



ACTING PRIME MINISTER

FOR MEDIA

14 February 1984

Terms of reference for an enquiry by the Commonwealth Grants Commission into State tax sharing relativities have been transmitted to the Chairman of the Grants Commission, the Hon. Mr. Justice Else-Mitchell, CMG. The current arrangements for the distribution of the tax sharing and identified health grants expire at the end of June 1985.

I have written to all the Premiers and the Chief Minister of the Northern Territory, in terms of the attached letter, advising them of the terms of reference.



ACTING PRIME MINISTER

CANBERRA

My dear Premier

Thank you for your letter to the Prime Minister setting out your Government's views regarding the proposed review of State tax sharing relativities and the report on this matter prepared by Commonwealth, State and Territory Treasury officers.

I note that there was a considerable measure of agreement between officials on the structure and basic content of the terms of reference for the review, although some significant differences regarding coverage and emphasis did emerge. I note also that in providing comments, you, the other Premiers and the Chief Minister, naturally enough, sought to convey views in relation to those differences rather than the areas of agreement. Nonetheless, there was a considerable amount of common ground in the alternative terms of reference prepared by the Commonwealth and State officials.

I now wish to advise you of the Commonwealth's decision to proceed with a review and attach for your information, terms of reference which have been transmitted to the Commonwealth Grants Commission by the Special Minister of State. In reaching its decision, the Commonwealth has carefully weighed up the arguments put forward by you, the other Premiers and the Chief Minister. In particular, I refer to the view put by several of the Premiers that there are higher priority tasks to be undertaken and that the review of relativities should therefore be deferred. While some of the issues referred to in that context are important in their own right, the Commonwealth does not consider that they give rise to a need to defer the review. It is important that Governments have available to them an independent and up to date assessment of relative State needs as a basis for negotiations on the general revenue sharing arrangements to apply beyond June 1985.

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A major area in which all the Premiers and the Chief Minister expressed reservations related to the proposal to ask the Grants Commission to present its assessment both inclusive and exclusive of the Northern Territory. The Commonwealth has noted the concerns of the States regarding the size of the pool of funds to be divided up if it is decided to bring the Territory into the tax sharing arrangements applying to the States after June 1985. However, as the size of the pool to be distributed will be a matter for determination at the appropriate time, the Commonwealth does not see such concerns as in themselves constituting grounds for not seeking the Commission's assessment on the two bases proposed. In that context, I need hardly emphasise that any decision on how the Territory will be treated after 1984-85 will only be taken closer to the time and after full negotiations with all the parties involved. I have also noted the Chief Minister's concern that the Territory should be free to present arguments to the Commission that the Territory has needs which are not apparent in the States or which differ from those of the States. For this reason, I have inserted an additional clause in the terms of reference.

The officials' report contained an agreed reference to the treatment of payments for South West Tasmania. Although the Commonwealth appreciates the concerns raised subsequently regarding this inclusion, it believes that the arrangements between the Commonwealth and Tasmania in relation to our undertakings regarding the cessation of work on the Gordon-below-Franklin Dam have a quite special status. As a result, it does not see their proposed treatment in the review as having any wider implications.

Premiers expressed differing views on whether a paragraph dealing with business undertakings should be included in the terms of reference. I consider that the assessment of business undertakings by the Commission does raise a number of special questions of both practice and principle and I am concerned to establish as firm as possible a foundation on which judgements on the matter can be based. I have therefore decided to include a paragraph on business undertakings in the transmittal letter along the lines proposed by Commonwealth officers. I would stress, however, that this inclusion does not prejudice any decision on the appropriate basis for the assessment of tax sharing relativities.

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The other areas of differences of view that arose centred around the extent to which it is considered desirable to focus the work of the Commission. Particularly in view of the short time available to the Commission to conduct the review, Commonwealth officials took the view that it was desirable to provide some focus on issues, while State officials generally preferred an approach that would leave the Commission's approach in those areas as a matter for debate before the Commission. In general, the Commonwealth believes that the Commission will be able to make better use of its time if greater focus is provided in the terms of reference on these matters. Accordingly, the terms of reference have been based principally on the draft provided by Commonwealth officials. The Commonwealth believes that this will not unduly restrict the States' ability to argue their case before the Commission.

You will be aware that in discussions between the Commonwealth and Queensland Governments in relation to the Medicare Agreement with that State, it has been suggested that an additional clause be included in the Terms of Reference on that issue. If it is decided in that context that an additional clause should be included, I will provide you with a copy of the revised Terms of Reference as soon as possible.

I would now ask for your full co-operation with the Commission in undertaking the review and look forward to productive negotiations with you in the first half of 1985.

I have written in similar terms to the other Premiers and the Chief Minister.

