

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 2015-16*, 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 2014-15, the Commonwealth provided the states with payments totalling \$103.4 billion, comprising specific purpose payments of \$48.0 billion and general revenue assistance (including GST entitlements) of \$55.4 billion, as shown in Table 25. Total payments to the states as a proportion of total Commonwealth expenditure was 24.7 per cent in 2014-15.

Table 25: Commonwealth payments to the states, 2014-15

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Payments for specific purposes	14,705	11,167	10,082	5,906	3,158	1,046	815	1,117	47,997
General revenue assistance	17,065	12,013	11,824	3,216	5,027	1,944	1,143	3,193	55,425
Total payments to the states	31,770	23,181	21,907	9,122	8,185	2,990	1,959	4,310	103,423

PAYMENTS FOR SPECIFIC PURPOSES

In 2014-15, 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;
- Students First funding; and
- National Partnership payments.

National SPPs, National Health Reform and Students First funding

In 2014-15, the Commonwealth continued to provide funding for key service delivery sectors through National SPPs, as well as National Health Reform funding and Students First funding. The National SPPs are as follows:

- 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. An equal per capita distribution was phased in over five years from 2009-10.

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 relevant agreements made under that Act.

Payments throughout the year for National Health Reform were made in advance, on the basis of advice of the Administrator of the National Health Funding Pool. This funding is calculated by reference to the level of estimated efficient growth in hospital activity in each state. The amounts published are for payments made in respect of 2014-15 services. The Treasurer will determine the final amount and state allocations for 2014-15, following the Administrator's 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 those 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 2014-15, the states received \$48.0 billion in payments for specific purposes. Payments to the states for specific purposes constituted 11.5 per cent of total Commonwealth expenditure in 2014-15.

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, 2014-15

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
National Specific Purpose									
Payments(a)(b)	1,324	1,030	840	452	296	90	68	43	4,143
National Health Reform funding(a)(c)	4,878	3,851	3,061	1,755	1,125	334	305	158	15,466
Students First funding(d)	4,538	3,674	3,068	1,483	1,077	352	252	263	14,707
National Partnership payments(e)	3,965	2,612	3,113	2,216	661	270	190	653	13,681
Total payments for specific purposes	14,705	11,167	10,082	5,906	3,158	1,046	815	1,117	47,997

(a) The 2014-15 outcomes for the National SPPs and National Health Reform funding will be finalised following a Determination by the Treasurer.

(b) Includes residual payments made under the former National Schools SPP to reflect revisions to some states' entitlements from the 2013-14 financial year.

(c) National Health Reform funding amounts are for payments made in respect of 2014-15 services. These amounts will be finalised following reconciliation of activity data by the Administrator of the National Health Funding Pool.

(d) The 2014-15 outcomes for Students First funding will be finalised following a Determination by the Minister for Education.

(e) 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, 2014-15

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Health	5,363	4,153	3,275	1,882	1,188	370	318	254	16,804
Education	4,802	3,818	3,198	1,548	1,123	366	266	337	15,458
Skills and workforce development	583	460	368	197	133	40	30	19	1,830
Community services	458	789	341	432	115	48	27	94	2,303
Affordable housing	515	351	440	305	130	34	23	146	1,944
Infrastructure	1,750	473	1,199	1,090	139	53	62	108	4,874
Environment	92	263	51	5	81	17	6	16	531
Contingent	5	3	423	3	..	..	-	87	522
Other(a)	1,137	857	787	444	249	118	83	57	3,732
Total payments for specific purposes	14,705	11,167	10,082	5,906	3,158	1,046	815	1,117	47,997

(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, 2014-15

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
<i>Health</i>									
National Health Reform funding(a)(b)	4,878	3,851	3,061	1,755	1,125	334	305	158	15,466
National Partnerships	486	302	214	127	64	36	14	96	1,338
Total health payments	5,363	4,153	3,275	1,882	1,188	370	318	254	16,804
<i>Education</i>									
National Schools SPP(c)	..	..	..	..	-	-	..	..	..
Students First funding(d)	4,538	3,674	3,068	1,483	1,077	352	252	263	14,707
National Partnerships	263	144	129	65	46	14	14	75	750
Total education payments	4,802	3,818	3,198	1,548	1,123	366	266	337	15,458
<i>Skills and workforce development</i>									
National Skills and Workforce Development SPP(a)	460	358	289	157	103	31	24	15	1,435
National Partnerships	123	102	80	40	30	9	6	4	395
Total skills and workforce development payments	583	460	368	197	133	40	30	19	1,830
<i>Community services</i>									
National Disability SPP(a)(e)	446	347	289	152	100	30	23	14	1,402
National Partnerships	12	442	53	279	15	17	4	80	902
Total community services payments	458	789	341	432	115	48	27	94	2,303
<i>Affordable housing</i>									
National Affordable Housing SPP(a)	418	325	263	143	94	28	21	14	1,306
National Partnerships	96	26	178	162	37	6	2	132	638
Total affordable housing payments	515	351	440	305	130	34	23	146	1,944
<i>Infrastructure</i>									
National Partnerships	1,750	473	1,199	1,090	139	53	62	108	4,874
<i>Environment</i>									
National Partnerships	92	263	51	5	81	17	6	16	531
<i>Contingent payments</i>									
National Partnerships	5	3	423	3	..	..	-	87	522
<i>Other</i>									
National Partnerships(f)	1,137	857	787	444	249	118	83	57	3,732
Total payments for specific purposes	14,705	11,167	10,082	5,906	3,158	1,046	815	1,117	47,997

