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14 October 2009

Mr Alan Morris
Chairman
Commonwealth Grants Commission
5 Torrens Street
BRADDON ACT 2612

Dear Mr Morris

I enclose a supplementary Terms of Reference for the Commission's 2010 Methodology Review of State Revenue Sharing Relativities.

The Terms of Reference provides advice on the treatment of payments under the Federal Financial Relations framework, agreed by the Council of Australian Governments in November 2008, and provides direction in relation to the treatment of payments that the Commonwealth has previously advised should not affect the calculation of relativities.

Yours sincerely

WAYNE SWAN

Terms of Reference for the 2010 Commonwealth Grants Commission Methodology Review of State Revenue Sharing Relativities

COMMONWEALTH GRANTS COMMISSION ACT 1973

I, Wayne Maxwell Swan, 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, by 26 February 2010, the question of the per capita relativities which the Commission would regard as appropriate to apply after 2009-10 for the distribution of Goods and Services Tax (GST) revenue among the States, the Northern Territory and the Australian Capital Territory (collectively referred to as the States).

2. This supplementary information is to be read in conjunction with the terms of reference provided by Dr Sharman Stone on 26 May 2005.
3. The Commission's assessment should take into account the Intergovernmental Agreement on Federal Financial Relations agreed to at the meeting of the Council of Australian Governments on 29 November 2008 and which has effect from 1 January 2009.
4. The Commission should prepare its assessments on the basis that:
 - (a) National SPPs and National Partnership project payments should affect the relativities, recognising that these payments provide the States and Territories with budget support for providing standard state and territory services;
 - (b) National Partnership facilitation and incentive (reward) payments should not affect the relativities, so that any benefit to a State or Territory from achieving specified outputs sought by the Commonwealth, or through implementing reforms, will not be redistributed to other States or Territories through the horizontal fiscal equalisation process; and
 - (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.
5. Notwithstanding paragraph 4, 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.
6. The Commission should ensure that those payments which the Commission was directed to treat so they had no direct influence on the per capita relativities in the 2004 Review or subsequent Updates, should continue to be treated in that way. Where those payments are ongoing, their treatment should not change. Where they are replaced, the treatment of the new payment should be guided by (4) and (5) above, unless otherwise directed.

7. The Commission should consult the Australian Government and the States before deciding on any changes in methods that arise as a result of the framework agreed at the Council of Australian Governments meeting on 29 November 2008.

WAYNE SWAN