

## AUSTRALIA'S FEDERAL RELATIONS

This attachment provides information on payments for specific purposes and general revenue assistance provided to the States and Territories (the States).

The current framework for federal financial relations under the *Intergovernmental Agreement on Federal Financial Relations* (the Intergovernmental Agreement) was introduced on 1 January 2009.

The Commonwealth provides substantial funding to the States through both general revenue assistance and specific purpose payments.

More detailed information on the Intergovernmental Agreement and Australia's federal financial relations is provided in Budget Paper No. 3, *Federal Financial Relations 2015-16*, and at [www.federalfinancialrelations.gov.au](http://www.federalfinancialrelations.gov.au).

### Overview of payments to the States

Payments to the States in 2015-16 are estimated to be \$107.4 billion, or 24.8 per cent of total Commonwealth expenditure for the year. This amount comprises payments for specific purposes of \$49.3 billion and general revenue assistance of \$58.1 billion.

Table 3.25 shows payments for specific purposes and general revenue assistance to the States.

**Table 3.25: Commonwealth payments to the States, 2015-16 to 2018-19**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
<b>2015-16</b>									
Payments for specific purposes	14,662	11,474	10,008	5,419	3,468	1,138	761	1,249	49,257
General revenue assistance	17,451	12,832	13,024	1,922	5,556	2,249	1,075	3,286	58,094
<b>Total payments to the States</b>	<b>32,113</b>	<b>24,306</b>	<b>23,032</b>	<b>7,341</b>	<b>9,024</b>	<b>3,387</b>	<b>1,835</b>	<b>4,535</b>	<b>107,351</b>
<b>2016-17</b>									
Payments for specific purposes	16,915	11,552	11,627	5,729	3,777	1,211	832	1,134	54,386
General revenue assistance	18,075	13,366	14,847	1,647	6,153	2,331	1,123	3,324	61,489
<b>Total payments to the States</b>	<b>34,990</b>	<b>24,918</b>	<b>26,474</b>	<b>7,376</b>	<b>9,929</b>	<b>3,543</b>	<b>1,955</b>	<b>4,457</b>	<b>115,874</b>
<b>2017-18</b>									
Payments for specific purposes	16,101	11,482	11,311	5,734	3,536	1,060	779	973	52,239
General revenue assistance	18,940	14,041	16,194	1,337	6,511	2,421	1,205	3,183	64,391
<b>Total payments to the States</b>	<b>35,042</b>	<b>25,523</b>	<b>27,505</b>	<b>7,071</b>	<b>10,047</b>	<b>3,481</b>	<b>1,984</b>	<b>4,156</b>	<b>116,630</b>
<b>2018-19</b>									
Payments for specific purposes	15,485	11,656	10,545	5,693	3,453	1,077	792	749	50,718
General revenue assistance	19,935	14,855	16,841	1,559	6,682	2,459	1,254	3,225	67,256
<b>Total payments to the States</b>	<b>35,420</b>	<b>26,511</b>	<b>27,386</b>	<b>7,252</b>	<b>10,135</b>	<b>3,536</b>	<b>2,045</b>	<b>3,974</b>	<b>117,974</b>

(a) As state allocations for a number of programs have yet to be determined, relevant payments are not included in state totals. As such, total payments may not equal the sum of state totals.

### **Payments for specific purposes**

The Commonwealth provides payments to the States for specific purposes in areas administered by the States. Payments to the States for specific purposes will total \$49.3 billion in 2015-16, which is estimated to represent 11.4 per cent of total Commonwealth expenditure in 2015-16.

The Commonwealth provides the following types of Specific Purpose Payments (SPPs) to the States:

- National Specific Purpose Payments (National SPPs) in respect of key service delivery sectors;
- National Health Reform (NHR) funding, which commenced from 1 July 2012;
- Students First funding, which commenced from 1 January 2014; and
- National Partnership payments.

Table 3.26 shows total payments for specific purposes by category (National SPPs, NHR funding, Students First funding and National Partnership payments).

