



**Australian Government**  

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**Commonwealth Grants Commission**

**REPORT ON**  
**STATE REVENUE SHARING RELATIVITIES**  
**2004 REVIEW**

**SUPPORTING INFORMATION**

**CANBERRA**

## Report

This Report is accompanied by a volume of Supporting Information.

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## Working Papers

This Report and the accompanying volume of Supporting Information are supplemented by the following working papers, copies of which are being made available to major parties to the inquiry. Others are being deposited in the National Library of Australia and State and Territory reference libraries. The names below may change when published.

Volume 1	Assessment Methods and the Equalisation Budget	ISBN 174134 904-4
Volume 2	Assessment Results	ISBN 174134 905-2
Volume 3	Revenue Assessment Issues	ISBN 174134 906-0
Volume 4	Expense Assessment Issues — Education, Health and Welfare	ISBN 174134 907-9
Volume 5	Expense Assessment Issues — Economic Activities	ISBN 174134 908-7
Volume 6	Expense Assessment Issues — Other State Government Services and User Charges	ISBN 174134 909-5
Volume 7	Expense Assessments — Major Factors and Other Issues	ISBN 174134 910-9
Set of seven volumes		ISBN 174134 922-2

## Electronic Versions

The Report, volume of Supporting Information and Working Papers are available on the Commission's web site at <[www.cgc.gov.au](http://www.cgc.gov.au)>.

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# REVIEW OF STATE REVENUE SHARING RELATIVITIES 2004 TERMS OF REFERENCE

## PART 1

Minister for Finance And Administration  
Parliament House  
Canberra ACT 2600

5 December 1999

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

Dear Mr Morris

I am writing to convey to you Part 1 of the terms of reference for the Commonwealth Grants Commission to review the methods used to determine and report upon the question of the per capita relativities for distribution of GST revenue grants and health care grants which the Commission would regard as appropriate to apply after 2003-04.

The terms of reference are as follows:

1. Pursuant to sections 16, 16A and 16AA of *the Commonwealth Grants Commission Act 1973*, I hereby refer to the Commission for inquiry into and report upon, by 25 February 2004 at the latest, the question of per capita relativities which the Commission would regard as appropriate to apply after 2003-04 for the distribution of the combined pool of GST revenue grants and health care grants among the States, the Northern Territory and the Australian Capital Territory.
2. The Commission should review whether the allowances for special circumstances granted to the Australian Capital Territory continue to be necessary and, if so, make appropriate assessments.
3. The Commission should commence a work programme for improving methods of assessment and consult with the States and the Commonwealth in deciding the priorities for the work programme.'

Further terms of reference will be provided to the Commission at a later date in light of consultations with the Commonwealth and States.

Yours sincerely

JOHN FAHEY

**REVIEW OF STATE REVENUE SHARING RELATIVITIES 2004  
TERMS OF REFERENCE**

**PART 2**

Minister for Finance And Administration  
Parliament House  
Canberra ACT 2600

31 October 2003

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

Dear Alan

I am writing to convey to you Part II of the terms of reference for the Commonwealth Grants Commission to review the methods used to determine and report upon the question of the per capita relativities for distribution of GST revenue grants and health care grants which the Commission would regard as appropriate to apply after 2003-04.

I refer the terms of reference to the Commission for inquiry into and report upon, by 25 February 2004 at the latest, the question of per capita relativities which the Commission would regard as appropriate to apply after 2003-04 for the distribution of the combined pool of GST revenue grants and health care grants among the States, the Northern Territory and the Australian Capital Territory. These terms of reference should be read in conjunction with the Part I of the terms of reference (attached), that were provided to the Commission in 2000.

I have been informed by the Treasurer that the Commission has been kept informed of developments in the drafting process of the terms of reference.

Yours sincerely

**Nick Minchin**

TERMS OF REFERENCE FOR THE 2004 METHODOLOGY REVIEW – PART II

COMMONWEALTH GRANTS COMMISSION ACT 1973

I, Nicholas Minchin, Minister for Finance and Administration, 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 25 February 2004 at the latest, the question of per capita relativities which the Commission would regard as appropriate to apply after 2003-04 for the distribution of the combined pool of GST revenue grants and health care grants among the States, the Northern Territory and the Australian Capital Territory. These terms of reference should be read in conjunction with the Part I of the terms of reference (attached), that were provided to the Commission on 5 December 1999.

