



**THE HON JOSH FRYDENBERG MP**  
**TREASURER**  
**DEPUTY LEADER OF THE LIBERAL PARTY**

Ref: MS19-000271

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 2019 Update of GST Revenue Sharing Relativities.

The Commission should provide its report to the Government by 19 February 2019. A copy of the report should also be provided, under embargo, to the states and territories by 19 February 2019.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'J Frydenberg', written over a faint blue grid.

THE HON JOSH FRYDENBERG MP

11 / 2 /2019

## **Terms of Reference for the 2019 Update of GST Revenue Sharing Relativities**

### **COMMONWEALTH GRANTS COMMISSION ACT 1973**

I, Josh Frydenberg, 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 the recommended 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 2019-20. The Commission should provide a copy of its report, under embargo, to the Commonwealth and the State Treasuries by 19 February 2019.

2. The Commission should undertake an assessment of the per capita relativities recommended to be used to distribute GST revenue among the States in 2019-20 (the GST relativities).
3. The Commission's assessment should take into account the *Intergovernmental Agreement on Federal Financial Relations* (as amended), which provides that GST revenue will be distributed among the States in accordance with the principle of horizontal fiscal equalisation (HFE).
4. The Commission's assessment should be based on the review period 2015-16 to 2017-18 inclusive. Where possible, the Commission should use the latest available data.
5. Subject to paragraphs 6 – 8, the Commission's assessment 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 – 2018 Update*.
6. The Commission's assessment should treat Commonwealth payments to the States as follows:
  - (a) National Specific Purpose Payments (NSPPs), National Health Reform (NHR) funding, Quality Schools funding (for government schools) and National Partnership project payments should affect the relativities, recognising that these payments provide the States with budget support for providing standard state 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 reward payments should not affect the relativities, so that any benefit to a State from achieving specified outputs sought by the Commonwealth, or through implementing reforms, will not be redistributed to other States through the horizontal fiscal equalisation process.
  - (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.
  - (d) Notwithstanding subparagraphs 6(a) – (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.
  - (e) Those payments which the Commission has previously been directed to treat as having no direct influence on the relativities, including payments for which the Commission has been directed to apply a 50 per cent discount, should continue to be treated in that way.

Where those payments are replaced, the treatment of the new payment should be guided by subparagraphs 6(a) – (d), unless otherwise directed.

7. The Commission should prepare its assessment on a basis consistent with the Commonwealth's intention that the following Commonwealth payments should not directly influence the per capita relativities:
  - (a) Payments to New South Wales and Victoria relating to the sale of Snowy Hydro Ltd to the Commonwealth.
  - (b) Payments relating to the Project Agreement for the Health Innovation Fund – Stage 1.
  - (c) Payments to South Australia relating to the Project Agreement for the Proton Beam Facility.
  - (d) Payments to Tasmania relating to the Project Agreement for Queensland Fruit Fly Response in Tasmania.
  - (e) Payments to the Australian Capital Territory relating to the Project Agreement for the Expansion of Clare Holland House.
  - (f) Payments relating to the Project Agreement for the Western Australian Hospital Infrastructure Package.
  - (g) \$259.6 million in additional General Revenue Assistance to the Northern Territory to offset the reduction in its GST share.
  - (h) Payments to the Northern Territory of up to \$110 million per annum for 5 years for Remote Indigenous Housing commencing in 2018-19.
  - (i) Additional General Revenue Assistance relating to GST transitional support and top-up payments under the Commonwealth's HFE reform package:
    - i. to the Northern Territory to effectively lift its GST relativity to 4.66;
    - ii. to any other State or Territory to effectively lift their GST relativities to 0.7;
    - iii. to any State or Territory under subsection 5(3) of the *Federal Financial Relations Act 2009* (the cumulative 'no worse off' guarantee).
8. 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 the States during that update.
9. The Commission should consult the Commonwealth 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.
10. 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.



JOSH FRYDENBERG