



TREASURER

Mr Greg Smith
Chairperson
Commonwealth Grants Commission
Second Floor, Phoenix House
86-88 Northbourne Ave
BRADDON ACT 2612

Dear Mr Smith

I am writing to you to convey the enclosed terms of reference for the Commonwealth Grants Commission's *2016 Update of GST Revenue Sharing Relativities* (2016 Update Report). I apologise for the delay in providing them to you.

The terms of reference require the Commission to report by 7 April 2016, with an advance copy of the report to be provided to the Commonwealth and the States and Territories, under embargo, by 1 April 2016. I also ask that you make the report publicly available on 7 April 2016.

I appreciate your assistance in this matter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Scott Morrison'.

The Hon Scott Morrison MP

31 / 3 / 2016

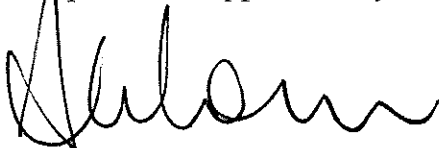
Terms of Reference for the 2016 Update of GST Revenue Sharing Relativities

COMMONWEALTH GRANTS COMMISSION ACT 1973

I, Scott John Morrison, Treasurer, pursuant to sections 16, 16A and 16AA of the *Commonwealth Grants Commission Act 1973*, refer to the Commission for inquiry into and report upon, by 7 April 2016, the question of the per capita relativities to be used to distribute GST revenue among the States, the Northern Territory and the Australian Capital Territory (collectively referred to as the States) in 2016-17. The Commission should provide an advance copy of its report, under embargo, to the Commonwealth and the State Treasuries by 1 April 2016.

2. The Commission should provide per capita relativities for determining the distribution of GST payments.
3. The Commission's assessments of per capita relativities should be based on the review period 2012-13 to 2014-15 inclusive. Where possible, the Commission should use the latest available data.
4. Subject to paragraphs 7 to 10, the Commission's assessments should reflect the underlying principle of horizontal fiscal equalisation.
5. Subject to paragraphs 7 to 11, the Commission's assessments should be based on the application of the same principles, categories and methods of assessment that the Commission used to calculate the per capita relativities in its *Report on GST Revenue Sharing Relativities – 2015 Review*.
6. The Commission's assessment should take into account the Intergovernmental Agreement on Federal Financial Relations (as amended).
7. The Commission should prepare its assessments on the basis that:
 - (a) National SPPs, National Health Reform (NHR) funding and National Partnership project payments should affect the relativities, recognising that these payments provide the States and Territories with budget support for providing standard state and territory services;
 - i. NHR funding and corresponding expenditure relating to the provision of cross-border services to the residents of other States should be allocated to States on the basis of residence.
 - (b) National Partnership facilitation and incentive (reward) payments should not affect the relativities, so that any benefit to a State or Territory from achieving specified outputs sought by the Commonwealth, or through implementing reforms, will not be redistributed to other States or Territories through the horizontal fiscal equalisation process; and
 - (c) general revenue assistance, excluding GST payments, will affect the relativities, recognising that these payments are available to provide untied general budget support to a State or Territory.

8. Notwithstanding sub-paragraphs 7(a) through (c), the Commission may determine that it is appropriate for particular payments to be treated differently, reflecting the nature of the particular payment and the role of State governments in providing particular services.
9. The Commission should prepare its assessment on a basis consistent with the Commonwealth's intention that the following payments should not directly influence the per capita relativities:
 - (a) Reward payments made under National Partnership Agreements;
 - (b) National partnership payments for Northern Territory Remote Aboriginal Investment;
 - (c) Payments relating to the National Partnership for Western Australia infrastructure projects; and
 - (d) Payments relating to the Royal Victorian Eye and Ear Hospital Redevelopment.
10. The Commission should also ensure that those payments which it has previously been directed to treat so they had no direct influence on the relativities, including payments for which the Commission has been directed to apply a 50 per cent discount, continue to be treated in that way. Where those payments are replaced, the treatment of the new payment should be guided by paragraphs 7 and 8 above, unless otherwise directed.
11. If data problems necessitate changes, the Commission should proceed on the basis that:
 - (a) new, more reliable data would be used in the first possible update, if method changes were not required; or
 - (b) if overcoming the data problems necessitated method changes, revised methods would be used in the first possible update, subject to consultation with States during that update.
12. The Commission should consult the Australian Government and the States before deciding on any changes in methods that arise as a result of a significant change in arrangements which govern Commonwealth-State relations and which are considered appropriate for the Commission to fulfil its obligations in respect of these terms of reference.
13. To the extent possible, the Commission should, upon reporting, provide all parties with details underpinning its calculations and assessments, and endeavour to meet requests for supplementary calculations.



SCOTT JOHN MORRISON