

PART 3: AUSTRALIA'S FEDERAL RELATIONS

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

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 can be found in Budget Paper No. 3, *Federal Financial Relations 2018-19* 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 2017-18, the Commonwealth provided the States with payments totalling \$120.3 billion, comprising specific purpose payments of \$56.1 billion and general revenue assistance (including GST entitlements) of \$64.2 billion, as shown in Table 25. Payments to the States constituted 26.1 per cent of total Commonwealth expenditure in 2017-18.

Table 25: Commonwealth payments to the States, 2017-18

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Payments for specific purposes	17,221	12,543	12,047	6,739	4,189	1,311	920	1,137	56,107
General revenue assistance	17,734	15,200	15,032	2,974	6,343	2,414	1,307	3,193	64,197
Total payments to the States	34,955	27,744	27,079	9,713	10,532	3,725	2,226	4,330	120,304

PAYMENTS FOR SPECIFIC PURPOSES

The Commonwealth provides payments to the States for specific purposes in policy areas administered by the States, including health, education, skills and workforce development, community services, housing, Indigenous affairs, infrastructure and the environment.

In 2017-18, the Commonwealth provided the following types of specific purpose payments to the States:

- National Specific Purpose Payments (National SPPs) in respect of housing, disability services and skills and workforce development;
- National Health Reform funding for public hospitals;
- Quality Schools funding for government and non-government schools; and
- National Partnership payments across a wide range of policy areas.

National SPPs, National Health Reform and Quality Schools funding

In 2017-18, the Commonwealth continued to provide funding for key service delivery sectors through National SPPs, National Health Reform funding and Quality Schools 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 were made in advance based on Commonwealth estimates of the relevant growth factors. A balancing adjustment is made after the end of the financial year once final growth factor data is 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.

The Commonwealth is working with all jurisdictions to implement the National Disability Insurance Scheme (NDIS). When the NDIS is fully implemented in a State, the Disability NSPP is redirected to the National Disability Insurance Agency.

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 growth in public hospital activity and the national efficient price determined by the Independent Hospital Pricing Authority. The amounts published are for payments made in respect of services delivered in 2017-18, and previous years. The Treasurer will determine the final amount and State allocations for 2017-18 following the Administrator's final reconciliation of activity data.

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

Quality Schools is a needs-based funding model introduced in the 2017-18 Budget that aims to improve the educational outcomes of Australian students. Funding is provided to government and non-government schools in all States, which includes recurrent funding, capital funding and special circumstances funding for non-government

schools, funding for non-government representative bodies and other prescribed-purpose funding.

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 2017-18, the States received \$56.1 billion in payments for specific purposes, which constituted 12.2 per cent of total Commonwealth expenditure.

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

Table 26: Total payments for specific purposes by category, 2017-18

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
National Specific Purpose									
Payments	1,407	1,135	883	460	307	93	48	44	4,377
National Health Reform funding(a)	6,022	5,022	4,289	2,174	1,349	424	386	271	19,936
Quality Schools Funding	5,732	4,557	3,934	1,796	1,257	426	306	350	18,357
National Partnership payments(b)	4,060	1,830	2,942	2,309	1,276	367	180	472	13,436
Total payments for specific purposes	17,221	12,543	12,047	6,739	4,189	1,311	920	1,137	56,107

(a) Entitlements for 2017-18 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) Includes financial assistance grants for local government.

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

Table 27: Total payments for specific purposes by sector and category, 2017-18

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
<i>Health</i>									
National Health Reform funding(a)	6,022	5,022	4,289	2,174	1,349	424	386	271	19,936
National Partnerships	85	63	27	225	19	35	2	44	500
Total health payments	6,107	5,085	4,316	2,399	1,367	459	388	315	20,437
<i>Education</i>									
Quality Schools Funding	5,732	4,557	3,934	1,796	1,257	426	306	350	18,357
National Partnerships	147	127	109	57	38	11	9	48	547
Total education payments	5,879	4,684	4,043	1,854	1,295	438	315	398	18,905
<i>Skills and workforce development</i>									
National Skills and Workforce Development SPP	478	386	300	156	104	32	25	15	1,495
National Partnerships	100	52	39	10	19	8	6	3	237
Total skills and workforce development payments	578	438	339	166	123	39	31	18	1,733
<i>Community services</i>									
National Disability SPP	495	399	310	162	108	33	-	15	1,522
National Partnerships	183	170	190	288	91	23	49	74	1,067
Total community services payments	678	569	500	450	199	56	49	89	2,588
<i>Affordable housing</i>									
National Affordable Housing SPP	435	351	273	142	95	29	23	14	1,360
National Partnerships	30	23	216	194	26	3	2	177	671
Total affordable housing payments	465	374	488	336	121	32	24	191	2,031
<i>Infrastructure</i>									
National Partnerships	2,611	537	1,646	1,169	799	152	9	68	6,990
<i>Environment</i>									
National Partnerships	55	207	36	6	83	45	40	5	477
<i>Contingent payments</i>									
National Partnerships	5	3	127	38	..	6	-	9	188
<i>Other</i>									
National Partnerships(b)	843	648	552	323	201	84	64	44	2,759
Total payments for specific purposes	17,221	12,543	12,047	6,739	4,189	1,311	920	1,137	56,107

(a) Entitlements for 2017-18 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) 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. Total cash payments in 2017-18 are presented in Table 28 below. See Table 43 in Attachment A for the expense outcome.

