



Glossary

This glossary defines terms that have a specific meaning in the context of the Commission's work and are routinely used in the Commission's publications.

Actual per capita assessment (APC) method

This method uses actual expenses (or revenues) as the [assessed expenses](#) (or revenues) of states. It can be used when a state's actual expenses or revenues reflect the average policy and average efficiency.

Administrative scale

The administrative scale assessment estimates the differences in costs (per person) that states incur in providing the minimum level of administration and policy development required to deliver services. These costs relate to core head office functions and state-wide services provided centrally.

Application year

The year for which the GST relativities recommended by the Commission will be used to distribute the GST pool.

Assessed expenses

The Commission's estimate of the expenses a state would incur if it were to follow average policies and operate at average efficiency. Assessed expenses are an input to the Commission's assessment of relative state fiscal capacities.

Assessed investment

The Commission's estimate of the investment on new and replacement infrastructure a state would incur if it were to follow average policies and operate at average efficiency. Assessed investment is an input to the Commission's assessment of relative state fiscal capacities.

Assessed GST needs

The distribution of the GST between the states using [assessed relativities](#).

Assessed net borrowing

An input to the Commission's assessment of relative state [fiscal capacities](#). The Commission's estimate of the net borrowing a state would undertake in a year if it followed average policy and operated at average efficiency.

Assessed relativity

The Commission's measure of how much GST each state would require to have the fiscal capacity to provide a similar standard of services and associated infrastructure if each state made the same effort to raise revenue from its own sources and operated at the same level of efficiency. Assessed relativities reflect a state's share of the GST pool relative to the national average per person GST. A number above one indicates above-average [assessed GST needs](#).

Assessed revenue

The Commission's calculation of the revenue a state would raise from its own sources if it were to apply average policies to its revenue base. Assessed revenue is an input to the Commission's assessment of relative state [fiscal capacities](#).

Assessment guidelines

The Commission uses assessment guidelines to support a consistent approach to developing assessment methods, and to ensure that those methods are conceptually sound, reliable, and as transparent and simple as possible. The guidelines are also a key part of the Commission's quality assurance process. They ensure all relevant steps in the decision-making process are followed and that this process is transparent.

Assessment methods

The Commission's use of calculations and data to determine each state's assessed spending needs and revenue-raising capacity as inputs to assessing relative state [fiscal capacities](#).

Assessment years

The Commission averages data from the 3 prior completed financial years, which are referred to as the assessment years, to calculate the recommended GST distribution for a given application year. For example, for the 2024–25 application year, the assessment years are 2020–21, 2021–22 and 2022–23.

Average expense / revenue

The national average per person of state spending or revenue.

Blended relativities

Over the 6-year transition period prescribed in the [2018 legislated arrangements](#), assessed relativities are blended with standard state relativities in each assessment year. The weighting that each receives in a given application year is specified by the legislation.

Commonwealth payments

Payments of financial assistance made by the Commonwealth to the states. These include general revenue grants (other than distribution of the GST pool), and payments for [specific purposes](#).

Cost of service provision ratio

A ratio calculated by the Commission of a state's per person cost of providing average services, relative to the national average per person cost. It reflects the extent to which the cost of service provision for a state differs from the national average.

Discount

Where an assessment is affected by uncertainty in data or methods, the Commission may apply a discount. The discount reflects the Commission's judgment of the degree of uncertainty: 12.5% for low levels of uncertainty, 25% for medium and 50% for high.

Driver

A factor outside a state's control that means:

- with average effort it can raise above (or below) average revenue per capita, or
- it needs to spend more (or less) per person than the average to provide the average level of service.

Equal per capita (EPC) assessment method

An assessment method which has no influence on GST distribution. It is typically used when no state needs to spend more than the national average per person to provide a service, or when each state has the same capacity to raise revenue. It is also sparingly used when the Commission is unable to identify reliable drivers of different states' costs or revenue raising capacities.

Fiscal capacity

The financial resources available to a state to provide services to its citizens. In general terms, a state with an above-average fiscal capacity requires less in GST payments than a state with a below-average fiscal capacity.

GST pool

The funds available for distribution to the states as untied financial assistance. The pool comprises GST revenue plus [pool top-up payments](#) made by the Commonwealth.

GST relativity

The weight used by the Commission to calculate a state's share of the [GST pool](#). A state with a GST relativity higher than one (the average) will receive an above-average amount of GST per person.

