

Attachment D

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.

More detailed information on the Intergovernmental Agreement and Australia's federal financial relations is provided in Budget Paper No. 3, *Federal Financial Relations 2018-19*, and at www.federalfinancialrelations.gov.au.

Overview of payments to the states

Payments to the states in 2018-19 are estimated to be \$126.7 billion, or 26.0 per cent of total Australian Government expenditure for the year. This amount comprises payments for specific purposes of \$59.0 billion and general revenue assistance of \$67.7 billion.

Table 3.24 shows payments for specific purposes and general revenue assistance to the states.

Table 3.24: Australian Government payments to the states, 2018-19 to 2021-22

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2018-19									
Payments for specific purposes(a)	17,115	14,000	13,635	6,021	4,119	1,344	958	1,269	59,044
GST entitlement	18,257	17,074	14,630	3,271	6,815	2,469	1,322	2,792	66,630
Other general revenue assistance(c)(d)	50	25	-	38	-	-	40	-	1,073
Total payments to the states	35,422	31,099	28,265	9,330	10,934	3,813	2,321	4,061	126,747
2019-20									
Payments for specific purposes(a)	17,419	13,541	12,528	6,842	3,931	1,230	919	1,195	58,339
GST entitlement(b)	~	~	~	~	~	~	~	~	69,010
Other general revenue assistance(c)(d)	-	-	-	855	-	-	41	69	1,802
Total payments to the states	17,419	13,541	12,528	7,697	3,931	1,230	960	1,264	129,151
2020-21									
Payments for specific purposes(a)	17,808	14,154	13,423	6,285	3,766	1,286	970	1,165	59,542
GST entitlement(b)	~	~	~	~	~	~	~	~	72,600
Other general revenue assistance(c)(d)	-	-	-	624	-	-	41	-	1,435
Total payments to the states	17,808	14,154	13,423	6,909	3,766	1,286	1,012	1,165	133,577

Table 3.24: Australian Government payments to the states, 2018-19 to 2021-22 (continued)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2021-22									
Payments for specific purposes(a)	18,244	14,865	14,261	6,634	3,819	1,361	1,027	1,175	61,938
GST entitlement(b)	~	~	~	~	~	~	~	~	77,020
Other general revenue assistance(c)(d)	-	-	-	341	-	-	42	-	1,145
Total payments to the states	18,244	14,865	14,261	6,975	3,819	1,361	1,069	1,175	140,103

(a) State allocations for some programs have yet to be determined. These payments are not included in state totals, and consequently, total payments may not equal the sum of state totals.

(b) State allocations are dependent upon the GST revenue sharing relativities for that financial year. These relativities are not forecast beyond the Budget year.

(c) State allocations for royalties are not published due to commercial sensitivities. These payments are not included in state totals, and consequently, total payments may not equal the sum of state totals.

(d) Estimates of the transitional GST top-up payments included within 'other general revenue assistance' reflect those presented to the Parliament alongside the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Bill 2018*.

Payments for specific purposes

The Australian Government provides payments to the states for specific purposes in areas administered by the states. Payments to the states for specific purposes are estimated to total \$59.0 billion in 2018-19, which is 12.1 per cent of total Australian Government expenditure for the year and an increase of \$2.9 billion (or 5.0 per cent) on the \$56.1 billion the states received in 2017-18.

The Australian Government 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 – disability services, and skills and workforce development;
- National Health Reform funding, largely for public hospital services;
- Quality Schools funding for government and non-government schools;
- National Housing and Homelessness funding for improved housing outcomes; and
- National Partnership payments in a wide range of areas.

Table 3.25 shows total payments for specific purposes by type of SPP.

