



**THE HON JOSH FRYDENBERG MP**  
**TREASURER**

Ref: MS21-000026

Mr Michael Callaghan AM PSM  
Chairperson  
Commonwealth Grants Commission  
Second Floor, Phoenix House  
86-88 Northbourne Ave  
BRADDON ACT 2612

Dear Mr Callaghan <sup>mike</sup>

I am writing to you to convey the enclosed terms of reference for the Commonwealth Grants Commission's *2021 Update of GST Revenue Sharing Relativities*.

The Commission should provide its report to the Government and the states and territories by 26 February 2021. The terms of reference also direct that the report be released publicly on 15 March 2021.

Yours sincerely

A handwritten signature in blue ink that reads 'Joshua Frydenberg'.

**THE HON JOSH FRYDENBERG MP**

11 / 02 /2021

Enc: Terms of Reference for the 2021 Update of GST Revenue Sharing Relativities

## Terms of Reference for the 2021 Update of GST Revenue Sharing Relativities

### COMMONWEALTH GRANTS COMMISSION ACT 1973

1. I, Josh Frydenberg, Treasurer, pursuant to sections 16, 16A, 16AA and 16AB of the *Commonwealth Grants Commission Act 1973 (the Act)* refer to the Commission for inquiry into and report upon the recommended GST revenue sharing relativities to be used to distribute GST revenue among the States, the Northern Territory and the Australian Capital Territory (the States) in 2021-22.

#### *GST Relativities for 2021-22*

2. The Commission should undertake an assessment of the GST revenue sharing relativities recommended to be used to distribute GST revenue among the States in 2021-22, consistent with the objective in subsection 16AB(2) of the Act, the transitional proportions in subsection 16AB(3) of the Act and the pool top-ups for a payment year as outlined in section 8A of the *Federal Financial Relations Act 2009*.
  - (a) The Commission's assessment should be based on the assessment years 2017-18 to 2019-20 inclusive.
  - (b) To assist in ensuring that each State and Territory will get the better of the current or the former GST distribution, the Commission should also provide relativities that would have applied if the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of the GST) Act 2018* had not been enacted.
3. The Commission's assessment should take into account the *Intergovernmental Agreement* as defined under the *Federal Financial Relations Act 2009*, which provides that GST revenue will be distributed among the States in accordance with the principle of horizontal fiscal equalisation (HFE).
4. Subject to paragraphs 5 - 6, 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 GST revenue sharing relativities in its *Report on GST Revenue Sharing Relativities - 2020 Review*.
5. 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.

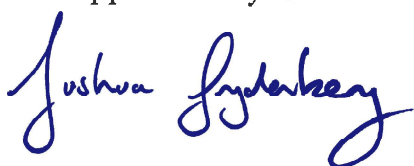
- (b) National Partnership facilitation and reward payments should not affect the relativities, so that any benefit to a State from achieving specified outputs sought by the Commonwealth, or through implementing reforms, will not be redistributed to other States through the horizontal fiscal equalisation 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 5(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 5(a) - (d), unless otherwise directed.
6. The Commission should prepare its assessment on the basis that the following Commonwealth payments do not directly influence the GST revenue sharing relativities:
- (a) Road safety projects that fall under the Government's *JobMaker Plan – Infrastructure Investment – road safety and upgrades* that was announced in the 2020-21 Budget.
  - (b) Payment to Queensland of \$105 million relating to remote housing.
  - (c) Contribution of \$93.9 million relating to Tasmania's Marinus Link Project.

*GST Relativities for 2021-22 - Consultation and Data*

7. Where possible, the Commission should:
- (a) aim to have assessments that are simple and consistent with the quality and fitness for purpose of the available data;
  - (b) use the latest available data consistent with this; and
  - (c) ensure robust quality assurance processes.
8. If data problems arise, subject to consultation with the States, the Commission should proceed on the basis that:
- (a) new, more reliable data that was not previously considered 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.

*GST Relativities for 2021-22 - The Report*

9. The Commission should provide a copy of its report on GST Relativities for 2021-22, under embargo, to the Commonwealth and the States on or before 26 February 2021. The Commission should release the report publicly on 15 March 2021.
10. 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.
11. 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.

A handwritten signature in blue ink, reading "Joshua Frydenberg". The signature is written in a cursive, flowing style.

JOSH FRYDENBERG

11 / 02 / 2021