**Table 3.26: Total payments for specific purposes by category, 2015-16 to 2018-19**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
<b>2015-16</b>									
National Specific Purpose Payments	1,350	1,055	849	463	301	91	69	43	4,222
National Health Reform funding	5,243	4,134	3,284	1,831	1,188	349	321	174	16,525
Students First funding	4,812	3,924	3,298	1,579	1,126	365	265	288	15,658
National Partnership payments(b)	3,256	2,361	2,577	1,546	853	333	105	743	12,852
<b>Total payments for specific purposes</b>	<b>14,662</b>	<b>11,474</b>	<b>10,008</b>	<b>5,419</b>	<b>3,468</b>	<b>1,138</b>	<b>761</b>	<b>1,249</b>	<b>49,257</b>
<b>2016-17</b>									
National Specific Purpose Payments	1,378	1,081	868	476	305	92	71	44	4,314
National Health Reform funding	5,523	4,331	3,451	1,956	1,238	359	343	193	17,394
Students First funding	5,240	4,221	3,627	1,701	1,202	394	281	315	16,982
National Partnership payments(b)	4,775	1,919	3,681	1,597	1,031	366	138	582	15,695
<b>Total payments for specific purposes</b>	<b>16,915</b>	<b>11,552</b>	<b>11,627</b>	<b>5,729</b>	<b>3,777</b>	<b>1,211</b>	<b>832</b>	<b>1,134</b>	<b>54,386</b>
<b>2017-18</b>									
National Specific Purpose Payments	1,408	1,109	888	490	311	93	72	45	4,415
Public hospitals funding(c)	5,755	4,533	3,629	2,001	1,270	378	296	184	18,047
Students First funding(d)	5,541	4,466	3,808	1,897	1,277	404	294	310	17,999
National Partnership payments(b)	3,397	1,373	2,987	1,347	678	185	116	434	11,779
<b>Total payments for specific purposes</b>	<b>16,101</b>	<b>11,482</b>	<b>11,311</b>	<b>5,734</b>	<b>3,536</b>	<b>1,060</b>	<b>779</b>	<b>973</b>	<b>52,239</b>
<b>2018-19</b>									
National Specific Purpose Payments	1,440	1,139	909	504	316	93	74	46	4,522
Public hospitals funding(c)	5,987	4,734	3,778	2,095	1,315	388	308	191	18,796
Students First funding(d)	5,693	4,668	3,915	2,090	1,345	406	311	298	18,727
National Partnership payments(b)	2,365	1,115	1,943	1,003	477	189	99	215	8,673
<b>Total payments for specific purposes</b>	<b>15,485</b>	<b>11,656</b>	<b>10,545</b>	<b>5,693</b>	<b>3,453</b>	<b>1,077</b>	<b>792</b>	<b>749</b>	<b>50,718</b>

(a) As state allocations for a number of programmes have yet to be determined, relevant payments are not included in state totals. As such, total payments may not equal the sum of state totals.

(b) Includes financial assistance grants for local government.

(c) State allocations of public hospitals funding are shown on the basis of state population shares of total funding and are not adjusted for cross-border activity.

(d) State allocations from the 2018 school year onwards are indicative only, and final allocations are subject to formal negotiations between the Commonwealth, the States and the non-government sector.

The majority of payments for specific purposes relate to National SPPs, NHR funding and Students First funding, and total \$36.4 billion in 2015-16, an estimated increase of \$2.2 billion on the \$34.2 billion the States received in 2014-15.

Payments for specific purposes cover most areas of state and local government activity including health, education, skills and workforce development, community services, affordable housing, infrastructure and environment. Table 3.27 shows total payments for specific purposes by sector.