Table 3.25: Total payments for specific purposes by category, 2018-19 to 2021-22

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2018-19									
National Specific Purpose Payments	485	811	626	324	105	65	25	31	2,473
National Health Reform funding	6,596	5,091	5,075	2,240	1,311	432	402	274	21,422
Quality Schools funding(b)	6,115	4,897	4,239	1,957	1,363	452	330	367	19,720
National Housing and Homelessness funding	477	395	313	164	107	33	26	20	1,536
National Partnership payments(c)	3,442	2,806	3,381	1,336	1,232	361	174	577	13,892
Total payments for specific purposes	17,115	14,000	13,635	6,021	4,119	1,344	958	1,269	59,044
2019-20									
National Specific Purpose Payments	493	402	308	332	106	32	26	15	1,714
National Health Reform funding	6,740	5,529	4,877	2,352	1,398	444	410	313	22,063
Quality Schools funding(b)	6,473	5,237	4,542	2,105	1,439	472	341	387	20,996
National Housing and Homelessness funding	486	406	319	167	109	33	27	20	1,566
National Partnership payments(c)	3,227	1,967	2,482	1,886	881	249	115	461	12,000
Total payments for specific purposes	17,419	13,541	12,528	6,842	3,931	1,230	919	1,195	58,339
2020-21									
National Specific Purpose Payments	502	411	312	160	106	32	26	15	1,565
National Health Reform funding	7,065	5,791	5,102	2,496	1,455	460	438	337	23,143
Quality Schools funding(b)	6,963	5,684	4,922	2,300	1,542	499	365	411	22,685
National Housing and Homelessness funding	495	418	325	170	110	34	27	20	1,599
National Partnership payments(c)	2,784	1,851	2,761	1,160	552	260	114	383	10,550
Total payments for specific purposes	17,808	14,154	13,423	6,285	3,766	1,286	970	1,165	59,542
2021-22									
National Specific Purpose Payments	510	420	317	162	107	32	27	15	1,589
National Health Reform funding	7,426	6,073	5,390	2,648	1,514	476	467	367	24,361
Quality Schools funding(b)	7,370	6,094	5,212	2,470	1,632	522	385	429	24,116
National Housing and Homelessness funding	495	405	318	163	107	32	26	19	1,566
National Partnership payments(c)	2,443	1,872	3,023	1,191	459	298	123	344	10,306
Total payments for specific purposes	18,244	14,865	14,261	6,634	3,819	1,361	1,027	1,175	61,938

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

(b) State allocations from the 2019 school year onwards are indicative only and final allocations are subject to formal negotiations between the Australian Government, the states and the non-government schools sector.

(c) Includes financial assistance grants for local government.

Part 3: Fiscal strategy and outlook

In addition to National Health Reform funding, the Government is providing \$1.25 billion over four years from 2018-19 to establish a Community Health and Hospitals Program. The Program will fund projects and services to support patient care while reducing pressure on community and hospital services. Under the program, the Government will partner with communities, the states, health and hospital service providers, and research institutions.

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 the environment. Table 3.26 shows total payments for specific purposes by sector.

Table 3.26: Payments for specific purposes by sector, 2018-19 to 2021-22

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2018-19									
Health	6,688	5,141	5,161	2,277	1,370	460	422	303	21,825
Education	6,251	5,031	4,345	2,012	1,399	464	341	410	20,255
Skills and workforce development	485	393	304	157	105	35	25	15	1,813
Community services	581	1,643	1,256	304	296	154	32	123	4,389
Affordable housing	478	395	313	285	107	33	26	157	1,795
Infrastructure	2,036	888	1,684	792	644	125	57	217	6,449
Environment	121	145	75	10	76	26	18	16	636
Contingent payments	1	2	145	3	..	1	-	1	153
Other(b)	474	362	351	180	122	46	38	27	1,729
Total payments for specific purposes	17,115	14,000	13,635	6,021	4,119	1,344	958	1,269	59,044
2019-20									
Health	6,762	5,551	4,895	2,364	1,403	456	413	342	22,308
Education	6,574	5,336	4,623	2,147	1,467	481	349	428	21,405
Skills and workforce development	493	402	308	159	106	32	26	15	1,833
Community services	609	245	199	749	74	24	17	55	1,970
Affordable housing	486	406	319	167	109	33	27	134	1,681
Infrastructure	1,562	860	1,552	917	575	113	21	175	5,775
Environment	48	53	38	1	11	5	..	1	367
Contingent payments	..	..	11	2	..	..	-	1	13
Other(b)	884	687	584	337	187	87	66	46	2,986
Total payments for specific purposes	17,419	13,541	12,528	6,842	3,931	1,230	919	1,195	58,339
2020-21									
Health	7,080	5,811	5,113	2,503	1,460	464	439	364	23,299
Education	6,974	5,696	4,940	2,308	1,550	502	366	441	22,778
Skills and workforce development	502	411	312	160	106	32	26	15	1,904
Community services	620	254	206	95	76	24	17	45	1,337
Affordable housing	495	418	325	170	110	34	27	134	1,714
Infrastructure	1,257	861	1,954	731	287	143	32	125	5,390
Environment	43	50	42	1	4	5	-	1	364
Contingent payments	..	..	3	-	-	-	-	-	3
Other(b)	838	653	528	317	172	82	63	39	2,755
Total payments for specific purposes	17,808	14,154	13,423	6,285	3,766	1,286	970	1,165	59,542

