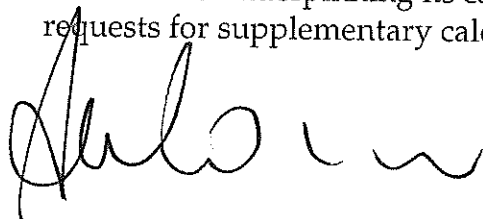


Terms of Reference for the 2018 Update of GST Revenue Sharing Relativities

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 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 2018-19. The Commission should provide a copy of its report, under embargo, to the Commonwealth and the State Treasuries by 28 March 2018.
2. The Commission should undertake an assessment of the per capita relativities recommended to be used to distribute GST revenue among the States in 2018-19 (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.
 4. The Commission's assessment should be based on the review period 2014-15 to 2016-17 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 – 2017 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) \$730.4 million to Tasmania relating to the transfer of ownership of the Mersey Community Hospital;
 - (b) \$1.42 billion to Victoria relating to the Regional Rail Revival program; and
 - (c) \$1.2 billion to Western Australia relating to the re-allocated Perth Freight Link infrastructure funding.
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.



SCOTT JOHN MORRISON