**Table 3.27: Payments for specific purposes by sector, 2015-16 to 2018-19**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
<b>2015-16</b>									
Health	5,374	4,381	3,389	1,901	1,218	406	328	268	17,267
Education	4,970	4,066	3,411	1,645	1,166	376	273	354	16,283
Skills and workforce development	587	458	372	201	131	40	30	19	1,838
Community services	478	823	351	421	116	34	28	245	2,496
Affordable housing	470	353	444	303	122	31	23	141	1,889
Infrastructure	2,082	787	1,641	767	486	156	36	183	7,167
Environment	254	269	73	8	130	49	6	9	812
Contingent payments	3	2	34	..	..	..	..	2	41
Other(b)	444	334	292	173	98	44	36	27	1,465
<b>Total payments for specific purposes</b>	<b>14,662</b>	<b>11,474</b>	<b>10,008</b>	<b>5,419</b>	<b>3,468</b>	<b>1,138</b>	<b>761</b>	<b>1,249</b>	<b>49,257</b>
<b>2016-17</b>									
Health	5,591	4,383	3,498	1,999	1,250	411	346	282	17,759
Education	5,394	4,344	3,737	1,759	1,239	406	289	367	17,561
Skills and workforce development	638	499	403	217	142	43	33	20	1,994
Community services	502	422	342	190	116	36	27	83	1,969
Affordable housing	475	359	427	261	118	31	24	220	1,915
Infrastructure	3,386	727	2,630	981	604	183	25	111	9,963
Environment	127	214	67	5	134	22	29	4	617
Contingent payments	..	..	7	..	..	-	-	1	8
Other(b)	803	604	515	318	174	80	60	44	2,598
<b>Total payments for specific purposes</b>	<b>16,915</b>	<b>11,552</b>	<b>11,627</b>	<b>5,729</b>	<b>3,777</b>	<b>1,211</b>	<b>832</b>	<b>1,134</b>	<b>54,386</b>
<b>2017-18</b>									
Health	5,802	4,569	3,664	2,021	1,280	396	298	217	18,247
Education	5,651	4,551	3,888	1,938	1,304	413	300	361	18,431
Skills and workforce development	479	377	302	166	106	31	25	15	1,501
Community services	527	450	361	205	122	38	29	80	2,077
Affordable housing	451	343	386	236	108	29	22	202	1,777
Infrastructure	2,289	480	2,126	835	402	70	12	50	7,202
Environment	82	86	54	1	36	2	30	2	329
Contingent payments	-	-	3	..	-	-	-	1	3
Other(b)	821	625	527	331	178	82	62	45	2,673
<b>Total payments for specific purposes</b>	<b>16,101</b>	<b>11,482</b>	<b>11,311</b>	<b>5,734</b>	<b>3,536</b>	<b>1,060</b>	<b>779</b>	<b>973</b>	<b>52,239</b>
<b>2018-19</b>									
Health	6,031	4,769	3,810	2,114	1,324	401	310	216	18,975
Education	5,693	4,668	3,915	2,090	1,345	406	311	338	18,766
Skills and workforce development	485	384	306	170	107	31	25	15	1,524
Community services	554	481	381	221	128	40	30	73	2,186
Affordable housing	441	349	278	154	97	29	23	18	1,388
Infrastructure	1,420	307	1,269	597	257	79	11	41	4,890
Environment	11	50	38	1	12	8	18	2	219
Contingent payments	-	-	-	-	-	-	-	-	-
Other(b)	850	649	547	346	183	84	64	46	2,769
<b>Total payments for specific purposes</b>	<b>15,485</b>	<b>11,656</b>	<b>10,545</b>	<b>5,693</b>	<b>3,453</b>	<b>1,077</b>	<b>792</b>	<b>749</b>	<b>50,718</b>

(a) As state allocations for a number of programmes have yet to be determined, relevant payments are not included in state totals. As such, total payments may not equal the sum of state totals.

(b) Includes financial assistance grants for local government.

Total payments for specific purposes by sector and category (National SPPs, NHR funding, Students First funding and National Partnership payments) are shown in Table 3.28.

**Table 3.28: Payments for specific purposes by sector and category, 2015-16 to 2018-19**

\$million	2015-16	2016-17	2017-18	2018-19
<i>Health</i>				
National Health Reform funding	16,525	17,394	-	-
Public hospitals funding	-	-	18,047	18,796
National Partnerships	743	366	200	179
<i>Education</i>				
Students First funding	15,658	16,982	17,999	18,727
National Partnerships	624	578	432	40
<i>Skills and workforce development</i>				
National Skills and Workforce Development SPP	1,455	1,478	1,501	1,524
National Partnerships	382	516	-	-
<i>Community services</i>				
National Disability SPP	1,442	1,492	1,550	1,613
National Partnerships	1,054	477	527	573
<i>Affordable housing</i>				
National Affordable Housing SPP	1,324	1,344	1,364	1,385
National Partnerships	565	571	413	4
<i>Infrastructure</i>				
National Partnerships	7,167	9,963	7,202	4,890
<i>Environment</i>				
National Partnerships	812	617	329	219
<i>Contingent payments</i>				
National Partnerships	41	8	3	-
<i>Other</i>				
National Partnerships(a)	1,465	2,598	2,673	2,769
<b>Total payments for specific purposes</b>	<b>49,257</b>	<b>54,386</b>	<b>52,239</b>	<b>50,718</b>

(a) Includes financial assistance grants for local government.

Detailed tables of payments for specific purposes are provided in Annex A (available online). This annex provides accrual estimates of Commonwealth payments to the States.

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 or not a state has completed eligible disaster reconstruction work or submitted an eligible claim under the NDRRA.

The estimated NDRRA cash payments are shown in Table 3.29 below (see Table A.8 in Annex A (available online) for accrual estimates).