Table 3.26: Payments for specific purposes by sector, 2018-19 to 2021-22 (continued)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2021-22									
Health	7,434	6,079	5,396	2,651	1,543	481	468	392	24,459
Education	7,381	6,107	5,231	2,478	1,640	524	386	459	24,207
Skills and workforce development	510	420	317	162	107	32	27	15	1,888
Community services	632	263	213	104	79	25	18	47	1,380
Affordable housing	495	405	318	163	107	32	26	133	1,680
Infrastructure	885	902	2,205	745	164	176	38	87	5,202
Environment	36	5	35	1	1	5	-	1	322
Contingent payments	..	-	-	-	-	-	-	-	..
Other(b)	871	684	547	329	179	85	65	41	2,801
Total payments for specific purposes	18,244	14,865	14,261	6,634	3,819	1,361	1,027	1,175	61,938

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

(b) Includes financial assistance grants for local government.

Table 3.27 shows total payments for specific purposes by sector and category (National SPPs, National Health Reform funding, Quality Schools funding, National Housing and Homelessness, and National Partnership payments).

Table 3.27: Payments for specific purposes by sector and category, 2018-19 to 2021-22

\$million	2018-19	2019-20	2020-21	2021-22
<i>Health</i>				
National Health Reform funding	21,422	22,063	23,143	24,361
National Partnerships	403	246	156	97
<i>Education</i>				
Quality Schools funding	19,720	20,996	22,685	24,116
National Partnerships	534	409	93	91
<i>Skills and workforce development</i>				
National Skills and Workforce Development SPP	1,517	1,540	1,565	1,589
National Partnerships	297	293	338	298
<i>Community services</i>				
National Disability SPP	956	174	-	-
National Partnerships	3,433	1,796	1,337	1,380
<i>Affordable housing</i>				
National Housing and Homelessness funding	1,536	1,566	1,599	1,566
National Partnerships	259	115	115	115
<i>Infrastructure</i>				
National Partnerships	6,449	5,775	5,390	5,202
<i>Environment</i>				
National Partnerships	636	367	364	322
<i>Contingent payments</i>				
National Partnerships	153	13	3	..
<i>Other</i>				
National Partnerships(a)	1,729	2,986	2,755	2,801
Total payments for specific purposes	59,044	58,339	59,542	61,938

(a) Includes financial assistance grants for local government.

Part 3: Fiscal strategy and outlook

Detailed tables of payments for specific purposes are provided in Annex A (available online).

The Australian Government provides funding under the Natural Disaster Relief and Recovery Arrangements (NDRRA) to assist the states following natural disasters. For accounting purposes, the Australian Government 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 reconstruction work or submitted an eligible claim under the NDRRA. Estimated NDRRA cash payments are shown in Table 3.28 below. Accrual estimates are presented in Table A.8 in Annex A (available online).

Table 3.28: Estimated NDRRA cash payments, 2018-19 to 2021-22

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2018-19	26.7	51.6	122.6	66.7	2.3	22.4	-	30.5	322.7
2019-20	0.8	8.6	403.5	74.3	-	4.2	-	27.1	518.5
2020-21	-	0.7	134.9	-	-	-	-	-	135.5
2021-22	-	-	-	-	-	-	-	-	-

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 2018-19, the states are expected to receive \$67.7 billion in general revenue assistance from the Australian Government, comprising \$66.6 billion in goods and services tax (GST) entitlements and \$1.1 billion in other general revenue assistance. This is a 5.2 per cent increase in general revenue assistance on the \$64.2 billion the states received in 2017-18. General revenue assistance to the states is estimated to represent 13.9 per cent of total Australian Government expenditure in 2018-19.

Table 3.29 summarises GST and other general revenue assistance payments to the states. Detailed tables of GST and other general revenue assistance are provided in Annex A (available online).

Table 3.29: General revenue assistance, 2018-19 to 2021-22

\$million	2018-19	2019-20	2020-21	2021-22
GST entitlements	66,630.0	69,010.0	72,600.0	77,020.0
Other payments				
<i>ACT municipal services</i>	40.1	40.7	41.4	42.0
<i>Compensation for reduced royalties</i>	38.2	40.8	38.9	35.5
<i>Royalties</i>	920.1	838.0	769.9	762.3
<i>Snowy Hydro Ltd tax compensation</i>	75.0	-	-	-
<i>Transitional GST top-up payments(a)</i>	-	882.8	585.0	305.5
Total other	1,073.5	1,802.3	1,435.2	1,145.3
Total GST and other payments	67,703.5	70,812.3	74,035.2	78,165.3

(a) Estimates reflect those presented to the Parliament alongside the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Bill 2018*.

