

PART 1: AUSTRALIA'S FEDERAL RELATIONS

OVERVIEW

The 2014-15 Budget is the first major step in the Commonwealth's strategy to restore budget sustainability and economic prosperity. The Commonwealth is taking action to direct public expenditure to more productive uses, with substantial investments in infrastructure that will support economic growth and enhance productivity.

The 2014-15 Budget introduces an Infrastructure Growth Package of \$11.6 billion that will be invested in productivity-enhancing infrastructure. This funding to State and Territory Governments will boost the economy's productive capacity and help smooth the impact of a downturn in mining investment-led growth.

This Budget also addresses unsustainable spending levels inherited across a range of sectors. Budget repair is a national priority and every sector of the community must contribute, including State, Territory and local Governments. Decisions have been made to modify or terminate a number of payments to the States and Territories (the States) that were unsustainable or inefficient.

Initiatives of the previous government in public hospitals and schools funding have been revealed to have unsustainable levels of growth beyond previously published estimates. The Commonwealth will reset indexation arrangements for public hospitals and schools to ensure funding levels are sustainable and achievable. Further details are included in Part 2 of this Budget Paper.

Sustainable funding is an issue for all levels of government, and the changes in this Budget will provide a platform to consider longer-term arrangements in the context of the White Paper on the Reform of the Federation and the White Paper on the Reform of Australia's Tax System. The White Papers, to be completed by the end of 2015, will consider the spending and taxation roles and responsibilities of the different levels of government in Australia in detail to ensure that, as far as possible, the States are sovereign in their own sphere.

TOTAL PAYMENTS TO THE STATES

The Commonwealth continues to provide substantial levels of funding to the States, in key sectors such as health, education, community services and affordable housing, and deliver important productivity-enhancing projects and reforms in sectors including infrastructure, and skills and workforce development.

In 2014-15, the Commonwealth will provide the States with payments totalling \$101.1 billion. This represents a \$3.3 billion increase compared to 2013-14. Total estimated funding for 2014-15 has decreased by \$0.6 billion since the *Mid-Year*

Economic and Fiscal Outlook 2013-14. Total payments to the States as a proportion of Commonwealth expenditure are estimated to be 24.4 per cent in 2014-15.

Payments for specific purposes

In 2014-15, the Commonwealth will provide the States with \$46.3 billion in payments for specific purposes, an increase of \$0.5 billion compared with \$45.8 billion in 2013-14. Payments for specific purposes as a proportion of Commonwealth expenditure are estimated to be 11.2 per cent in 2014-15.

National Specific Purpose Payments (National SPPs), along with National Health Reform and Students First funding are expected to total \$33.6 billion in 2014-15, a change of \$2.5 billion from \$31.1 billion in 2013-14.

National Partnership payments are expected to be \$12.7 billion in 2014-15, a change of \$2.0 billion from \$14.7 billion in 2013-14.

Part 2 of this Budget Paper provides further information on payments for specific purposes to the States.

General revenue assistance

General revenue assistance, which principally comprises GST entitlements, provides a further, untied, funding base to support the delivery of State services.

In 2014-15, the States are expected to receive \$54.9 billion in general revenue assistance, comprising GST payments of \$53.7 billion and other general revenue assistance of \$1.2 billion. This is an increase of \$2.8 billion from \$52.1 billion in 2013-14. Payments for general revenue assistance are estimated to be 13.2 per cent of Commonwealth expenditure in 2014-15.

Part 3 of this Budget Paper provides further information on general revenue assistance to the States, including GST.

Table 1.1: Commonwealth payments to the States

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2013-14									
Payments for specific purposes(a)	13,815	12,551	9,147	4,632	2,977	1,015	750	892	45,779
General revenue assistance(b)	15,778	11,451	10,823	2,558	4,618	1,809	1,061	2,808	52,056
Total payments to the States	29,593	24,002	19,970	7,190	7,595	2,825	1,812	3,699	97,834
2014-15									
Payments for specific purposes(a)	13,654	11,166	9,792	5,313	3,171	1,039	755	1,041	46,285
General revenue assistance(b)	16,808	11,853	11,736	2,310	4,956	1,911	1,137	3,166	54,861
Total payments to the States	30,462	23,019	21,527	7,623	8,128	2,950	1,892	4,207	101,147
2015-16									
Payments for specific purposes(a)	14,847	11,145	10,654	5,394	3,655	1,145	749	1,018	49,905
General revenue assistance(b)	17,603	12,588	12,659	2,405	5,252	2,095	1,204	3,384	58,165
Total payments to the States	32,450	23,733	23,313	7,799	8,906	3,241	1,953	4,402	108,070
2016-17									
Payments for specific purposes(a)	16,540	11,743	11,622	6,096	3,510	1,119	812	1,044	53,791
General revenue assistance(b)	18,259	13,257	13,932	2,494	5,699	2,150	1,255	3,571	61,598
Total payments to the States	34,800	25,000	25,554	8,590	9,209	3,269	2,067	4,615	115,389
2017-18									
Payments for specific purposes(a)	16,088	11,279	11,089	5,980	3,452	1,087	815	973	51,786
General revenue assistance(b)	19,284	14,181	14,660	2,765	5,921	2,203	1,309	3,658	64,909
Total payments to the States	35,371	25,460	25,750	8,746	9,373	3,290	2,124	4,631	116,695

(a) As State allocations for a small number of programmes have yet to be determined, these payments are not reflected in State totals. As such, total payments for specific purposes will not equal the sum of State totals.

(b) As State allocations for royalties are not published due to commercial sensitivities, these payments are not reflected in State totals. As such, total general revenue assistance will not equal the sum of the State totals.

For 2014-15, total payments to the States as a proportion of GDP are estimated to be 6.2 per cent, with payments for specific purposes estimated to be 2.8 per cent and general revenue assistance estimated to be 3.4 per cent.

Table 1.2: Total Commonwealth payments to the States as a proportion of GDP

\$million	National						Total	Per cent change from prior year	Per cent of GDP
	National SPPs (a)	Health Reform funding (b)	Students First funding (c)	National Partnership payments (d)	GST entitlement	Other general revenue assistance			
2013-14	10,377	13,845	6,872	14,685	50,720	1,336	97,834	-	6.2
2014-15	4,139	15,116	14,374	12,657	53,710	1,151	101,147	3.4	6.2
2015-16	4,243	16,551	15,646	13,465	57,020	1,145	108,070	6.8	6.3
2016-17	4,353	18,095	17,032	14,311	60,440	1,158	115,389	6.8	6.4
2017-18	4,471	18,872	18,149	10,294	63,810	1,099	116,695	1.1	6.2

(a) Includes National Schools SPP funding, which ceased in December 2013.

(b) New indexation arrangements for public hospital funding will apply from July 2017.

(c) Students First funding commenced from January 2014. New indexation arrangements for schools funding will apply from January 2018.

(d) Includes financial assistance grants for local government and payments direct to local government.