

# CHAPTER 1

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## INTRODUCTION

- 1 On 26 May 2005, the Commonwealth Grants Commission (the Commission) received terms of reference asking it to review and simplify the methods used to calculate the relativities for distributing the goods and services tax (GST) revenue among the States and Territories<sup>1</sup>. The Commission has responded to that terms of reference in three volumes:
  - Volume 1 — Main Report;
  - Volume 2 — Assessments of State Fiscal Capacities; and
  - Volume 3 — Supporting Information.
- 2 A copy of the terms of reference is at the front of Volume 1. Further supporting information, including Commission papers and State submissions relating to the review of methods, are available at <http://www.cgc.gov.au/>.
- 3 Volume 1 sets out the overall approach the Commission has taken to this review. It documents the principles we have followed, how these have been implemented and the relativities that we consider appropriate to apply after 2011.
- 4 This volume — *Assessments of State Fiscal Capacities* — provides details of the methods we have used to achieve equalisation as simply and transparently as possible.
  - Chapter 2 explains how we have constructed the adjusted budget used to define the scope of equalisation and the structure of the revenue, expense, investment and net lending assessments we have undertaken. It also documents the treatment of each Commonwealth payment to the States in the calculation of the relativities and sets out our reasoning.
  - Chapters 3 to 22 for each assessment:
    - outline our assessment approach and the issues considered in reaching that position;

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<sup>1</sup> In the rest of this volume, the term State(s) means the States, the Northern Territory and the Australian Capital Territory, unless the context indicates otherwise.

- provide details of the calculations of the assessed revenues, expenses or disability factors;
  - illustrate the extent to which the assessed revenues or expenses cause the distribution of the GST to differ from an equal per capita (EPC) distribution;
  - explain why the newly recommended redistribution differs from the previous one; and
  - recommend how the assessment might be updated.
- Chapters 23 to 28 provide similar information on each of the major influences affecting State expense requirements.
  - Chapter 29 describes how typical assessments work and the processes by which the individual assessments are brought together to derive relativities.
  - Chapter 30 provides Commission decisions on the population data we have used in the assessments and information on how we have used it. It also includes the data which show how States' population characteristics differ.
  - Chapter 31 gives a brief summary of the major issues the Commission discussed with each State during approximately week long visits to each State. It includes the visit itinerary for each States. These visits were important to the development of the assessments of State fiscal capacities.
  - Attachments A, B and C include the Commission's 2006 and 2007 Reports to the Ministerial Council for Commonwealth-State Financial Relations and the Commission's Information Paper on Principles and Architecture of Horizontal Fiscal Equalisation (CGC 2007/12).
- 5 Volume 3 has been prepared by Commission staff to provide supporting information. It summarises the assessments and provides detailed analysis of the relativities and the changes that have occurred. It also provides information on State tax rates and conditions.