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COMMISSION TERMINOLOGY

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.

GLOSSARY

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 social housing public non-financial corporations, which are in whole or part financed by GST revenue.

administrative scale disability

A disability that measures differences in costs which 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 average of the assessed GST distributions for each assessment year (expressed as relativities) are to be used to distribute the GST revenue. For example, in the 2016 Update the year of application was 2016-17.

assessed capital requirements ratio (or ratio of assessed investment per capita to average investment per capita)

A ratio of a State's assessed capital requirements per capita to the Australian average capital requirement per capita. The assessed capital requirements are what a State would have needed to invest or lend/borrow to have the Australian average level of capital.

assessed differences (also known as needs)

The financial impact on a State's budget of its disabilities. They are measured, for example, as the difference between assessed expenses and average expenses, average revenue and assessed 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 its assessed expenses, plus its assessed investment, less its assessed revenue, less assessed Commonwealth payments and less assessed net borrowing.

assessed investment

The expenditure on new 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. 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 raised 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.

assessed service use

The use assessed by the Commission for a State to achieve average service delivery to its population. Assessed service use can be influenced by many things especially the demographics of the State's population (for example, percentage of low income people, percentage in remote communities) and geography (which influences, for example, length of roads).

assessed unit cost (of a service)

The cost per unit of service assessed by the Commission for a State to deliver a particular service to a particular segment of the population at the average standard (for example, cost per student of State primary education). The assessed unit cost can differ for different population groups.

assessment years

The financial years used in a review or an update to calculate the assessed GST requirement, from which an annual relativity is calculated. The Commission uses data for three assessment years (where each assessment year corresponds to a financial year). For example, the GST distribution recommended in the 2015 Review (for 2015-16) is based on the average of three assessment year annual relativities calculated for the most recent completed financial years at the time the relativities are released (2011-12 to 2013-14).

average (or Australian average)

The benchmark against which the performance or characteristics of a State are 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, a group of categories or in total. It is calculated as the sum of expenses of all States, divided by the Australian population.

average revenue

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

backcasting

Changes made to data for assessment years to reflect current or future Commonwealth or State policies. Backcasting is mainly used to reflect major changes in federal financial arrangements. Where required by the Commission's terms of reference, it has also been used to reflect other changes, such as the replacement of one tax with another tax or the abolition of a tax. In effect, backcasting produces notional financial data that simulate a changed distribution of a Commonwealth payment or State revenue collection before they may have actually changed. Actual data for the assessment period are adjusted to reflect what is reliably known to be happening in the application year.

Backcasting is also used to refer to estimating population for periods before June 2011, using the 2011 Census based estimates, and independent estimates of births, deaths and net migration.

capital assessments

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

category

A classification of in-scope transactions relating to distinct services or revenue sources, used for analytical purposes. In the 2015 Review, the adjusted budget is divided into Commonwealth payments, six specific revenue categories, twelve specific expenditure categories, net borrowing and two residual (or other) categories — one for revenue and one for expenditure.

category factor

The combined result of all the disability factors in a category, or where the category is made up of multiple components, the combined disability factors for all of those components. The category factor is 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, National specific purpose payments (SPPs), National partnership payments (NPPs) and Commonwealth own purpose expenses. The Commission examines the purpose of each payment using established guidelines 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.

cost of service ratio (ratio of assessed expenses per capita to average expenses per capita)

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

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
- to 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 discount. When an assessment is to be discounted, a uniform set of discounts is used (12.5%, 25% or 50%), with higher discounts being applied where there is less confidence in the outcome of the assessment or more concern attached to the data.

distribution

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

distribution model

A formulation, mathematical or otherwise, of the way in which State GST shares (and relativities) are calculated.

equal per capita assessment method (EPC)

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 capital expenditure.

expenses

Operating outlays under an accrual budgeting framework.

expense assessment framework

The general approach used to assess expenses. Under the current framework, an expense category is divided into expense components, separate disabilities which move average expenses away from an equal per capita distribution are recognised in each component and the final category assessment is achieved by summing the component assessed expenses.

financial averages

The weighted average per capita expenses and revenues for each category in the adjusted budget. These are calculated by dividing the sum of expense or revenue for all States by the Australian population.