Yours sincerely

Lionel Bowen

ATTACHMENT

TERMS OF REFERENCE FOR REVIEW OF TAX SHARING  
RELATIVITIES AND IDENTIFIED HEALTH GRANTS

"Pursuant to sections 16 and 16A of the Commonwealth Grants Commission Act 1973, I hereby refer to the Commission for inquiry and report, by 31 March, 1985 at the latest, on the question of the per capita relativities for distributing tax sharing grants which the Commission would regard as appropriate to apply after 1984-85 to:

- (a) a distribution of tax sharing grants among the States only; and
- (b) a distribution of tax sharing grants among the States and the Northern Territory with the Northern Territory being treated on the same basis as the States.

2. The Commission's assessment should :

- (a) be based on the application of the principle that the respective tax sharing grants to which the States are entitled should enable each State to provide, without having to impose taxes and charges at levels appreciably different from the levels imposed by the other States, government services at standards not appreciably different from the standards provided by the other States; and
- (b) take account of :
  - (i) differences in the capacities of the States to raise revenues; and
  - (ii) differences in the amounts required to be expended by the States in providing government services of a comparable standard.

The word State(s) in this paragraph is to be taken as also covering the Northern Territory.

3. The Commission's assessment of relative fiscal needs should be based on the years 1981-82 to 1983-84 inclusive but the Commission should report on developments in relative fiscal positions over a longer period and, to the extent practicable, should indicate what allowance (if any) might be made to State factors assessed for the period 1981-82 to 1983-84 if account were to be taken of trends over a longer period or, with respect to the 1981-82 to 1983-84 period, factors judged to be of temporary nature.

4. The Commission's assessments should cover areas of revenue and government services broadly similar to those covered in its Report on States Tax Sharing and Health Grants 1982.

5. The Commission should also present its assessments in such a way as to show :

- (a) factors applicable to the tax sharing grants on the basis that relative health needs are to continue to be reflected in the distribution of tax sharing grants; and
- (b) factors applicable to the tax sharing grants separate from factors applicable to health grants on the basis that health grants (that is "identified" health grants and Medicare compensation and other specific health payments) are distributed in accordance with relative health needs and that relative health needs are not reflected in the distribution of tax sharing grants.

6. The Commission should exclude from its assessments payments of financial assistance in 1983-84 that are received by Tasmania from the Commonwealth as a consequence of cessation of the Gordon-below-Franklin dam. The Commonwealth will advise the Commission when the final scope of the financial payments for 1983-84 has been settled. The treatment of payments for future years will be determined when the terms and scope of the financial assistance for those years have been determined."

In forwarding these terms of reference the Government notes that the provisions for the payment to the States of tax sharing grants, and to the States and the Northern Territory of "identified" health grants, in the States (Tax Sharing and Health Grants) Act 1981 (as amended by the States (Tax Sharing and Health Grants) Amendment Act (No 2) 1983), do not have any legislative authority beyond 1984-85. It is therefore expected that these arrangements will be reviewed in 1984-85. The Government also notes that the arrangements for the payment to the States and the Northern Territory of grants to compensate for losses of revenue and additional costs under Medicare, details of which will be provided separately to the Commission, are scheduled to commence on 1 February 1984. They are also expected to be reviewed in 1984-85.

The Government recognises that if there were to be major changes to either or both of these health funding arrangements after 1984-85, there could be implications for the appropriate distribution of tax sharing grants.

As regards the Northern Territory, the Government would expect the Commission to report on arguments put to it that needs exist in the Territory which are not apparent in the States or which differ from those of the States, and to report, if any such needs exist, on whether they would be best addressed in the context of the tax sharing arrangements or separately from those arrangements.

In relation to business undertakings, having in mind the desirability of encouraging improved efficiency in the provision of services provided by such undertakings, the Government would like the Commission specifically to report on :

- (a) the continued appropriateness of applying the principle of fiscal equalisation in respect of services in the nature of business undertakings;
- (b) any data deficiencies or other difficulties in making quantitative allowances for policy and efficiency differences between the States with respect to business undertakings;
- (c) whether measures might be available to improve the measurement of such differences; and
- (d) the effect of a decision not to have relative needs in these areas, if quantifiable, reflected in the distribution of the grants.

In asking the Commission to include 1983-84 in its assessment, the Government recognises that the availability of data may be more comprehensive for the earlier years of the assessment period. The Government has sought the assistance of the States in the timely provision of data in respect of 1983-84 and it has asked the Australian Statistician to do all that he can to assist the Commission with data for its inquiry.

In addition, the Commission is asked to indicate the extent to which Commonwealth tax sharing payments to each State in recent years (including 1983-84) have fallen short or exceeded (as the case may be) the amount that would have been paid had tax sharing payments been distributed among the States on the basis of the State factors recommended by the Commission.

Finally, the Government asks that the Commission assist interested parties to the extent possible by again undertaking supplementary calculations to show the effects on the Commission's assessments of using different methodologies in those cases where one or more of the parties request alternative approaches to be adopted.