

Appendix A: Terms of Reference

Issued on 30 March 2011 and additional terms (6A and 6B) issued on 17 November 2011.

Objectives and scope

1. Australia is facing a number of long term trends that are driving pronounced and challenging structural change in the economy, including:
 - (a) the rise of China and India, and continuing globalisation;
 - (b) the challenge of mitigating and adapting to climate change;
 - (c) population growth and demographic change; and
 - (d) the continuing effects of innovation and technological change.
2. In addition, Australia has ongoing challenges in tackling the entrenched disadvantage of many Australians, especially Indigenous Australians.
3. These trends and challenges are likely to have differing impacts on the ability of States and Territories (the States) to deliver broadly equivalent levels of services and infrastructure to their residents, in ways that maximise sustainable growth and improvements in quality of life for all Australians.
4. In this context, the Review will consider whether the distribution of the GST and the current form of horizontal fiscal equalisation will ensure that Australia is best placed to respond to these challenges and public confidence in the financial relationships within the Australian Federation is maintained.
5. In considering any possible changes to the form of equalisation, the Review will have regard to the following:
 - (a) efficiency, including the effect of alternate approaches on the allocation of resources in the national economy and on the States' reform, service delivery and investment decisions to best meet the requirements for growth;
 - (b) equity, including the extent to which alternate approaches would affect States' fiscal capacities to provide for Australians' access to government services, regardless of where they reside;
 - (c) simplicity, including the extent to which alternate approaches would provide for reduced complexity and increased transparency; and
 - (d) predictability and stability in the determination of States' GST shares so as to better support long term decision making and reform by Governments.

6. The Review will be guided by the following:
- (a) that the long standing practice of equalisation between the States has served Australia well;
 - (b) that the GST will continue to be distributed to the States on the basis of equalising payments to the States, consistent with the principle that jurisdictions should have equal capacity to provide infrastructure and services to their citizens;
 - (c) as per the current arrangements, all the GST revenue will be distributed to the States as 'untied' payments;
 - (d) that the Commonwealth Grants Commission will continue to make recommendations on the distribution of the GST; and
 - (e) it is not intended that the Review will consider detailed methodological and data issues, however the Review will seek the assistance and advice of the Commonwealth Grants Commission on technical matters as required.
- 6A. The Review should examine and make recommendations on possible changes to the form of equalisation to achieve the following objectives:
- (a) ensure that HFE does not provide a disincentive to State tax reform,
 - (b) utilise HFE to provide incentives and disincentives to promote future State policy decisions which improve the efficiency of State taxes and mineral royalties, and
 - (c) examine the incentives for States to reduce Minerals Resource Rent Tax or Petroleum Resource Rent Tax revenue through increasing State mineral royalties.
- 6B. In considering this issue, the Review will be guided by the following:
- (a) the findings of the Australia's Future Tax System Review relating to existing State taxes and mineral royalties,
 - (b) the Minerals Resource Rent Tax and Petroleum Resource Rent Tax provide a more efficient approach to charging for Australia's non renewable resources than mineral royalties, and
 - (c) State tax reform will not be financed by the Australian Government.

Composition and consultation

7. The Review would be undertaken by two or three eminent people.
8. The Treasurer will bring the final report to the Council of Australian Governments (COAG) for consideration before a final decision is made on new arrangements by the end of 2013.
9. The Review will be supported by a Secretariat in the Commonwealth Treasury. It is expected that the Review will second a number of staff with particular expertise,

including officials from State Treasuries and the CGC. A Heads of Treasuries Advisory Committee, consisting of all States, will provide advice to the Review.

10. The Review will consult the public and State Governments and seek written submissions.

Timing

11. The Review is to provide an interim report to the Treasurer by March 2012 and a final report by October 2012.¹

12. The GST shares will be distributed in 2011-12 and 2012-13 based on the current arrangements.

¹ In late 2011 the Commonwealth Treasurer extended the interim reporting date to allow for the CGC's 2012 Update figures to be incorporated in that report. In mid-2012 the Commonwealth Treasurer extended the final reporting date from August/September to allow further time for consultation and submissions in the light of the additional terms of reference.

