

## PART 3: AUSTRALIA'S FEDERAL RELATIONS

This part provides information on payments for specific purposes and general revenue assistance, including the GST entitlement, provided to the States and Territories (the States).

Commonwealth payments to the States are framed by the *Intergovernmental Agreement on Federal Financial Relations* (the Intergovernmental Agreement), which has been in place since 1 January 2009.

More detailed information on Australia's federal relations is provided in Budget Paper No. 3, *Federal Financial Relations 2016-17*, and on the Federal Financial Relations website at: [www.federalfinancialrelations.gov.au](http://www.federalfinancialrelations.gov.au).

### OVERVIEW OF PAYMENTS TO THE STATES

The States receive substantial financial support from the Commonwealth. In 2015-16, the Commonwealth provided the States with payments totalling \$106.2 billion, comprising specific purpose payments of \$48.2 billion and general revenue assistance (including GST entitlements) of \$58.0 billion, as shown in Table 25. Total payments to the States constituted 24.8 per cent of total Commonwealth expenditure in 2015-16.

**Table 25: Commonwealth payments to the States, 2015-16**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Payments for specific purposes	15,020	10,996	10,160	5,510	3,337	1,163	764	1,229	48,180
General revenue assistance	17,479	12,869	13,028	2,472	5,560	2,261	1,077	3,270	58,016
<b>Total payments to the States</b>	<b>32,499</b>	<b>23,864</b>	<b>23,188</b>	<b>7,982</b>	<b>8,896</b>	<b>3,425</b>	<b>1,842</b>	<b>4,499</b>	<b>106,195</b>

### PAYMENTS FOR SPECIFIC PURPOSES

In 2015-16, the Commonwealth provided payments to the States for specific purposes in areas administered by the States. These payments cover most functional areas of State and local government activity including health, education, skills and workforce development, community services, housing, Indigenous affairs, infrastructure and the environment.

The Commonwealth provided the following types of specific purpose payments to the States:

- National Specific Purpose Payments (National SPPs) in respect of key service delivery sectors;
- National Health Reform funding for public hospitals;
- Students First funding for government and non-government schools; and
- National Partnership payments across a wide range of policy areas.

### **National SPPs, National Health Reform and Students First funding**

In 2015-16, the Commonwealth continued to provide funding for key service delivery sectors through National SPPs, National Health Reform funding and Students First funding. The National SPPs are:

- the National Skills and Workforce Development SPP;
- the National Disability SPP; and
- the National Affordable Housing SPP.

The States are required to spend each National SPP in the relevant sector. The National SPPs are indexed each year by growth factors specified in the Intergovernmental Agreement.

Payments made throughout the year for National SPPs and Students First were made in advance based on Commonwealth estimates of the respective growth factors. A balancing adjustment is made after the end of the financial year (or calendar year, for Students First) once final growth factor data become available.

The National SPPs are distributed among the States in accordance with population shares based on the Australian Statistician's determination as at 31 December of that year.

Students First funding includes recurrent and capital funding for government and non-government schools, funding for non-government representative bodies, and other prescribed purpose funding. Students First funding is distributed among the States in accordance with the *Australian Education Act 2013* and agreements made under that Act.

Payments made throughout the year for National Health Reform were made in advance on the basis of advice from the Administrator of the National Health Funding Pool. This funding is calculated by reference to the level of estimated efficient growth in public hospital activity in each State. The amounts published are for payments made in respect of 2015-16 services. The Treasurer will determine the final amount and State allocations for 2015-16, following the Administrator's final reconciliation of activity data.

## National Partnership payments

Under the Intergovernmental Agreement, National Partnership payments to the States are the key vehicle to support the delivery of specified projects, facilitate reforms or reward jurisdictions that deliver on nationally significant reforms.

National Partnerships are typically time-limited, reflecting the nature of the project or reform involved. National Partnership agreements are publicly available at: [www.federalfinancialrelations.gov.au](http://www.federalfinancialrelations.gov.au).

## Total payments for specific purposes

In 2015-16, the States received \$48.2 billion in payments for specific purposes. This constituted 11.2 per cent of total Commonwealth expenditure in 2015-16.

Total payments for specific purposes, including National SPPs, National Health Reform funding, Students First funding and National Partnership payments are shown in Table 26.

