Glossary

Actual per Capita assessment method (APC)

The assessed expense or revenue for each State is set equal to its actual expense or revenue. Typically, the CGC uses this assessment when the policies of all States are the same or and any differences in expenses or revenue are due to differences in State circumstances.

Ad valorem royalties

These are based on the value of the commodity being mined. The method of calculating value can be complicated and differ across jurisdictions.

Adjusted budget

A representation of State budgets used by the Commonwealth Grants Commission (CGC) to calculate the average per capita revenue and expenses.

Application year

The year in which relativities are applied. For example, in the 2012 Update, the application year is 2012-13.

Assessed differences (also known as needs)

The financial impact on a State 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 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 a State.

Assessed net lending

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 CGC's method for calculating assessed net lending 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.

Assessment years (period)

The financial years used in a review or an update to calculate relativities. The CGC uses data for three financial years. For example, the relativities recommended in the 2012 Update are based on the average of three annual relativities calculated for the most recent completed financial years at the time the relativities are released (2008-09 to 2010-11).

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.

Broader indicators

Indicators that could be used to assess State fiscal capacities at a level lower than a total budget level that is at a category and/or disability level.

Category

A classification of State general government transactions relating to distinct services or revenue sources, used for analytical purposes.

Commonwealth payments

Payments to States made by the Australian Government, including general revenue grants, National specific purpose payments, National partnership payments and Commonwealth own purpose expenses.

Current fiscal equalisation system

The process and methods adopted by the CGC in its 2010 Review to examine State fiscal capacities.

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
- to make a greater (or lesser) effort than the average to raise the average amount of revenue per capita.

Distribution

State shares of GST as determined by the relativities.

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. Such an assessment means that no 'needs' are assessed for any State and that there is no impact on the relativities.

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.

Fully contemporary GST distribution

A theoretical GST distribution, where States' fiscal capacities for the application year determine their GST distribution in the application year.

Global indicators

Indicators which could be used at the total budget level to assess States' fiscal capacities.

Goods and services tax (GST) revenue or pool

The funds made available by the Australian Government for transfer to the States as untied financial assistance.

Government Finance Statistics

Government Finance Statistics produced by the ABS that measure the financial activities of the governments. GFS statistics are used by the CGC to compile the adjusted budget.

Lag

Describes the impact of averaging State fiscal capacities over three years, and the two year delay in data availability. Alternatively, the lag can be described as the difference between the GST distribution in an application year based on historical data and a fully contemporary GST distribution.

Material, materiality test, materiality threshold

A test used to assist decisions on when a separate category of State activity or disability should be assessed 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 data adjustment is said to be material if it exceeds the threshold set for it. See the Assessment Guidelines, Attachment A of the 2010 CGC Review Report, Volume 1.

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. Some Specific purpose payments under the previous federal financial arrangements have become National partnership payments.

Payments for Specific Purposes (PSPs)

Payments made by the Commonwealth to States for specific purposes, namely National Specific Purpose Payments, National Partnership Payments and other general revenue assistance apart from the GST, see also Commonwealth payments.

Policy neutral assessment

An assessment unaffected by the policies of individual States other than through the influence of those policies on the averages.

Relativity

A per capita weight assessed by the CGC for use by 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 CGC to determine the relative capacities of each State to raise a particular type of revenue.

Revenue effort

The difference between the actual rate of tax, exemptions, concessions and scope of the revenue base in a State, compared with the average rate of tax, exemptions, concessions and scope of the revenue base. It is measured as actual revenue, less assessed revenue.

Revenue raising capacity ratio

A ratio which indicates the capacity of a State to raise revenue, relative to the average. It is measured by dividing assessed revenue per capita by average revenue per capita.

Revenue raising effort ratio

A ratio which 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.

Review of methodology

The process in which the CGC reconsiders the methods used to calculate State relativities, 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 relativities using the methods determined in the last review and the latest financial data.

Royalties (mining)

Rent for the use of non-produced assets such as deposits of minerals or fossil fuels. It is also referred to as mining revenue.

Specific purpose payments (SPPs)

Commonwealth payments for specific purposes to the States 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 elasticity effect

Where a State's tax changes affects its assessed capacity, for example where a tax increase causes assessed capacity to contract. The size of this effect depends on the elasticity of the tax base and is difficult to calculate with any certainty.

Untied payments

Untied payments to States from the Australian Government may be spent solely in accordance with State priorities. States receive the GST revenue as untied payments.

Update

The annual assessment of State relativities undertaken by the CGC between reviews. Update assessments incorporate new budgetary developments and the most recent available data. In general, the methods used to calculate the relativities are those adopted in the most recent review.