**Table 3.29: Estimated NDRRA cash payments, 2015-16 to 2018-19**

\$'000	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2015-16	111,895	79,421	1,091,809	3,660	3,643	109	-	22,054	1,312,591
2016-17	1,095	50	226,404	2,205	50	-	-	48,672	278,476
2017-18	36	-	157,836	313	-	-	-	31,955	190,140
2018-19	-	-	-	-	-	-	-	-	-

### GST and general revenue assistance

General revenue assistance is provided to the States without conditions, and can be spent by the States according to their own budget priorities.

In 2015-16, the States will receive \$58.1 billion in general revenue assistance from the Commonwealth, comprising \$57.3 billion in GST entitlements and \$844.3 million in other general revenue assistance. This is a 4.8 per cent increase in general revenue assistance on the \$55.4 billion the States received in 2014-15. Total general revenue assistance to the States is estimated to represent 13.4 per cent of total Commonwealth expenditure in 2015-16.

GST entitlement estimates have been revised down since the 2015-16 Budget by \$2.4 billion over the four years to 2018-19.

Table 3.30 summarises GST and general revenue assistance payments to the States. Detailed tables of GST and general revenue assistance, including state shares of each payment, are provided in Annex A (available online).

**Table 3.30: GST and general revenue assistance, 2015-16 to 2018-19**

\$million	2015-16	2016-17	2017-18	2018-19
GST entitlements	57,250.0	60,720.0	63,690.0	66,670.0
Other payments				
<i>ACT municipal services</i>	38.5	39.1	39.7	40.3
<i>Reduced royalties</i>	32.0	31.7	28.2	22.7
<i>Royalties</i>	698.8	622.7	557.7	448.4
<i>Snowy Hydro Ltd tax compensation</i>	75.0	75.0	75.0	75.0
Total other	844.3	768.5	700.5	586.4
Total GST and other payments	58,094.3	61,488.5	64,390.5	67,256.4

### GST

#### GST entitlement variations since the 2015-16 Budget

Table 3.31 provides a reconciliation of the GST entitlement estimates since the 2015-16 Budget. The reconciliation accounts for policy decisions and parameter and other variations.

**Table 3.31: Reconciliation of GST entitlement estimates since the 2015-16 Budget**

\$million	2015-16	2016-17	2017-18	2018-19
GST entitlement at 2015-16 Budget	57,050	60,950	64,500	68,200
<i>Changes between 2015-16 Budget and MYEFO</i>				
Effect of policy decisions	2	11	14	14
Effect of parameter and other variations	198	-241	-824	-1,544
Total variations	200	-230	-810	-1,530
GST entitlement at 2015-16 MYEFO	57,250	60,720	63,690	66,670

Specific policy decisions taken since the 2015-16 Budget that affect the GST entitlement are shown in Table 3.32. These decisions increase the amount of the GST entitlement by \$41 million over four years.

Detailed information on policy decisions since the 2015-16 Budget is included in Appendix A.

**Table 3.32: Policy decisions since the 2015-16 Budget that affect the GST entitlement**

\$million	2015-16	2016-17	2017-18	2018-19
Indirect Tax Concession Scheme — diplomatic and consular concessions	..	..	..	..
Syrian and Iraqi Humanitarian Crisis	2.0	10.6	13.6	14.5
Total	2.0	10.6	13.6	14.5

#### Reconciling GST revenue and GST entitlements 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 receipts 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 financial 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

- a balancing adjustment 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.

The reconciliation of GST revenue and GST entitlements to the States is provided in Table 3.33.

**Table 3.33: Reconciling GST revenue and GST entitlements to the States**

\$million	Outcome	Estimates			
	2014-15	2015-16	2016-17	2017-18	2018-19
GST revenue	56,462	59,790	63,700	67,010	70,480
less Change in GST receivables	1,921	2,176	2,709	3,040	3,519
GST receipts	54,542	57,614	60,991	63,970	66,961
less Non-GIC penalties collected	237	250	270	280	290
less Net GST collected by Commonwealth agencies but not yet remitted to the ATO	-37	114	1	..	1
GST entitlements to the States	54,342	57,250	60,720	63,690	66,670

Table 3.34 below provides information on the balancing adjustment relating to 2014-15 which has been paid in 2015-16.

**Table 3.34: Balancing adjustment relating to 2014-15**

\$million	Total
GST entitlements to the States in 2014-15	54,342.0
less Advances of GST made throughout 2014-15	54,000.0
<i>equals</i> Following year balancing adjustment	342.0

#### Distribution of GST entitlement pool among the States

As agreed by all parties to the Intergovernmental Agreement, GST payments are distributed among the States in accordance with the principle of horizontal fiscal equalisation, having regard to the recommendations of the Commonwealth Grants Commission. The calculations for the distribution of the GST pool in 2015-16 are shown in Table 3.35.