**Table 26: Total payments for specific purposes by category, 2015-16**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
National Specific Purpose									
Payments	1,352	1,057	847	459	300	91	69	43	4,218
National Health Reform funding(a)	5,509	4,180	3,531	1,843	1,224	375	325	199	17,185
Students First funding(b)	4,824	3,928	3,315	1,585	1,132	370	264	283	15,703
National Partnership payments(c)	3,335	1,830	2,466	1,624	680	327	106	704	11,073
<b>Total payments for specific purposes</b>	<b>15,020</b>	<b>10,996</b>	<b>10,160</b>	<b>5,510</b>	<b>3,337</b>	<b>1,163</b>	<b>764</b>	<b>1,229</b>	<b>48,180</b>

(a) The 2015-16 outcomes for National Health Reform funding will be finalised following reconciliation of activity data by the Administrator of the National Health Funding Pool and a subsequent Determination by the Treasurer.

(b) The 2015-16 outcomes for Students First funding will be finalised following a Determination by the Minister for Education.

(c) Includes financial assistance grants for local government.

Total payments for specific purposes by sector, including National SPPs, National Health Reform funding, Students First funding and National Partnership payments, are shown in Table 27.

**Table 27: Total payments for specific purposes by sector, 2015-16**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Health	5,630	4,409	3,624	1,897	1,254	420	331	279	17,844
Education	4,935	4,075	3,396	1,645	1,173	382	273	343	16,221
Skills and workforce development	588	464	372	202	132	38	30	18	1,842
Community services	895	820	351	405	115	35	24	244	2,888
Affordable housing	502	355	439	270	122	31	23	139	1,881
Infrastructure	1,981	490	1,497	910	324	127	43	169	5,540
Environment	48	48	53	5	115	18	5	11	302
Contingent	3	3	144	4	3	65	-	2	224
Other(a)	437	332	284	173	99	49	36	26	1,437
<b>Total payments for specific purposes</b>	<b>15,020</b>	<b>10,996</b>	<b>10,160</b>	<b>5,510</b>	<b>3,337</b>	<b>1,163</b>	<b>764</b>	<b>1,229</b>	<b>48,180</b>

(a) Includes financial assistance grants for local government.

Total payments for specific purposes by sector and category, including National SPPs, National Health Reform funding, Students First funding and National Partnership payments, are shown in Table 28.

**Table 28: Total payments for specific purposes by sector and category, 2015-16**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
<i>Health</i>									
National Health Reform funding(a)	5,509	4,180	3,531	1,843	1,224	375	325	199	17,185
National Partnerships	121	229	93	55	30	45	7	80	659
Total health payments	5,630	4,409	3,624	1,897	1,254	420	331	279	17,844
<i>Education</i>									
Students First funding(b)	4,824	3,928	3,315	1,585	1,132	370	264	283	15,703
National Partnerships	111	147	81	60	41	12	8	59	518
Total education payments	4,935	4,075	3,396	1,645	1,173	382	273	343	16,221
<i>Skills and workforce development</i>									
National Skills and Workforce Development SPP	466	365	292	158	104	31	24	15	1,455
National Partnerships	122	99	79	43	28	6	6	3	386
Total skills and workforce development payments	588	464	372	202	132	38	30	18	1,842
<i>Community services</i>									
National Disability SPP	461	360	289	157	102	31	24	15	1,439
National Partnerships	434	460	62	249	13	3	..	229	1,449
Total community services payments	895	820	351	405	115	35	24	244	2,888
<i>Affordable housing</i>									
National Affordable Housing SPP	424	332	266	144	94	29	22	13	1,324
National Partnerships	78	23	173	126	28	3	2	126	557
Total affordable housing payments	502	355	439	270	122	31	23	139	1,881
<i>Infrastructure</i>									
National Partnerships	1,981	490	1,497	910	324	127	43	169	5,540
<i>Environment</i>									
National Partnerships	48	48	53	5	115	18	5	11	302
<i>Contingent payments</i>									
National Partnerships	3	3	144	4	3	65	-	2	224
<i>Other</i>									
National Partnerships(c)	437	332	284	173	99	49	36	26	1,437
<b>Total payments for specific purposes</b>	<b>15,020</b>	<b>10,996</b>	<b>10,160</b>	<b>5,510</b>	<b>3,337</b>	<b>1,163</b>	<b>764</b>	<b>1,229</b>	<b>48,180</b>

(a) The 2015-16 outcomes for National Health Reform funding will be finalised following reconciliation of activity data by the Administrator of the National Health Funding Pool and a subsequent Determination by the Treasurer.

