



THE HON JOSH FRYDENBERG MP
TREASURER

Ref: MS22-000498

Mr Michael Callaghan AM PSM
Chairperson
Commonwealth Grants Commission
Second Floor, Phoenix House
86-88 Northbourne Ave
BRADDON ACT 2612

Dear Mr Callaghan

Please find attached the terms of reference for the Commonwealth Grants Commission's 2022 *Update of GST Revenue Sharing Relativities*.

The Commission should provide its report to the Government and the states and territories by 17 March 2022. The terms of reference also direct that the report be released publicly on 25 March 2022.

Yours sincerely

A handwritten signature in black ink, consisting of a stylized 'J' followed by a horizontal line.

THE HON JOSH FRYDENBERG MP

6 / 3 /2022

Enc: Terms of reference for the 2022 Update of GST Revenue Sharing Relativities

Terms of Reference for the 2022 Update of GST Revenue Sharing Relativities

COMMONWEALTH GRANTS COMMISSION ACT 1973

- 1) I, Josh Frydenberg, Treasurer, pursuant to sections 16, 16A, 16AA and 16AB of the *Commonwealth Grants Commission Act 1973* (the Act) refer to the Commission for inquiry into and report upon the recommended GST revenue sharing relativities to be used to distribute GST revenue among the states, the Northern Territory and the Australian Capital Territory (the states) in 2022-23.

GST Relativities for 2022-23

- 2) The Commission should undertake an assessment of the GST revenue sharing relativities recommended to be used to distribute GST revenue among the states in 2022-23, consistent with the objective in subsection 16AB(2) of the Act, the transitional proportions in subsection 16AB(3) of the Act, the GST revenue sharing relativity factor in subsection 8(2A) of the *Federal Financial Relations Act 2009* and the pool top-ups for a payment year as outlined in section 8A of the *Federal Financial Relations Act 2009*.
 - (a) The Commission's assessment should be based on the assessment years 2018-19 to 2020-21 inclusive.
 - (b) To assist in ensuring that each state and territory will get the better of the current or the former GST distribution, the Commission should also provide relativities that would have applied if the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of the GST) Act 2018* had not been enacted.
- 3) The Commission's assessment should take into account the *Intergovernmental Agreement* as defined under the *Federal Financial Relations Act 2009*, which provides that GST revenue will be distributed among the states in accordance with the principle of horizontal fiscal equalisation (HFE).
- 4) Subject to paragraphs 5 - 6, 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 GST revenue sharing relativities in its *Report on GST Revenue Sharing Relativities - 2021 Update*.
- 5) 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 5(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 5(a) – (d), unless otherwise directed.

GST Relativities for 2022-23 - Consultation and Data

- 6) Where possible, the Commission should:
 - (a) aim to have assessments that are simple and consistent with the quality and fitness for purpose of the available data;
 - (b) use the latest available data consistent with this; and
 - (c) ensure robust quality assurance processes.
- 7) If data problems arise, subject to consultation with the states, the Commission should proceed on the basis that:
 - (a) new, more reliable data that was not previously considered 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.

GST Relativities for 2022-23 - The Report

- 8) The Commission should provide a copy of its report on GST Relativities for 2022-23, under embargo, to the Commonwealth and the states on or before 17 March 2022. The Commission should release the report publicly on 25 March 2022.
- 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

16/ 3 /2022