GST payments

Under the *Federal Financial Relations Act 2009*, the states are entitled to receive payments from the Australian Government equivalent to the revenue raised from the GST in any given financial year, after some minor adjustments, as discussed below. From 2021-22, the states' GST entitlements will also be boosted each year by additional Australian Government funding, as discussed below.

The Australian Government makes monthly payments (advances) to the states throughout the year based on GST estimates for that year. Estimates of the GST are used as the actual amount of GST revenue for the financial year is unknown until after the end of the financial year. Once the amount of GST revenue is known, the Treasurer makes a determination of the GST entitlement for that year. A balancing adjustment payment is then made to each state to ensure the states receive the GST payments to which they are entitled. These balancing adjustments (referred to as the 'prior year balancing adjustment') are made in the following financial year.

States compensate the Australian Government for the agreed costs incurred by the Australian Taxation Office (ATO) in administering the GST. In practice, this is achieved by the Australian Government reducing the monthly GST payments to the states by the GST administration costs.

Calculating the GST payments

Some additional 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 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 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 Australian Government 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.
- From 2021-22, the Australian Government will also boost the states' GST entitlement each year with additional funding. In 2021-22, the Australian Government will inject \$600 million into the GST entitlement, followed by a further \$250 million in 2024-25. Each year, these boosts will grow in line with the underlying growth of the GST and be distributed to the states in the same way as the GST revenue.

Part 3: Fiscal strategy and outlook

A reconciliation of GST revenue and the states' GST entitlement is provided in Table 3.30.

Table 3.30: Reconciling GST revenue and the states' GST entitlement

\$million	2018-19	2019-20	2020-21	2021-22
GST revenue	69,180	71,650	75,437	79,425
<i>less</i> Change in GST receivables	2,391	2,455	2,674	2,834
GST receipts	66,789	69,195	72,763	76,590
<i>less</i> Non-GIC penalties collected	140	160	160	170
<i>less</i> GST collected by Commonwealth agencies but not yet remitted to the ATO	19	25	3	0
<i>plus</i> GST pool boost	0	0	0	600
States' GST entitlement	66,630	69,010	72,600	77,020

Table 3.31 provides a reconciliation of estimates of the states' GST entitlement since the 2018-19 Budget. The reconciliation accounts for policy decisions and parameter and other variations.

Table 3.31: Reconciliation of the GST entitlement estimates since the 2018-19 Budget

\$million	2018-19	2019-20	2020-21	2021-22
GST entitlement at 2018-19 Budget	67,320	69,790	73,510	77,270
<i>Changes between 2018-19 Budget and 2018-19 MYEFO</i>				
Effect of policy decisions	-15	653	786	1,496
Effect of parameter and other variations	-675	-1,433	-1,696	-1,746
Total variations	-690	-780	-910	-250
GST entitlement at 2018-19 MYEFO	66,630	69,010	72,600	77,020

Specific policy decisions taken since the 2018-19 Budget that affect the GST entitlement are shown in Table 3.32. These decisions increase the amount of the GST entitlement by \$2.9 billion over four years.

Detailed information on policy decisions since the 2018-19 Budget is included in Appendix A.

Table 3.32: Policy decisions since the 2018-19 Budget that affect the GST entitlement

\$million	2018-19	2019-20	2020-21	2021-22
Indirect Tax Concession Scheme – diplomatic and consular concessions	..	..	..	..
GST – compliance program – four year extension	0.0	646.6	775.6	880.2
Tax Integrity – Disclosure of business tax debts – amendments	-15.0	0.0	-2.5	-2.5
Tax Compliance – extending the Serious Financial Crime Taskforce	0.0	1.0	2.8	4.0
Changes to the Working Holiday Makers visa programme	15.0	45.0	50.0	55.0
Changes to the Seasonal Worker Programme	0.1	0.5	0.5	..
Expansion of the Pacific Labour Scheme	0.0	0.0	1.0	3.0
GST and feminine hygiene products	-15.0	-30.0	-30.0	-30.0
Square Kilometre Array Radio Telescope Project – further investment to support critical research infrastructure	0.0	0.0	-1.0	-4.0
GST pool boosts	0.0	0.0	0.0	600.0
<i>Decisions taken but not yet announced</i>	0.0	-10.0	-10.0	-10.0
Total	-14.9	653.1	786.4	1,495.7

Distribution of the GST among the states

The Australian Government distributes the GST among the states based on the GST revenue sharing relativities recommended by the Commonwealth Grants Commission. From 2021-22, the horizontal fiscal equalisation system will progressively transition over six years to a more stable and predictable equalisation standard, based on the fiscal capacity of the stronger of New South Wales or Victoria. This change will reduce volatility in states' GST payments, making it more predictable for the states and easier for them to manage their budgets.

