

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.

OVERVIEW OF PAYMENTS TO THE STATES

The States receive substantial financial support from the Commonwealth. In 2016-17, the Commonwealth provided the States with payments totalling \$115.7 billion, comprising specific purpose payments of \$55.1 billion and general revenue assistance (including GST entitlements) of \$60.6 billion, as shown in Table 25. Total payments to the States constituted 25.8 per cent of total Commonwealth expenditure in 2016-17.

Table 25: Commonwealth payments to the States, 2016-17

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Payments for specific purposes	17,665	12,366	11,398	5,822	3,874	1,965	856	1,183	55,128
General revenue assistance	17,358	13,970	14,055	2,547	5,979	2,267	1,194	3,186	60,554
Total payments to the States	35,023	26,336	25,453	8,369	9,852	4,231	2,050	4,368	115,682

PAYMENTS FOR SPECIFIC PURPOSES

In 2016-17, 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 Health Reform funding for public hospitals;
- Students First funding for government and non-government schools;

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- National Specific Purpose Payments (National SPPs) in respect of housing, disability services and skills and workforce development; and
- National Partnership payments across a wide range of policy areas.

National SPPs, National Health Reform and Students First funding

In 2016-17, 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 2016-17 services. The Treasurer will determine the final amount and State allocations for 2016-17 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.

Total payments for specific purposes

In 2016-17, the States received \$55.1 billion in payments for specific purposes. This constituted 12.3 per cent of total Commonwealth expenditure in 2016-17.

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, 2016-17

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
National Specific Purpose									
Payments	1,378	1,104	863	454	303	92	72	43	4,309
National Health Reform funding(a)	5,730	4,724	3,851	2,089	1,266	388	345	246	18,638
Students First funding(b)	5,193	4,387	3,664	1,659	1,200	397	275	315	17,091
National Partnership payments(c)	5,364	2,152	3,020	1,620	1,104	1,088	164	578	15,090
Total payments for specific purposes	17,665	12,366	11,398	5,822	3,874	1,965	856	1,183	55,128

(a) The 2016-17 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) At the 2017-18 Budget the Government decided to implement a new needs-based funding model known as Quality Schools funding, which replaced the Students First funding model. The 2016-17 Students First funding outcome 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, 2016-17

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Health	5,811	4,809	3,901	2,127	1,285	1,155	349	343	19,779
Education	5,335	4,514	3,777	1,721	1,240	409	285	365	17,646
Skills and workforce development	639	507	408	209	141	45	33	21	2,003
Community services	627	456	342	428	137	44	28	89	2,151
Affordable housing	459	367	357	192	113	31	24	214	1,757
Infrastructure	3,559	606	1,751	614	619	143	29	79	7,401
Environment	61	198	46	8	84	19	22	5	444
Contingent	9	13	61	69	2	1	-	8	162
Other(a)	1,164	896	755	453	253	117	86	59	3,783
Total payments for specific purposes	17,665	12,366	11,398	5,822	3,874	1,965	856	1,183	55,128

(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, 2016-17

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
<i>Health</i>									
National Health Reform funding(a)	5,730	4,724	3,851	2,089	1,266	388	345	246	18,638
National Partnerships	81	85	49	39	19	767	4	97	1,141
Total health payments	5,811	4,809	3,901	2,127	1,285	1,155	349	343	19,779
<i>Education</i>									
Students First funding(b)	5,193	4,387	3,664	1,659	1,200	397	275	315	17,091
National Partnerships	143	127	113	62	39	12	9	50	556
Total education payments	5,335	4,514	3,777	1,721	1,240	409	285	365	17,646
<i>Skills and workforce development</i>									
National Skills and Workforce Development SPP	472	378	296	155	104	31	25	15	1,476
National Partnerships	167	128	112	54	38	14	8	6	527
Total skills and workforce development payments	639	507	408	209	141	45	33	21	2,003
<i>Community services</i>									
National Disability SPP	477	382	299	157	105	32	25	15	1,490
National Partnerships	150	74	43	271	32	12	3	74	661
Total community services payments	627	456	342	428	137	44	28	89	2,151
<i>Affordable housing</i>									
National Affordable Housing SPP	429	344	269	141	95	29	22	13	1,343
National Partnerships	30	23	88	50	18	3	2	201	415
Total affordable housing payments	459	367	357	192	113	31	24	214	1,757
<i>Infrastructure</i>									
National Partnerships	3,559	606	1,751	614	619	143	29	79	7,401
<i>Environment</i>									
National Partnerships	61	198	46	8	84	19	22	5	444
<i>Contingent payments</i>									
National Partnerships	9	13	61	69	2	1	-	8	162
<i>Other</i>									
National Partnerships(c)	1,164	896	755	453	253	117	86	59	3,783
Total payments for specific purposes	17,665	12,366	11,398	5,822	3,874	1,965	856	1,183	55,128

(a) The 2016-17 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) At the 2017-18 Budget the Government decided to implement a new needs-based funding model known as Quality Schools funding, which replaced the Students First funding model. The 2016-17 Students First funding outcome 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.

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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. Total cash payments in 2016-17 are presented in Table 29 below. See Table 44 in Attachment A for the expense outcome.

