

COMMISSION TERMINOLOGY

- 1 The Commission aims to keep the language it uses as simple as possible to make its reports and other documents more accessible. That said, there will always be a need for special terms to describe some concepts. This attachment provides a list of the main terms that have a meaning that is unique to the Commission.
- 2 Note, the term ‘State(s)’ includes the Australian Capital Territory and the Northern Territory. The term ‘average’ refers to the average of all the States as defined. Where a defined term is used in a definition of another term, it is shown in italics.

TERMS

actual per capita assessment method (APC)

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 expenses. The scope of the adjusted budget covers all *State* general government transactions that contribute to the *net lending/borrowing* recorded in the *GFS* operating statement. It excludes direct spending or revenue raised by the Australian Government, local government, State PTEs and non-government bodies. The adjusted budget is dissected into revenue and expense categories. The Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS), supplemented by information collected from the States and other sources, are used to compile the budget.

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.

assessed capital requirements ratio

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 (net) 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 equal *assessed service use* multiplied by *assessed unit cost*. Assessed expenses exclude differences from the average due to policy choices under the control of a *State*.

assessed GST requirement, or share

A *State's* requirement for funds from *GST revenue*. It is measured as its *assessed expenses*, less its *assessed revenue*, less assessed *Commonwealth payments* plus its *assessed investment* plus *assessed net lending*.

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

The transaction-based change in net financial worth that a *State* would require to achieve the *average* net financial worth at the end of a 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 (period)

The financial years used in a *review* or an *update* to determine *relativities*. The Commission uses data for three financial years. For example, the *2010 Review* recommends the distribution of the *GST* in 2010-11. It uses the average of three annual *relativities* calculated for the most recent completed financial years at the time the *relativities* are released (2006-07 to 2008-09).

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 figures for past financial years in an *assessment period* 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 figures for the *assessment period* are adjusted to reflect what is known to be happening in the *application year*.

capital assessments, ratios, or requirements

In this report, the term *capital* refers to the Investment and Net lending assessments.

category

A classification of *State* general government transactions relating to distinct services or revenue sources, used for analytical purposes. In this review, the adjusted budget is divided into Commonwealth payments, six specific revenue categories, thirteen specific expenditure categories 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*.

Commonwealth own-purpose expenses (COPEs)

Commonwealth payments paid to *States* and non-government organisations for the services they supply.

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* (COPEs). 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

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* use, *assessed cost* 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 but the Commission is unable to make a suitable assessment of its impact, due to data quality or other difficulties, the Commission may discount the impact by 12.5 percent, 25 per cent or 50 per cent, proportional to the level of uncertainty held.

distribution

State shares of GST as determined by the *relativities*.

distribution model

A formulation, mathematical or otherwise, of the way in which *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* and any differences between the *States* in the cost of providing services or raising revenue reflect differences in *State* policies, 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 *relativities*.

equalisation

See *horizontal fiscal equalisation*.

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 *components*, separate *disability factors* are applied to each *component* and the final *category* assessment is achieved by summing the *component* assessments.

financial averages

The *weighted average* per capita expenses and revenues for each *category* in the *adjusted budget*.

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 *relativities*, *State* fiscal capacities should be equal.

The relative capacity of each *State* is a comparison of its fiscal capacity with the *average* capacity. In this review, the Commission has chosen to equalise the *net financial worth* position of *States* in deciding the distribution of the GST.

Goods and Services Tax (GST) revenue / GST pool

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

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 (see also *no impact on relativities*)

Treatment applied to a *Commonwealth payment* that provides budget support for *State* services and affects *State fiscal capacity*. The expenses are assessed differentially in relevant *categories* and the revenue is assessed on an *actual per capita* (APC) basis.

infrastructure

Infrastructure refers to the stock of physical assets owned by a *State's* general government sector 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 the equivalent to 'net acquisition of non-financial assets' that appears in the Australian Bureau of Statistics Government Finance Statistics (GFS) State operating statement.

interstate location disability

A *disability* that measures the differences between the *States* in the costs per unit of labour and other inputs to services.

joint factor

A *disability factor* in which more than one basis of *disability* is calculated simultaneously. The joint factor approach is most frequently used for the calculation of socio-demographic composition disability factors.

level of capital provision ratio

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

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 test, materiality threshold (see the Assessment Guidelines, Attachment A of Volume 1)

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 adjustment is said to be material if it exceeds the threshold set for it.

