

Terms of Reference for the 2020 Methodology Review

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:

- a) the methodological approach used to calculate the per capita relativities to distribute Goods and Services Tax (GST) revenue among the States, the Northern Territory and the Australian Capital Territory (collectively referred to as the States) from 2020-21 (*Methodology Review*); and
- b) the per capita relativities recommended to be used to distribute GST revenue among the States in 2020-21 (*GST relativities for 2020-21*).

Methodology Review

2. The Commission should undertake a comprehensive review of all the methods that underlie its assessments to calculate the per capita relativities used to distribute GST revenue among the States (the GST relativities).
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 2019; 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 relativities, which the Commission will apply to its assessments of GST relativities from 2020-21. 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 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.
6. The Commission should also consider whether the supporting principles it uses to guide its work remain appropriate, including whether different weights should be given to different supporting principles. State views should be sought on the importance of each existing principle and any others considered important to the States and the appropriate balance between them.
7. 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;
 - c) use the latest available data consistent with this; and
 - d) ensure robust quality assurance processes.

8. 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, Students First 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.
 - 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 8(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 2020-21 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 8(a) – (d), unless otherwise directed.

GST relativities for 2020-21

9. The Commission should undertake an assessment of the per capita relativities to be used to distribute GST revenue among the States in 2020-21.
10. This assessment should be made on the basis of the revised methodology from the Commission's review of its methodological approach.

The Report

11. The Commission will provide the final report for this inquiry, including both the revised methodology and the recommended relativities for 2020-21, to the Commonwealth and the States by 28 February 2020.
12. The Commission will consult regularly with the Commonwealth and the States as it considers these terms of reference.
13. Supplementary terms of reference may be provided prior to finalisation of the inquiry outcomes.



SCOTT JOHN MORRISON