(b) The 2015-16 outcomes for Students First funding will be finalised following a Determination by the Minister for Education.

(c) Includes financial assistance grants for local government.

## Natural Disaster Relief and Recovery Arrangements

The Commonwealth provides funding under the Natural Disaster Relief and Recovery Arrangements (NDRRA) to assist the States in relief and recovery efforts following eligible natural disasters.

For accounting purposes, the Commonwealth recognises a liability equal to the present value of future payments expected to be made to the States under the NDRRA. This is regardless of whether a State has completed eligible disaster reconstruction work or submitted an eligible claim under the NDRRA. However, there were no cash payments made in 2015-16, as presented in Table 29 below. See Table 44 in Attachment A for the expense outcome.

**Table 29: NDRRA cash payments, 2015-16**

\$'000	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
NDRRA	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-	-	-

## GENERAL REVENUE ASSISTANCE

General revenue assistance is provided to the States, without conditions, to spend according to their own budget priorities.

In 2015-16, the States received \$58.0 billion in general revenue assistance from the Commonwealth, comprising \$57.4 billion in GST entitlements and \$0.7 billion of other general revenue assistance, as shown in Table 30. Total general revenue assistance to the States constituted 13.5 per cent of total Commonwealth expenditure in 2015-16.

**Table 30: General revenue assistance, 2015-16**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement(a)	17,461	12,860	13,028	1,877	5,560	2,261	1,039	3,266	57,352
Other general revenue assistance									
<i>ACT municipal services</i>	-	-	-	-	-	-	39	-	39
<i>Compensation for reduced royalties</i>	-	-	-	27	-	-	-	-	27
<i>Royalties</i>	-	-	-	568	-	-	-	4	572
<i>Snowy Hydro Ltd tax compensation</i>	18	9	-	-	-	-	-	-	27
Total other general revenue assistance	18	9	-	595	-	-	39	4	664
<b>Total general revenue assistance</b>	<b>17,479</b>	<b>12,869</b>	<b>13,028</b>	<b>2,472</b>	<b>5,560</b>	<b>2,261</b>	<b>1,077</b>	<b>3,270</b>	<b>58,016</b>

(a) The 2015-16 GST outcome will be finalised following a Determination by the Treasurer.

## GST payments

Under the Intergovernmental Agreement, the States are entitled to receive payments from the Commonwealth broadly equivalent to the revenue received from the GST. Some adjustments are made to GST revenue in order to calculate the amount of GST paid to the States in any given year.

- Some GST revenue accrued during a financial year is not remitted to the Australian Taxation Office (ATO) by 30 June of that year, because it is not due to be paid until Business Activity Statements (BAS) are lodged the following financial year.

- Penalties owed to the ATO, other than general interest charge (GIC) penalties, are not included in the GST to be paid to the States, as defined in the *Federal Financial Relations Act 2009*.
- Some GST collected by Commonwealth agencies is not remitted to the ATO by 30 June in each financial year, because it is not due to be paid until the next BAS is lodged.

In 2015-16, GST revenue was \$60.3 billion. A reconciliation of GST revenue and the States' GST entitlement is provided in Table 31.

**Table 31: Reconciliation of GST revenue and the States' GST entitlement, 2015-16**

\$million	Total
GST revenue	60,312
<i>less</i> Change in GST receivables	2,855
GST receipts	57,457
<i>less</i> Non-GIC penalties collected	185
<i>less</i> Net GST collected by Commonwealth agencies but not yet remitted to the ATO	-79
<b>States' GST entitlement(a)</b>	<b>57,352</b>

(a) The 2015-16 GST outcome will be finalised following a Determination by the Treasurer.

The Commonwealth made monthly payments (advances) to the States throughout 2015-16 based on GST estimates as updated at the 2016-17 Budget. Estimates of the GST were used, as the actual amount of GST revenue for 2015-16 is not known until after the end of the financial year.

For 2015-16, the States' GST entitlement is expected to be \$57.4 billion. This is \$98.4 million lower than the advances paid during 2015-16. Once the Treasurer has made a Determination of the GST entitlement for 2015-16, a balancing adjustment will then be made to each State's payments to ensure the States receive the GST to which they are entitled. Table 32 provides a reconciliation of the States' GST entitlement and GST advances.