**Table 3.35: Distribution of the GST entitlement pool, 2015-16<sup>(a)</sup>**

	Estimated 31 December 2015 population (1)	GST relativities (2)	Adjusted population (1) x (2) (3)	Share of adjusted population % (4)	2015-16 GST entitlement \$million (5)
NSW	7,667,528	0.94737	7,263,986	30.4	17,401.4
VIC	5,989,877	0.89254	5,346,205	22.4	12,807.2
QLD	4,821,821	1.12753	5,436,748	22.7	13,024.1
WA	2,629,341	0.29999	788,776	3.3	1,889.6
SA	1,706,930	1.35883	2,319,428	9.7	5,556.4
TAS	516,085	1.81906	938,790	3.9	2,248.9
ACT	393,232	1.10012	432,602	1.8	1,036.3
NT	246,247	5.57053	1,371,726	5.7	3,286.1
Total	23,971,061	na	23,898,261	100.0	57,250.0

(a) Total may not equal sum of state totals due to rounding.



Part 3: Fiscal strategy and outlook

The calculations for the distribution of the 2014-15 balancing adjustment are shown in Table 3.36. This adjustment has been paid to each state in 2015-16 following the upwards revision to the States' 2014-15 GST entitlements of \$342 million.

**Table 3.36: Distribution of the GST balancing adjustment, 2014-15<sup>(a)</sup>**

	31 December 2014 population (1)	GST relativities (2)	Adjusted population (1) x (2) (3)	Share of adjusted population % (4)	2014-15 GST entitlement \$million (5)	2014-15 GST advances \$million (6)	Balancing adjustment \$million (5) - (6) (7)
NSW	7,565,497	0.97500	7,376,360	31.3	17,019.8	16,897.2	122.6
VIC	5,886,436	0.88282	5,196,663	22.1	11,990.5	11,902.2	88.2
QLD	4,750,513	1.07876	5,124,663	21.8	11,824.3	11,746.4	78.0
WA	2,581,250	0.37627	971,247	4.1	2,241.0	2,242.9	-1.9
SA	1,691,503	1.28803	2,178,707	9.3	5,027.0	4,986.3	40.7
TAS	515,235	1.63485	842,332	3.6	1,943.5	1,928.0	15.5
ACT	387,640	1.23600	479,123	2.0	1,105.5	1,098.3	7.2
NT	244,265	5.66061	1,382,689	5.9	3,190.3	3,198.7	-8.4
Total	23,622,339	na	23,551,784	100.0	54,342.0	54,000.0	342.0

(a) Total may not equal sum of state totals due to rounding.

Table 3.37 shows the distribution of the GST entitlement over the current financial year and forward estimates.

**Table 3.37: Distribution of the GST entitlement over financial year and forward estimates**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2015-16	17,401.4	12,807.2	13,024.1	1,889.6	5,556.4	2,248.9	1,036.3	3,286.1	57,250.0
2016-17	18,025.0	13,341.3	14,847.1	1,615.4	6,152.6	2,331.3	1,083.7	3,323.7	60,720.0
2017-18	18,890.1	14,016.2	16,193.9	1,308.8	6,511.4	2,420.6	1,165.6	3,183.3	63,690.0
2018-19	19,885.0	14,829.8	16,840.6	1,536.0	6,681.9	2,458.7	1,213.3	3,224.8	66,670.0

GST administration costs

States compensate the Commonwealth for the costs incurred by the ATO in administering the GST, including costs incurred by the Department of Immigration and Border Protection, as shown in Table 3.38.

**Table 3.38: GST administration budget, 2014-15 to 2018-19**

\$million	Actual	Estimates			
	2014-15	2015-16	2016-17	2017-18	2018-19
Australian Taxation Office budget	688.5	679.6	617.1	597.8	587.6
less Prior year adjustment	8.2	7.4			
<i>equals</i> State government payments	680.3	672.2	617.1	597.8	587.6
less Australian Taxation Office outcome(a)	681.1				
<b><i>equals</i> Commonwealth budget impact</b>	<b>-0.8</b>				
plus Prior year adjustment	8.2				
<i>equals</i> Following year adjustment	7.4				

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

The preliminary outcome for 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 audit of the outcome for GST administration expenses in 2014-15 is completed, the final adjustment will be incorporated into the States' administration costs for 2015-16.