During this transition phase, the Australian Government has also guaranteed that each state will get the cumulative better of the old or the new system.

Table 3.33 shows the detailed calculation for the distribution of the states' estimated GST entitlement in 2018-19. This method of calculation is prescribed in legislation in the *Federal Financial Relations Act 2009*.

Table 3.33: Distribution of the GST entitlement, 2018-19^(a)

	Estimated 31 December 2018 population (1)	GST relativities (2)	Adjusted population (1) x (2) (3)	Share of adjusted population % (4)	2018-19 GST entitlement \$million (5)
NSW	8,067,627	0.85517	6,899,193	27.4%	18,256.7
VIC	6,539,039	0.98670	6,452,070	25.6%	17,073.5
QLD	5,045,207	1.09584	5,528,740	22.0%	14,630.2
WA	2,614,110	0.47287	1,236,134	4.9%	3,271.1
SA	1,743,320	1.47727	2,575,354	10.2%	6,814.9
TAS	528,012	1.76706	933,029	3.7%	2,469.0
ACT	423,244	1.18070	499,724	2.0%	1,322.4
NT	247,793	4.25816	1,055,142	4.2%	2,792.1
Total	25,208,352	n/a	25,179,386	100.0%	66,630.0

(a) Amounts shown are estimates of each state's GST entitlement, based on the estimated total GST entitlement and state populations. These amounts do not take into account the estimated 2017-18 balancing adjustment of -\$316.5 million, which once finalised following a Determination by the Treasurer, will be made to states' GST payments in 2018-19.

The calculation of the estimated GST entitlement for 2017-18 is shown in Table 3.34. The table also includes the estimated distribution of the balancing adjustment, taking account of differences between advances of GST paid to each state and each state's estimated entitlement for 2017-18.

Table 3.34: Calculation of the estimated GST entitlement and balancing adjustment, 2017-18^(a)

	31 December 2017 population (1)	GST relativities (2)	Adjusted population (1) x (2) (3)	Share of adjusted population % (4)	2017-18 GST entitlement \$million (5)	2017-18 GST advances \$million (6)	Balancing adjustment \$million (5) - (6) (7)
NSW	7,915,069	0.87672	6,939,299	28.0%	17,689.4	17,791.3	-101.9
VIC	6,385,849	0.93239	5,954,102	24.0%	15,178.0	15,267.7	-89.7
QLD	4,965,033	1.18769	5,896,920	23.8%	15,032.2	15,109.7	-77.5
WA	2,584,768	0.34434	890,039	3.6%	2,268.9	2,285.1	-16.2
SA	1,728,053	1.43997	2,488,344	10.0%	6,343.2	6,374.5	-31.3
TAS	524,677	1.80477	946,921	3.8%	2,413.9	2,417.5	-3.6
ACT	415,916	1.19496	497,003	2.0%	1,266.9	1,266.4	0.5
NT	246,726	4.66024	1,149,802	4.6%	2,931.0	2,927.8	3.2
Total	24,766,091	n/a	24,762,431	100.0%	63,123.5	63,440.0	-316.5

(a) The 2017-18 GST outcome will be finalised following a Determination by the Treasurer. These amounts do not take into account the 2016-17 balancing adjustment of \$605.5 million which was made in 2017-18.

GST administration

States compensate the Australian Government for the costs incurred by the ATO in administering the GST, including costs incurred by the Department of Home Affairs. The GST administration budget for the ATO is estimated to be \$599.2 million for 2018-19, as shown in Table 3.35.

Table 3.35: GST administration budget

\$million	Actual		Estimates		
	2017-18	2018-19	2019-20	2020-21	2021-22
Administration budget at 2018-19 Budget	631.1	599.2	530.8	496.9	499.0
Changes from 2018-19 Budget to MYEFO					
GST compliance program – four year extension(a)	-	-	116.3	115.6	116.0
Parameter variations	-	-	-	-	-
Other variations	-	-	-	-	-
Total variations	-	-	116.3	115.6	116.0
Administration budget at 2018-19 MYEFO	631.1	599.2	647.1	612.5	615.0
less Prior year adjustment	-	-	-	-	-
equals State government payments(b)	631.1	599.2	647.1	612.5	615.0

(a) Further information on the GST compliance program – four year extension can be found in Appendix A: Policy Decisions Taken Since the 2018-19 Budget.

(b) The GST administration costs for 2017-18 and 2018-19 were capped at the 2016-17 Budget estimate as the ATO reviews its methodologies.