**Table 32: States' GST entitlement and GST advances, 2015-16**

\$million	Total
<b>States' GST entitlement(a)</b>	<b>57,352</b>
<i>less</i> Advances of GST made throughout 2015-16	57,450
<i>equals</i> Balancing adjustment	-98

(a) The 2015-16 GST outcome will be finalised following a Determination by the Treasurer.

### Distribution of the GST among the States

The Commonwealth distributes GST among the States in accordance with the principle of horizontal fiscal equalisation, having regard to the recommendations of the Commonwealth Grants Commission (the Commission).

The Commission recommends GST revenue sharing relativities to be used in calculating each State's GST entitlement. The relativities determine how much GST each State receives compared with an equal per capita share and are determined such that, if each State made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each State would have the capacity to provide services and the associated infrastructure at the same standard.

A Determination of the GST revenue sharing relativities for 2015-16 was made in May 2015. The relativities for 2015-16 are shown in Table 33.

**Table 33: GST relativities, 2015-16**

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2015-16	0.94737	0.89254	1.12753	0.29999	1.35883	1.81906	1.10012	5.57053

The GST relativities were applied to estimated State populations to determine an adjusted population for each State. The entitlements are allocated using the population as at 31 December 2015 as determined by the Australian Statistician. Each State receives its adjusted population share of the GST entitlement as shown in Table 34.

**Table 34: Calculation of the 2015-16 GST entitlements<sup>(a)</sup>**

	Population as at 31 December 2015 (1)	GST revenue sharing relativities (2)	Adjusted population (1) x (2) (3)	Share of adjusted population per cent (4)	Share of GST pool \$million (5)
NSW	7,670,742	0.94737	7,267,031	30.4	17,461.0
VIC	5,996,385	0.89254	5,352,013	22.4	12,859.6
QLD	4,808,771	1.12753	5,422,034	22.7	13,027.9
WA	2,603,899	0.29999	781,144	3.3	1,876.9
SA	1,702,785	1.35883	2,313,795	9.7	5,559.5
TAS	517,404	1.81906	941,189	3.9	2,261.5
ACT	393,013	1.10012	432,361	1.8	1,038.9
NT	244,031	5.57053	1,359,382	5.7	3,266.3
Total	23,937,030	na	23,868,949	100.0	57,351.6

(a) The 2015-16 GST outcome will be finalised following a Determination by the Treasurer.

Table 35 provides a summary of advances made in 2015-16 against the States' estimated final entitlements shown in Table 34 above. The variance between advances paid in 2015-16 and the States' final entitlements will be included as an adjustment to payments in the 2016-17 financial year.

**Table 35: Summary of GST advances made in 2015-16 and distribution of the balancing adjustment across States<sup>(a)</sup>**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement	17,461.0	12,859.6	13,027.9	1,876.9	5,559.5	2,261.5	1,038.9	3,266.3	57,351.6
15-16 advances	17,496.7	12,872.0	13,044.0	1,882.6	5,573.2	2,265.7	1,041.8	3,274.0	57,450.0
Balancing adjustment	-35.7	-12.4	-16.1	-5.7	-13.7	-4.3	-2.9	-7.7	-98.4

(a) The 2015-16 GST outcome will be finalised following a Determination by the Treasurer.



## GST administration

States compensate the Commonwealth for the agreed costs incurred by the ATO in administering the GST, including costs incurred by the Department of Immigration and Border Protection, as shown in Table 36.

**Table 36: GST administration, 2015-16**

\$million	Actual	
	2014-15	2015-16
Australian Taxation Office budget	688.5	679.6
<i>less</i> Prior year adjustment	8.2	7.4
<i>equals</i> State government administration payments	680.3	672.2
<i>less</i> Australian Taxation Office outcome(a)	681.1	679.6
<b><i>equals</i> Commonwealth budget impact</b>	<b>-0.8</b>	<b>-7.4</b>
<i>plus</i> Prior year adjustment	8.2	7.4
<i>equals</i> Following year adjustment	7.4	0.0

(a) Estimated outcome for 2015-16 pending confirmation by the Australian National Audit Office.

The estimated outcome for the 2015-16 GST administration expense is \$679.6 million.