Table 28: NDRRA cash payments, 2017-18

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
NDRRA	104.5	-	173.6	2.7	4.0	34.4	..	15.6	334.9
Total	104.5	-	173.6	2.7	4.0	34.4	..	15.6	334.9

GENERAL REVENUE ASSISTANCE

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

In 2017-18, the States received \$64.2 billion in general revenue assistance from the Commonwealth, comprising \$63.1 billion in GST entitlements and \$1.1 billion of other general revenue assistance, as shown in Table 29. Total general revenue assistance to the States constituted 14.0 per cent of total Commonwealth expenditure in 2017-18.

Table 29: General revenue assistance, 2017-18

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement(a)	17,689.4	15,178.0	15,032.2	2,268.9	6,343.2	2,413.9	1,266.9	2,931.0	63,123.5
Other general revenue assistance									
<i>ACT municipal services</i>	-	-	-	-	-	-	39.6	-	39.6
<i>Commonwealth Assistance to the Northern Territory</i>	-	-	-	-	-	-	-	259.6	259.6
<i>Compensation for reduced royalties</i>	-	-	-	28.7	-	-	-	-	28.7
<i>Royalty payments</i>	-	-	-	676.2	-	-	-	2.6	678.9
<i>Snowy Hydro Limited tax compensation</i>	44.4	22.2	-	-	-	-	-	-	66.5
Total other general revenue assistance	44.4	22.2	-	704.9	-	-	39.6	262.2	1,073.2
Total general revenue assistance	17,733.8	15,200.2	15,032.2	2,973.8	6,343.2	2,413.9	1,306.5	3,193.3	64,196.7

(a) The 2017-18 GST outcome will be finalised following a Determination by the Treasurer. This figure reflects the most recent data received from the Australian Taxation Office.

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 2017-18, GST revenue was \$65.3 billion. A reconciliation of GST revenue and the States' GST entitlement is provided in Table 30.

Table 30: Reconciliation of GST revenue and the States' GST entitlement, 2017-18

\$million	Total
GST revenue	65,282
less Change in GST receivables	2,048
GST receipts	63,235
less Non-GIC penalties collected	142
less Net GST collected by Commonwealth agencies but not yet remitted to the ATO	-31
States' GST entitlement(a)	63,123

(a) The 2017-18 GST outcome will be finalised following a Determination by the Treasurer.

The Commonwealth made monthly payments (advances) to the States throughout 2017-18 based on GST estimates, as updated at the 2018-19 Budget. Estimates of the GST were used, as the actual amount of GST revenue for 2017-18 is not known until after the end of the financial year.

For 2017-18, the States' GST entitlement is expected to be \$63.1 billion. This is \$316.5 million lower than the advances paid during 2017-18. Once the Treasurer has made a Determination of the GST entitlement for 2017-18, 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 31 provides a reconciliation of the States' GST entitlement and GST advances.

Table 31: States' GST entitlement and GST advances, 2017-18

\$million	Total
States' GST entitlement(a)	63,123.5
less Advances of GST made throughout 2017-18	63,440.0
<i>equals</i> Balancing adjustment	-316.5

(a) The 2017-18 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 2017-18 in April 2017. The relativities for 2017-18 are shown in Table 32.

Table 32: GST relativities, 2017-18

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2017-18	0.87672	0.93239	1.18769	0.34434	1.43997	1.80477	1.19496	4.66024

The detailed calculation for the distribution of the GST entitlement in 2017-18 is shown in Table 33. 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 2017, as determined by the Australian Statistician.

Table 33: Calculation of the 2017-18 GST entitlements^(a)

	Population as at 31 December 2017 (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	7,915,069	0.87672	6,939,299	28.0	17,689.4
VIC	6,385,849	0.93239	5,954,102	24.0	15,178.0
QLD	4,965,033	1.18769	5,896,920	23.8	15,032.2
WA	2,584,768	0.34434	890,039	3.6	2,268.9
SA	1,728,053	1.43997	2,488,344	10.0	6,343.2
TAS	524,677	1.80477	946,921	3.8	2,413.9
ACT	415,916	1.19496	497,003	2.0	1,266.9
NT	246,726	4.66024	1,149,802	4.6	2,931.0
Total	24,766,091	na	24,762,431	100.0	63,123.5

(a) The 2017-18 GST outcome will be finalised following a Determination by the Treasurer.

Table 34 provides a summary of the advances made in 2017-18 against the States' estimated final entitlements shown in Table 33. The variance between advances paid in 2017-18 and the States' final entitlements will be included as an adjustment to payments in the 2018-19 financial year.

Table 34: Summary of GST advances made in 2017-18 and distribution of the balancing adjustment across States^(a)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement	17,689.4	15,178.0	15,032.2	2,268.9	6,343.2	2,413.9	1,266.9	2,931.0	63,123.5
17-18 advances	17,791.3	15,267.7	15,109.7	2,285.1	6,374.5	2,417.5	1,266.4	2,927.8	63,440.0
Balancing adjustment	-101.9	-89.7	-77.5	-16.2	-31.3	-3.6	0.5	3.2	-316.5

(a) The 2017-18 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 Home Affairs, as shown in Table 35.

Table 35: GST administration, 2017-18

\$million	Actual	
	2016-17	2017-18
Australian Taxation Office budget	682.4	631.1
less Prior year adjustment	-	-
<i>equals</i> State government administration payments	682.4	631.1
less Australian Taxation Office outcome(a)	682.4	631.1
<i>equals</i> Commonwealth budget impact	-	-
plus Prior year adjustment	-	-
<i>equals</i> Following year adjustment	-	-

(a) Estimated outcome for 2017-18 pending confirmation by the Australian National Audit Office.

The estimated outcome for the 2017-18 GST administration expense is \$631.1 million.