(a) The 2014-15 outcomes for the National SPPs and National Health Reform funding will be finalised following a Determination by the Treasurer.

(b) National Health Reform funding amounts are for payments made in respect of 2014-15 services. These amounts will be finalised following reconciliation of activity data by the Administrator of the National Health Funding Pool.

(c) Residual payments were made under the former National Schools SPP to reflect revisions to some states' entitlements from the 2013-14 financial year.

(d) The 2014-15 outcomes for Students First funding will be finalised following a Determination by the Minister for Education.

(e) Includes an adjustment to achieve budget neutrality for 2012-13 activity; see footnote to Table 40 in Attachment A for details.

(f) 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 with relief and recovery assistance 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. Total cash payments in 2014-15 are presented in Table 29 below; see Table 44 in Attachment A for the expense outcome.

Table 29: NDRRA cash payments, 2014-15

\$'000	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
NDRRA	-	-	1,162,592	-	-	-	-	-	1,162,592
Total	-	-	1,162,592	-	-	-	-	-	1,162,592

GENERAL REVENUE ASSISTANCE

General revenue assistance is a broad category of payments, including the GST entitlement, which is provided to the states without conditions, to spend according to their own budget priorities.

In 2014-15, the states received \$55.4 billion in general revenue assistance from the Commonwealth, comprising \$54.3 billion in GST entitlements and \$1.1 billion of other general revenue assistance, as shown in Table 30. In 2014-15, total general revenue assistance to the states represented 13.3 per cent of total Commonwealth expenditure.

Table 30: General revenue assistance, 2014-15

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement(a)	17,020	11,990	11,824	2,241	5,027	1,944	1,106	3,190	54,342
Other general revenue assistance									
<i>ACT municipal services</i>	-	-	-	-	-	-	38	-	38
<i>Reduced royalties</i>	-	-	-	46	-	-	-	-	46
<i>Royalties</i>	-	-	-	929	-	-	-	3	932
<i>Snowy Hydro Ltd tax compensation</i>	45	23	-	-	-	-	-	-	68
Total other general revenue assistance	45	23	-	975	-	-	38	3	1,083
Total general revenue assistance	17,065	12,013	11,824	3,216	5,027	1,944	1,143	3,193	55,425

(a) The 2014-15 GST outcome will be finalised following a Determination by the Treasurer.

GST PAYMENTS

Reconciling GST revenue and GST payments to the states

Under the Intergovernmental Agreement, the states are entitled to receive payments from the Commonwealth equivalent to the revenue received from the GST.

However, GST revenue for a financial year varies from the amount of GST paid to the states for that year because of:

- GST revenue which is recognised on a Commonwealth whole-of-government basis, but not remitted to the Australian Taxation Office (ATO) by 30 June of each financial year, as the revenue will not be remitted until the following financial year;
- penalties, other than general interest charge (GIC) penalties, which are not included in the definition in the *Federal Financial Relations Act 2009* of GST to be paid to the states;
- the GST component of sales by Commonwealth agencies which has been collected by those agencies but which, as at 30 June in each year, has not been remitted to the ATO, because it is not due to be paid until the next Business Activity Statement is lodged; and
- adjustments to account for any variation in the previous financial year between the Treasurer's final outcome Determination, and GST payment advances made during that financial year.

In 2014-15, GST revenue was \$56.5 billion. A reconciliation of GST revenue and GST entitlement to the states is provided in Table 31.

Table 31: GST revenue and GST entitlement to the states, 2014-15

\$million	Total
GST revenue	56,462
less Change in GST receivables	1,921
GST receipts	54,542
less Non-GIC penalties collected	237
less Net GST collected by Commonwealth agencies but not yet remitted to the ATO	-37
GST entitlement to the states(a)	54,342

(a) The 2014-15 GST outcome will be finalised following a Determination by the Treasurer.

