



MINISTER FOR FINANCE AND ADMINISTRATION

Mr Alan G. Morris
Chairman
Commonwealth Grants Commission
Cypress Court
5 Torrens Street
CANBERRA ACT 2601

Dear Mr Morris

I am writing to provide the Commonwealth Grants Commission with terms of reference to: inquire into the financing of works and services in the Jervis Bay Territory; to recommend an appropriate level of funding for the Territory in 2002-03 (net of revenue); and, to recommend a mechanism to update funding requirements on an annual basis. The Government's objective is to investigate, on a 'no commitment' basis, the costs associated with and the options for turning over to New South Wales some of the services currently provided in the Territory.

The terms of reference are as follows:

1. Pursuant to section 16B of the *Commonwealth Grants Commission Act 1973*, I ask the Commission, by July 2002 at the latest, to inquire into and report on the following in respect of the 1999-2000 financial year:
 - (i) the State and local government type services and grants that were provided by the Commonwealth, ACT, NSW and local government authorities to Jervis Bay Territory residents;
 - (ii) the level of expenditure that was required to provide the services reported on in 1(i);
 - (iii) estimates of the State and local government type revenues (including taxes, fees, fines and charges) that were raised in the Jervis Bay Territory and from Jervis Bay Territory residents; and
 - (iv) the infrastructure and other assets that were associated with the provision of State and local government type services, their age profile, state of repair, and other details which would assist in quantifying the cost of maintaining or replacing these assets.

2. The Commission will make recommendations on:
- (i) the expenditure that would have been required to provide:
 - (a) State, and
 - (b) local government-type services, to Jervis Bay Territory residents at Australian standards (adjusted for the special characteristics of Jervis Bay Territory) in 1999-2000;
 - (ii) the services that were being provided at a level above Australian standard, and those below Australian standard;
 - (iii) the capacity for raising revenues from Jervis Bay Territory residents at Australian standards in 1999-2000;
 - (iv) the funding in 1999-2000 that would have been required by the NSW Government to:
 - bring the provision of the services identified (ii) as 'below standard' up to Australian standard levels, and
 - maintain the provision of the services identified in (ii) as 'standard' or 'above standard' at these levels;
 - less the revenue that can be raised from Jervis Bay Territory residents at Australian or NSW standards; and
 - (v) the capital expenditure that would be required to ensure that the condition of assets identified in 1(iv) was at Australian standard levels.
3. The Commission will further recommend a mechanism for updating the funding levels recommended in 2(iv) to ensure appropriate levels of funding could be provided in future years, and in particular, make a recommendation on the funding that would be required by the NSW Government to provide services at levels described in 2(iv) for the 2002-03 financial year.

For the purposes of its inquiries, the Commission should assume that any future agreement between the Commonwealth and NSW Governments for service provision to the Jervis Bay Territory would provide for the Commonwealth to fund NSW on an annual basis through specific purpose payments (SPPs).

The Commonwealth Department of Transport and Regional Services has undertaken to provide the information required for this inquiry in a timely manner.

I have provided a copy of this correspondence to the Treasurer, the Minister for Transport and Regional Services, the Minister for Regional Services, Territories and Local Government, the New South Wales Special Minister of State, and the Australian Capital Territory Government.

Yours sincerely

JOHN FAHEY