalisation (HFE).

distribution model

A mathematical formulation of the way in which State GST requirements (and relativities) 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. It is typically used when there are judged to be no material disabilities between the States, or no reliable assessments could be developed due to data or other limitations. Such an assessment means that no needs are assessed for any State and that there is no impact on the GST distribution.

equalisation

See horizontal fiscal equalisation (HFE).

expenditure

This term is used to refer to expenses and gross investment.

expenses

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



fiscal capacity

The fiscal capacity of a State is a measure of its ability to provide average services, including infrastructure, to its population if it raised revenue from its own revenue bases at average rates and taking account of its actual Commonwealth payments, excluding the GST. Once the GST has been distributed using the Commission's recommendations, State fiscal capacities should be equal. The relative capacity of each State is a comparison of its fiscal capacity with the average capacity.

Goods and Services Tax (GST) revenue or GST pool

The funds made available by the Australian Government for transfer to the States as untied financial assistance, consistent with the principle of horizontal fiscal equalisation.

grant design inefficiency

A flaw in a method of assessment which would allow a State to influence its relativity by changing its expense or revenue policies (apart from any effect of these policies on the average expense or revenue).

gross 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. It often referred to simply as investment.

horizontal fiscal equalisation (equalisation)

Horizontal fiscal equalisation (HFE) seeks to reduce fiscal disparities between sub-central governments. Australia gives effect to HFE by distributing GST revenue to States according to the principle of HFE, which ensures that each of Australia's States has the same fiscal capacity, under average policies, to provide services and the associated infrastructure to their communities.¹ Separate equalisation arrangements apply to local government in Australia.

impact on relativities (previously called inclusion), see also no impact on relativities

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 assessed on an actual per capita basis.

infrastructure

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.

material, materiality

A test used to assist decisions about whether a separate assessment of a disability, or a data adjustment, should be undertaken. The materiality levels are defined in terms of the amount of GST 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 section in Chapter 3, Volume 2, Part A).

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.

¹ From 2021-22 the horizontal fiscal equalisation (HFE) system in Australia will begin to transition from the current arrangements to new arrangements that will ensure State have the capacity to provide services at the standard of New South Wales or Victoria, whichever is higher.



national partnership payments

National partnership payments (NPPs) are payments from the Commonwealth to States to support the delivery of specified projects, facilitate reforms, or reward jurisdictions that deliver nationally significant reforms.

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 (DRFA).

needs

See assessed differences.

net financial worth

Net financial worth is 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 Australian Government. Negative net borrowing is referred to as net lending.

no impact on relativities (previously called exclusion)

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.)

payments for specific purposes

Payments for specific purposes (PSPs) are payments from the Commonwealth to the States relating to policy areas for which the States have primary responsibility. These payments 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. PSPs include specific purpose payments (SPPs), National Health Reform funding, Quality Schools funding and NPPs.

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.

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 revenue 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.

relativity

A per capita weight assessed by the Commission for use by the Commonwealth Treasury in calculating the share of the GST revenue a State requires to achieve horizontal fiscal equalisation.

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 the 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 put 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 five years. By contrast, an update is conducted every year other than a review year and updates the GST distribution using the methods determined in the last review and the latest data.

service delivery scale

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



socio-demographic composition

Socio-demographic composition (SDC) is a disability that measures differences in both the average use and cost of providing services due to differences between States in the relative size of various socio-demographic groups. It can reflect differences between States in some or all population characteristics such as age, socio-economic status, Indigenous status and location.

specific purpose payments

Specific purpose payments (SPPs) are payments from the Commonwealth to States for purposes that enable national policy objectives to be achieved in areas administered by States.

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.

update

The annual assessment of the GST 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.

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.