2. The Commission should continue to prepare its assessments on the basis that Specific Purpose Payments quarantined in previous terms of reference should continue to not affect the per capita relativities. These payments include (but are not necessarily limited to):
  - (a) National Competition Payments;
  - (b) States' contribution the Commonwealth's deficit reduction strategy;
  - (c) payments to the States to reimburse them for revenue lost as a result of the establishment of a national scheme of companies, securities and future regulation;
  - (d) payments which are funded from the Natural Heritage Trust of Australia and the Regional Telecommunications Infrastructure Fund;
  - (e) payments for the Fringe Benefit Tax Transitional Grants for the public and not-for-profit hospitals;
  - (f) payments for Building IT Strengths – Tasmanian 'Intelligent Island';
  - (g) payments for Connecting Tasmanian Schools;
  - (h) payments for the Extension of the First Home Owners Scheme;
  - (i) payments for the Roads to Recovery program; and
  - (j) Commonwealth payments made to the Sinking Fund on State Debt.
3. In preparing its assessments the Commission should have regard for the need to observe policy neutrality in relation to a reduction in the level of a Specific Purpose Payment resulting from non-compliance by a State or Territory with the conditions of the payment. Any such reductions should not directly influence the Commission's assessments of the per capita relativities. Given the complexity and variety of Specific Purpose Payment agreements, additional guidance in relation to any actual

reductions for non-compliance will be provided to the Commission if and when the need arises.

4. The Commission should prepare its assessments on a basis consistent with the Commonwealth's intention that the following components of the Australian Health Care Agreements between the Commonwealth and a State should not directly influence the per capita relativities:
  - (a) payments in relation to mental health;
  - (b) payments in relation to the National Health Development Fund;
  - (c) payments in relation to the Pathways Home Initiative;
  - (d) all payments under an adjustment module, including those related to the Critical and Urgent Treatment (CUT) Waiting List Initiative; and
  - (e) compliance payment arrangements (in this case including the maximum available compliance payments in the assessments).
5. Further to part 4(e), the Commission should prepare its assessments on the basis that the pool of funds to be distributed in accordance with the per capita relativities includes the maximum available compliance payments under the Australian Health Care Agreements – notwithstanding that these have been designated as deductible amounts pursuant to s.6 of the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* – in order to reflect the Commonwealth's intention that the per capita relativities should be equivalent to those that would have been assessed had the compliance payments been retained as part of the pool of GST and unquarantined Health Care Grants.

**NICK MINCHIN**



# CHAPTER 1

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## THE 2004 REVIEW

1. Since 1988, procedures have been in place for reviewing the methods used to calculate relativities usually every five years<sup>1</sup>. Reviews were completed in 1988, 1993 and 1999. Between reviews, the relativities were updated annually by applying data for the most recent five years to the methods from the last review. This 2004 Review is part of that cyclical process, which is aimed at ensuring that the relativities reflect changes over time in the circumstances of the States, developments in public administration, and trends in service delivery.

2. The Commission and the States agreed on a work program for the 2004 Review in May 2000. This volume brings together and documents the key elements of that work program:

- Chapters 2 to 6 cover the details of the standard budget used in the Commissions assessments, together with the assessments of standardised revenues and expenses, revenue capacity and effort and the costs and levels of service provided;
- Chapter 7 provides a detailed analysis of the changes in the Commission's assessed relativities ; and
- Attachments A — E document and explain the major research, method and data inputs used in the Review.

3. While staff have attempted in this Volume to be comprehensive in providing the information needed to understand and analyse the equalisation process used by the Commission, space limitations will of necessity mean that some readers may want details that have not been included here. Further documentation for the 2004 Review, including many of the publications referred to in this Volume, are available on the Commission's website.

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<sup>1</sup> The Commission had previously reported on reviews of per capita relativities in 1981, 1982 and 1985.