Table 29: NDRRA cash payments, 2016-17

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
NDRRA	-	-	1,103.4	0.7	-	-	-	-	1,104.1
Total	-	-	1,103.4	0.7	-	-	-	-	1,104.1

GENERAL REVENUE ASSISTANCE

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

In 2016-17, the States received \$60.6 billion in general revenue assistance from the Commonwealth, comprising \$59.8 billion in GST entitlements and \$708.8 million 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 2016-17.

Table 30: General revenue assistance, 2016-17

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement(a)	17,335.4	13,958.8	14,054.9	1,913.9	5,978.6	2,266.6	1,155.0	3,182.3	59,845.5
Other general revenue assistance									
<i>ACT municipal services</i>	-	-	-	-	-	-	39.1	-	39.1
<i>Compensation for reduced royalties</i>	-	-	-	31.8	-	-	-	-	31.8
<i>Royalty payments</i>	-	-	-	601.4	-	-	-	3.3	604.6
<i>Snowy Hydro Limited tax compensation</i>	22.2	11.1	-	-	-	-	-	-	33.3
Total other general revenue assistance	22.2	11.1	-	633.1	-	-	39.1	3.3	708.8
Total general revenue assistance	17,357.6	13,969.9	14,054.9	2,547.0	5,978.6	2,266.6	1,194.1	3,185.6	60,554.3

(a) The 2016-17 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 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 2016-17, GST revenue was \$62.7 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, 2016-17

\$million	Total
GST revenue	62,727
/ess Change in GST receivables	2,704
GST receipts	60,023
/ess Non-GIC penalties collected	176
/ess Net GST collected by Commonwealth agencies but not yet remitted to the ATO	1
States' GST entitlement(a)	59,845

(a) The 2016-17 GST outcome will be finalised following a Determination by the Treasurer.

The Commonwealth made monthly payments (advances) to the States throughout 2016-17 based on GST estimates, as updated at the 2017-18 Budget. Estimates of the GST were used, as the actual amount of GST revenue for 2016-17 is not known until after the end of the financial year.

For 2016-17, the States' GST entitlement is expected to be \$59.8 billion. This is \$605.5 million higher than the advances paid during 2016-17. Once the Treasurer has made a Determination of the GST entitlement for 2016-17, 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, 2016-17

\$million	Total
States' GST entitlement(a)	59,845.5
less Advances of GST made throughout 2016-17	59,240.0
<i>equals</i> Balancing adjustment	605.5

(a) The 2016-17 GST outcome will be finalised following a Determination by the Treasurer.

Distribution of the GST among the States

The Commonwealth distributes the GST among the States based on the GST revenue sharing relativities recommended by the Commonwealth Grants Commission.

Following consultation with the States, the Treasurer issued a Determination of the GST revenue sharing relativities for 2016-17 in April 2016. The relativities for 2016-17 are shown in Table 33.

Table 33: GST relativities, 2016-17

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2016-17	0.90464	0.90967	1.17109	0.30330	1.41695	1.77693	1.15648	5.28450

The detailed calculation for the distribution of the GST entitlement in 2016-17 is shown in Table 34. This method of calculation is prescribed in legislation in the *Federal Financial Relations Act 2009*. The entitlements are allocated using the population as at 31 December 2016, as determined by the Australian Statistician.

Table 34: Calculation of the 2016-17 GST entitlements^(a)

	Population as at 31 December 2016 (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	7,797,791	0.90464	7,054,194	29.0	17,335.4
VIC	6,244,227	0.90967	5,680,186	23.3	13,958.8
QLD	4,883,739	1.17109	5,719,298	23.5	14,054.9
WA	2,567,788	0.30330	778,810	3.2	1,913.9
SA	1,716,966	1.41695	2,432,855	10.0	5,978.6
TAS	519,050	1.77693	922,316	3.8	2,266.6
ACT	406,403	1.15648	469,997	1.9	1,155.0
NT	245,048	5.28450	1,294,956	5.3	3,182.3
Total	24,381,012	na	24,352,611	100.0	59,845.5

(a) The 2016-17 GST outcome will be finalised following a Determination by the Treasurer.

Table 35 provides a summary of the advances made in 2016-17 against the States' estimated final entitlements shown in Table 34 above. The variance between advances paid in 2016-17 and the States' final entitlements will be included as an adjustment to payments in the 2017-18 financial year.

Table 35: Summary of GST advances made in 2016-17 and distribution of the balancing adjustment across States^(a)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement	17,335.4	13,958.8	14,054.9	1,913.9	5,978.6	2,266.6	1,155.0	3,182.3	59,845.5
16-17 advances	17,215.9	13,631.7	13,955.1	1,950.0	5,933.9	2,259.2	1,129.0	3,165.2	59,240.0
Balancing adjustment	119.5	327.1	99.8	-36.1	44.7	7.3	26.0	17.1	605.5

(a) The 2016-17 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, 2016-17

\$million	Actual	
	2015-16	2016-17
Australian Taxation Office budget	679.6	682.4
<i>less</i> Prior year adjustment	7.4	0.0
<i>equals</i> State government administration payments	672.2	682.4
<i>less</i> Australian Taxation Office outcome(a)	679.6	682.4
<i>equals</i> Commonwealth budget impact	-7.4	0.0
<i>plus</i> Prior year adjustment	7.4	0.0
<i>equals</i> Following year adjustment	0.0	0.0

(a) Estimated outcome for 2016-17 pending confirmation by the Australian National Audit Office.

The estimated outcome for the 2016-17 GST administration expense is \$682.4 million.