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 received 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, following 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).

horizontal fiscal equalisation (equalisation)

A distribution of GST revenue to State governments such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and their associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources, operated at the same level of efficiency and maintained the average per capita net financial worth.

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 expenses funded by payments that impact on the relativities are assessed in relevant categories and the revenue is assessed on an actual per capita basis.

infrastructure

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

investment

Investment refers to acquisition of new infrastructure. It is conceptually equivalent to 'net acquisition of non-financial assets' that appears in the Australian Bureau of Statistics Government Finance Statistics State operating statement.

joint disability assessment

A disability assessment in which more than one disability is calculated simultaneously. Joint disability assessments are most frequently used for the calculation of socio-demographic composition disability factors.

level of capital provision ratio (ratio of actual investment to assessed investment)

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

level of service ratio (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 per capita expense by assessed expense per capita.

material, materiality

A test used to assist decisions on when a separate assessment of disabilities should be undertaken or when data should be adjusted. The materiality levels are defined in terms of the amount of GST redistributed per capita for any State. Different thresholds are used for each. An assessment or adjustment is said to be material if it exceeds the threshold set for it. (See the Assessment Guidelines, Chapter 1 of the *2015 Review* Report, Volume 2.)

model

See distribution model.

national capital disability

A disability that measures the additional costs that the ACT incurs because of Canberra's status as the national capital.

national partnership payments (NPPs)

Commonwealth payments to States that support the delivery of specified projects, facilitate reforms, or reward those jurisdictions that deliver on 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's Native Title Act 1993 or the additional and unique costs that the Northern Territory incurs because of the operation of the Australian Government's Aboriginal Land Rights (Northern Territory) Act 1976.

needs

See assessed differences.

net financial worth

Net financial worth is the sum of financial assets minus the sum of liabilities.

net balancing transactions

An accounting entry ensuring the sum of total State expenditure and total State revenue including the GST are equal. Net balancing transactions are included in the adjusted budget but they have no impact on the assessment of State fiscal capacities. They generally appear in adjusted budget and assessed budget in the Other revenue category.

net borrowing

The outcome of an operating budget calculated as expenses and expenditure on non-financial assets less State own source revenues and revenues received from the Australian Government.

no impact on relativities (previously called exclusion or out of scope)

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 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 (PSPs)

Australian government payments to the States for specific purposes in 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 SPPs, National Health Reform Funding, Students First funding and NPPs.

policy averages

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

policy neutral assessment

An assessment in which the policy average is applied to every State. The resultant assessment is therefore unaffected by the policies of individual States, other than through the influence of those 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.

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 quantity of other inputs to State services.

relativity

A per capita weight assessed by the Commission for use by the Australian 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 a particular type of 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 put into ensuring compliance.

revenue raising capacity ratio (ratio of assessed revenue to average revenue)

A ratio which 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.

revenue raising effort ratio (ratio of actual revenue to assessed revenue)

A ratio which indicates the actual effort made by a State to raise revenue relative to the average effort. It is primarily a measure of the deviation of a State's tax rates and efficiency in ensuring compliance from the average rates and compliance efficiency. It is measured by dividing actual per capita revenue by assessed revenue per capita.

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 been done 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 financial data.

service delivery scale disability

A disability that measures the additional costs of providing a service where it needs to be delivered but where the delivery is more costly because the population served is small and isolated from other points of service delivery.

Socio-demographic composition disability

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-sex structure, socio-economic status, Indigenous status and location.

Specific purpose payments (SPPs)

Commonwealth payments to States for specific purposes which enable national policy objectives to be achieved in areas that may be 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. Update assessments incorporate new budgetary developments and the most recent available data. In general, the methods used to calculate the GST distribution 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 health, post-secondary education, electricity, water and protection of the environment, mining regulation and public transport are deducted from related expenses. Housing user charges are assessed in a separate component in the Housing category. Other user charges are included in the Other revenue category.

wage costs disability

Recognises that otherwise comparable public sector employees in different States are paid different wages, partly due to differences in labour markets beyond the control of State governments.