GST relativity floor

The GST relativity floor sets a minimum relativity, below which a state's per capita share of the [GST pool](#) cannot fall. If a state's [blended relativity](#) is below the floor, its GST relativity is adjusted up to the floor. To accommodate this, the relativities of other states are adjusted down on a population-share basis.

Horizontal fiscal equalisation

A principle that seeks to reduce fiscal disparities between states ensuring that each state has a similar fiscal capacity, under average policies and efficiency, to provide services and associated infrastructure to residents.

Materiality threshold

A test the Commission uses in deciding whether to undertake a potential assessment or to make a data adjustment. An assessment is material if it changes the GST any state receives by at least \$35 per person. A data adjustment is material if it changes the GST any state receives by at least \$10 per person.

Methodology review

The Commission's review of its methods and overall approach to calculating the recommended GST distribution. A methodology review is undertaken in response to terms of reference issued by the Commonwealth Treasurer. Since 1988, methodology reviews have usually occurred around every 5 years.

No worse off payments

Payments made by the Commonwealth under the [2018 legislated arrangements](#) to ensure that no state receives a lower cumulative amount of GST than it would have under the previous GST distribution arrangements. This additional financial assistance is funded by the Commonwealth from outside the GST pool.

Revenue base

A measure of transactions, activities or assets that are taxed by states. Differences between the revenue bases of each state are used by the Commission to determine the relative capacity of each state to raise revenue.

Revenue raising effort ratio

A ratio that indicates the effort made by a state to raise revenue (severity of tax rates and efficiency in ensuring compliance) relative to the national average effort. It is measured by dividing actual per capita revenue by assessed per capita revenue.

Socio-demographic characteristics

The measurable personal characteristics that identify sub-groups within the population, such as age, gender, Indigenous status, [SES](#) and remoteness.

Socio-economic status (SES)

The social and economic position of a given individual, or group of individuals, within the population.

Specific purpose payments (SPPs)

Commonwealth payments to states to be used for purposes specified by the Australian Government.

Standard state relativity

Under the 2018 legislated GST distribution arrangements, the standard state is defined as the fiscally stronger of New South Wales or Victoria.

A standard state relativity is an input to the calculation of GST relativities and is derived by adjusting assessed relativities to ensure that no state has a relativity below that of the standard state.

State(s)

Unless the context indicates otherwise, the term 'state(s)' includes all 6 Australian states, along with the ACT and the Northern Territory.

Supporting principles

While the Commission's primary task is fiscal equalisation, it has developed a set of 4 supporting principles that guide the Commission in designing and evaluating assessment methods. The supporting principles, that are subsidiary to the objective of horizontal fiscal equalisation, are:

- 'what states do' - the Commission's methods should, as far as possible, reflect what states collectively do, not what they could or should do
- policy neutrality - a state's policy choices (in relation to the revenue it raises or the services it provides) should not directly influence its GST share. Also, the Commission's assessments should not create incentives or disincentives for states to choose one policy over another
- practicality - assessments should be based on sound and reliable data and methods, and should be as simple as possible, while also capturing the major influences on state expenses and revenues
- contemporaneity - to the extent reliable data will allow, the distribution of GST in a year should reflect state circumstances in that year.

Top-up payments to the GST pool

Additional funds provided by the Commonwealth to top up the GST revenue pool, as specified in the [2018 legislated arrangements](#).

Treatment of Commonwealth payments

A Commonwealth payment can be treated as 'impact', 'no impact' or 'out of scope' by the Commission.

- A payment is treated as '*impact*' when it is used to support state services and the Commission assesses state spending needs for those services. These payments increase the fiscal capacity of a state and therefore have an impact on [assessed relativities](#).
- A payment is treated as '*no impact*' when it does not fund a state service for which GST needs are assessed. These payments, in the Commission's judgement, do not reduce the fiscal pressure on the state. The revenue from the Commonwealth payment is not included in the Commission's assessments and the related expenses are deducted from the related state expense. The terms of reference may specify a particular Commonwealth payment is excluded from assessed relativities.
- A payment is treated as '*out of scope*' when it does not contribute towards state services or does not directly impact on state budgets.

Update

An update of GST relativities is undertaken annually under the direction of terms of reference issued by the Commonwealth Treasurer. In an update, the Commission applies the methods it determined in the most recent methodology review to the most recently available data.

2018 legislated arrangements

The *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018* included changes to the GST distribution arrangements.

For an explanation of these arrangements and how they work, see [Occasional Paper #4 New arrangements for distributing GST and Report on GST Revenue Sharing Relativities, 2020 Review, Volume 2, Chapter 4.](#)