

Terms of Reference for the 2025 Methodology Review

COMMONWEALTH GRANTS COMMISSION ACT 1973

I, Jim Chalmers, Treasurer, pursuant to sections 16, 16A, 16AA and 16 AB of the *Commonwealth Grants Commission Act 1973*, refer to the Commission for inquiry into and report upon:

- a) the methodological approach used to calculate the GST revenue sharing relativities to distribute GST revenue among the states, the Northern Territory and the Australian Capital Territory (the states) from 2025-26 (*Methodology Review*); and
- b) the recommended GST revenue sharing relativities to be used to distribute GST revenue among the states in 2025-26.

Methodology Review

2. The Commission should undertake a review of the methods that underlie its assessments to calculate the GST revenue sharing relativities used to distribute GST revenue among the states.
3. The Commission will consult with the Commonwealth and the states on:
 - a) the development of a work program for the methodology review, including the provision of a draft report in 2024; and
 - b) any substantive changes to the revised methodology following the draft report.
4. The outcome of the review will be a revised methodology for calculating the GST revenue sharing relativities, which the Commission will apply to its assessments of GST relativities from 2025-26. The revised methodology should be described in the final report for this inquiry.
5. In undertaking the review, the Commission 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.
6. The Commission should also consider if there is a case for the Commission to be given the flexibility to consider alternative methods in cases where there is a significant unanticipated shock (such as a pandemic) or where major policy reforms are enacted in between reviews.
7. The scope of this inquiry does not include examining the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of the GST) Act 2018*.
8. In reviewing the methodology underlying its assessments, 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.

9. In reviewing the methodology underlying its assessments, the Commission should treat Commonwealth payments to the states as follows:
- a) National Specific Purpose Payments (NSPPs), National Health Reform (NHR) funding, National Housing and Homelessness funding, Quality Schools funding (for government schools) and National Partnership project payments should affect the relativities, recognising that these payments provide the state 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 9(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 the state governments in providing particular services.
 - e) Those payments which, prior to its assessment of the 2025-26 relativities, the Commission had 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 9(a) – (d), unless otherwise directed.

GST relativities for 2025-26

10. The Commission should undertake an assessment of the GST revenue sharing relativities recommended to be used to distribute GST revenue among the states in 2025-26, 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(2B) 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 2021-22 to 2023-24 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.
11. This assessment should be made on the basis of the revised methodology from the Commission's review of its methodological approach.

12. The Commission will provide the final report for this inquiry, including both the revised methodology and the recommended GST revenue sharing relativities for 2025-26, under embargo, to the Commonwealth and the states by 28 February 2025. The Commission should release the report publicly on 14 March 2025.
13. The Commission will consult regularly with the Commonwealth and the states as it considers these terms of reference.
14. Supplementary terms of reference may be provided prior to finalisation of the inquiry outcomes.



DR JIM CHALMERS

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