Advances of GST entitlements were provided to the states throughout the 2014-15 financial year based on the Commonwealth's estimate of GST entitlements as updated at the 2015-16 Budget. The GST entitlement to the states is expected to be \$342 million higher than the advances paid during 2014-15. A balancing adjustment will be made following a Determination by the Treasurer. Table 32 provides a reconciliation of the GST entitlement and GST advances to the states.

Table 32: GST entitlement and GST advances to the states, 2014-15

\$million	Total
GST entitlement to the states(a)	54,342
<i>less</i> Advances of GST made throughout 2014-15	54,000
<i>equals</i> Following year balancing adjustment	342

(a) The 2014-15 GST outcome will be finalised following a Determination by the Treasurer.

Distribution of the GST entitlement among the states

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

GST relativities

The Commission recommends GST revenue sharing relativities to be used in calculating each state's entitlement of the GST pool. 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.

This does not necessarily result in the same standard of government services – rather, it equalises each state's capacity to provide the same standard of services. In calculating GST relativities, the Commission takes into account differences in the states' capacities to raise revenues and differences in the costs the states would incur in providing the same standard of government services, including through acquiring the infrastructure used to deliver those services.

A Determination on the GST revenue sharing relativities for 2014-15 was made in March 2014. The relativities for 2014-15 are shown in Table 33.

Table 33: GST relativities, 2014-15

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2014-15	0.97500	0.88282	1.07876	0.37627	1.28803	1.63485	1.23600	5.66061

Applying the GST relativities to the GST pool

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 2014 as determined by the Australian Statistician. Each state received its adjusted population share of the GST entitlement as shown in Table 34.

Table 34: Calculation of the 2014-15 GST entitlements^(a)

	Population as at 31 December 2014 (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	7,565,497	0.97500	7,376,360	31.3	17,019.8
VIC	5,886,436	0.88282	5,196,663	22.1	11,990.5
QLD	4,750,513	1.07876	5,124,663	21.8	11,824.3
WA	2,581,250	0.37627	971,247	4.1	2,241.0
SA	1,691,503	1.28803	2,178,707	9.3	5,027.0
TAS	515,235	1.63485	842,332	3.6	1,943.5
ACT	387,640	1.23600	479,123	2.0	1,105.5
NT	244,265	5.66061	1,382,689	5.9	3,190.3
Total	23,622,339	N/A	23,551,784	100.0	54,342.0

(a) The 2014-15 GST outcome will be finalised following a Determination by the Treasurer.

Table 35 provides a summary of advances made in 2014-15 against the states' estimated final entitlements shown in Table 34 above. The variance between advances paid in 2014-15 and the states' final entitlements will be paid in the 2015-16 financial year.

Table 35: Summary of advances made in 2014-15 and distribution of following year adjustment across states

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement	17,019.8	11,990.5	11,824.3	2,241.0	5,027.0	1,943.5	1,105.5	3,190.3	54,342.0
14-15 advances	16,897.2	11,902.2	11,746.4	2,242.9	4,986.3	1,928.0	1,098.3	3,198.7	54,000.0
Following year adjustment(a)	122.6	88.2	78.0	-1.9	40.7	15.5	7.2	-8.4	342.0

(a) The 2014-15 GST outcome will be finalised following a Determination by the Treasurer.

GST administration costs

The Commissioner of Taxation administers the GST law and the states compensate the Commonwealth for the costs incurred by the ATO in administering the GST, including costs incurred by the former Australian Customs and Border Protection Service, as shown in Table 36.

Table 36: GST administration, 2014-15

\$million	Actual	
	2013-14	2014-15
Australian Taxation Office budget	698.6	688.5
less Prior year adjustment	-11.0	8.2
<i>equals</i> State government administration payments	709.6	680.3
less Australian Taxation Office outcome(a)	690.4	681.1
<i>equals</i> Commonwealth budget impact	19.1	-0.8
<i>plus</i> Prior year adjustment	-11.0	8.2
<i>equals</i> Following year adjustment	8.2	7.4

(a) Estimated outcome for 2014-15 pending confirmation by the Australian National Audit Office.

Part 3: Australia's Federal Relations

The estimated outcome for the 2014-15 GST administration expenses of \$681.1 million differs from the amount paid by the states and the prior year adjustment by \$7.4 million. Once the outcome for GST administration costs in 2014-15 is audited and confirmed by the Australian National Audit Office, any adjustment required will be incorporated into the states' administration costs for 2015-16.