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

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 lending

The outcome of an operating budget calculated as expenses and expenditure on non-financial assets, change in inventories, etc 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. Both the payment and the expenses relating to it have no impact on a *State's fiscal capacity*.

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*.

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*.

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 *EPC* share of the *GST* and the *distribution* determined by the *relativities*.

regional location 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 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

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

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 *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.

service delivery scale

A *disability* that measures the additional costs of providing a service where it needs to be delivered but where the delivery is of less than economic size because the population served is small and remote from other points of service delivery.

socio-demographic composition disability

A *disability* that measures the budgetary impact, due to differences in both demand for and cost of providing services, that results from differences between *States* in the relative size of socio-demographic groups. It can reflect differences between *States* in some or all population characteristics such as age-sex structure, socio-economic status, Indigeneity, cultural and linguistic background, and location of residence.

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 *State relativities* 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 *relativities* 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 admitted patients, welfare housing, electricity, water and sanitation, and public transport are deducted from related expenses, and other user charges are included as other revenue.

year of application

The year in which the *relativities* assessed are to be used to distribute the *GST revenue*. In this review, the year of application is 2010-11.

years of assessment

See *assessment period*.

ACRONYMS

ABARE	Australian Bureau of Agricultural Resources Economics
ABS	Australian Bureau of Statistics
ACH	Annual contact hours
AFF	Agriculture, Forestry and Fishing industry
AFP	Australian Federal Police
AIC	Australian Institute of Criminology
AIHW	Australian Institute of Health and Welfare
APC	Actual per capita
ARIA	Australian remote Indigenous accommodation
BESC	Born in English speaking country
BITRE	Bureau of Infrastructure, Transport and Regional Economics
BNESC	Born in non-English speaking country
BoM	Bureau of Meteorology
CALD	Cultural and linguistic diversity
CHIP	Community housing and infrastructure program
COAG	Council of Australian Governments
CoE	Compensation of employees
COPE	Commonwealth own-purpose expense
CPI	Consumer price index
CSHA	Commonwealth-State housing agreement
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DEEWR	Department of Education, Employment and Workforce Relations
DoCS	Department of Community Services
DoHA	Department of Health and Ageing
DVA	Department of Veterans Affairs
DWP	Data working party
EPC	Equal per capita
ERP	Estimated resident population
ESL	English as a second language
FAHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FHOS	First home owners scheme

FTE	Full-time equivalent (employees)
FWE	Full-time workload equivalent
GFCF	Gross fixed capital formation
GFS	Government finance statistics
GOS	Gross operating surplus
GPC	Government purpose classification
GRA	General revenue assistance
GST	Goods and services tax
IGA	Intergovernmental Agreement on Federal Financial Relations 2008
IRSD	Index of relative socio-economic disadvantage
MYEFO	Mid-Year Economic and Fiscal Outlook
NNR	National network roads
NPP	National partnership payment
NTC	National Transport Commission
NTER	Northern Territory Emergency Response
PHIAC	Private Health Insurance Administration Council
PTE	Public trading enterprise
RIH	Remote Indigenous housing
SARIA	State-based accessibility/remoteness index of Australia
SDS	Service delivery scale
SDC	Socio-demographic composition
SEIFA	Socio-economic index for areas
SES	Socio-economic status
SET	Survey of education and training
SLA	Statistical local area
SMVU	(ABS) Survey of motor vehicle use
SPP	Specific purpose payment
SRO	State revenue offices
TAFE	Technical and further education
TAC	Type of asset classification
UC/L	Urban centre/locality
VET	Vocational education and training