

Terms of Reference

Commonwealth Grants Commission 2015 Methodology Review

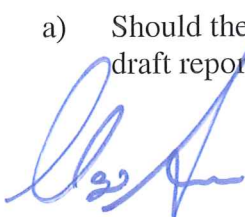
I, Wayne Maxwell Swan, Deputy Prime Minister and Treasurer, pursuant to sections 16, 16A and 16AA of the *Commonwealth Grants Commission Act 1973*, refer to the Commission for inquiry into the methodological approach to determining the per capita relativities to be used to distribute Goods and Services Tax (GST) revenue among the States, the Northern Territory and the Australian Capital Territory (collectively referred to as the States) from 2015-16. The Commission should provide its final report to the Commonwealth and States by 28 February 2015.

1. In preparing its assessments the Commission should:
 - a) take into account the Intergovernmental Agreement on Federal Financial Relations (as amended), which provides that the GST revenue will be distributed among the States in accordance with the principle of horizontal fiscal equalisation;
 - b) aim to have assessments that are simple and consistent with the quality and fitness for purpose of the available data;
 - c) ensure robust quality assurance processes; and
 - d) develop methods to appropriately capture the changing characteristics of the Indigenous population.

2. In undertaking its assessments, the Commission should also have regard to the recommendations of the final report of the *GST Distribution Review* (October 2012) to:
 - a) consider the appropriateness of the current materiality thresholds (Recommendation 3.1);
 - b) consider the appropriateness of continuing to round relativities to five decimal places (Recommendation 3.2);
 - c) develop a new transport infrastructure assessment. This should include, if appropriate, a framework to identify payments for nationally significant transport infrastructure projects which should affect the relativities only in part and options for providing that treatment (Recommendation 6.1);
 - d) consider the use of data which is updated or released annually with a lag, or updated or released less frequently than annually (Recommendation 6.2);
 - e) examine the merits of adopting a simplified and integrated assessment framework (Recommendation 6.3);
 - f) investigate whether it is appropriate and feasible to equalise interstate costs on a 'spend gradient' basis (Recommendation 6.4);
 - g) develop a new mining revenue assessment (Recommendations 7.1 and 7.2); and
 - h) consider the appropriate treatment of mining related expenditure (Recommendation 7.3).

3. The Commission should prepare its assessments on the basis that:
 - a) National Specific Purpose Payments (NSPPs), National Health Reform (NHR) funding and National Partnership (NP) project payments should affect the relativities, recognising that these payments provide the States 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) NP 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 or Territory;
 - d) those payments which the Commission has previously been directed to treat as having no direct influence on the relativities continue to be treated in that way. Where those payments are replaced, the treatment of the new payment should be guided by subparagraphs 3(a) – (c) and paragraph 4, unless otherwise directed; and
 - e) where responsibilities for funding and delivering aged care and disability services has not been transferred to the Commonwealth by a State under the NHR Agreement, these responsibilities will continue to be assessed as State services for that State.
4. Notwithstanding subparagraphs 3(a) – (c), with the exception of reward payments under NPs, 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.
5. The Commission should consider the most appropriate treatment of disability services during the transition to DisabilityCare Australia (the National Disability Insurance Scheme) and once the full scheme is operating nationally.
6. The Commission will ensure that the GST distribution process will not have the effect of unwinding the recognition of educational disadvantage embedded in the National Education Reform Agreement (NERA) funding arrangements. The Commission will also ensure that no State or Territory receives a windfall gain through the GST distribution from non-participation in NERA funding arrangements.

7. The Commission will consult regularly with the Commonwealth and States as it considers these terms of reference.
8. The Commission will develop a work program, in consultation with the Commonwealth and States, which sees the matters outlined in paragraphs 1(d), 2(c), 2(g), 2 (h), 5 and 6 being progressed as a priority and subject to early consultation (including multilateral discussions) with the Commonwealth and States.
9. The Commission should provide a draft report for consideration by the Standing Council on Federal Financial Relations within 12 months from receipt of these terms of reference.
 - a) Should the Commission expect to make significant changes following consultation on the draft report, further consultation with the States on those changes will be required.



WAYNE SWAN