

Part 3: Australia's Federal Financial 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.

Australian Government 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 2019-20* 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 Australian Government. In 2019-20, the Australian Government provided the states with payments totalling \$125.8 billion, comprising specific purpose payments of \$63.8 billion and general revenue assistance (including GST entitlements) of \$62.0 billion, as shown in Table 25. Payments to the states constituted 21.7 per cent of total Australian Government expenditure in 2019-20.

Table 25: Australian Government payments to the states, 2019-20

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Payments for specific purposes	20,623	15,254	13,342	6,637	4,252	1,356	1,045	1,257	63,766
General revenue assistance	16,723	15,453	12,780	4,732	6,095	2,229	1,291	2,724	62,028
Total payments to the states	37,346	30,707	26,122	11,369	10,347	3,586	2,336	3,981	125,795

Payments for specific purposes

The Australian Government 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 2019-20, the Australian Government provided the following types of specific purpose payments to the states:

- National Specific Purpose Payments (National SPPs) in respect of disability services and skills and workforce development

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- National Health Reform funding for public hospitals and COVID-19 response
- Quality Schools funding for government and non-government schools
- National Housing and Homelessness funding
- National Partnership payments across a wide range of policy areas.

National SPPs, National Health Reform, Quality Schools and National Housing and Homelessness funding

In 2019-20, the Australian Government continued to provide funding for key service delivery sectors through National SPPs, National Health Reform funding, Quality Schools funding and National Housing and Homelessness funding. The National SPPs are:

- the National Skills and Workforce Development SPP
- the National Disability 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 Australian Government 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.

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 2019-20, and previous years. The Treasurer will determine the final amount and state allocations for 2019-20 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.

Payments made throughout the year for National Housing and Homelessness were made in advance based on Australian Government 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.

National Housing and Homelessness funding was introduced in 2018-19 and is made up of a general funding component and a homelessness funding component which is matched by the states. The general funding is allocated to the states in accordance with population shares based on the Australian Statistician's determination as at 31 December of that year. The homelessness funding is allocated in accordance with the state's share of total homelessness based on 2006 Australian Bureau of Statistics Census homelessness estimates.

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 2019-20, the states received \$63.8 billion in payments for specific purposes, which constituted 11.0 per cent of total Australian Government expenditure. Total payments for specific purposes by category are in shown Table 26.

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Table 26: Total payments for specific purposes by category, 2019-20

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
National Specific Purpose Payments	490	401	309	334	106	32	26	15	1,713
National Health Reform funding(a)	8,028	6,622	5,353	2,590	1,610	520	476	317	25,516
Quality Schools funding	6,914	5,408	4,731	2,292	1,709	493	357	403	22,307
National Housing and Homelessness funding	483	405	321	167	109	34	26	20	1,565
National Partnership payments(b)	4,708	2,417	2,628	1,255	717	277	160	502	12,666
Total payments for specific purposes	20,623	15,254	13,342	6,637	4,252	1,356	1,045	1,257	63,766

(a) Entitlements for 2019-20 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 governments.

Total payments for specific purposes by sector and category are shown in Table 27.

Table 27: Total payments for specific purposes by sector and category, 2019-20

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
<i>Health</i>									
National Health Reform funding(a)	8,028	6,622	5,353	2,590	1,610	520	476	317	25,516
National Partnerships	60	51	42	27	24	37	9	31	280
Total health payments	8,087	6,673	5,395	2,616	1,634	557	485	348	25,795
<i>Education</i>									
Quality Schools funding	6,914	5,408	4,731	2,292	1,709	493	357	403	22,307
National Partnerships	148	147	105	58	39	13	12	40	563
Total education payments	7,062	5,555	4,837	2,350	1,748	506	369	443	22,870
<i>Skills and workforce development</i>									
National Skills and Workforce Development SPP									
Development SPP	490	401	309	159	106	32	26	15	1,539
National Partnerships	105	-	-	36	23	10	6	3	183
Total skills and workforce development payments	595	401	309	195	129	42	32	18	1,721
<i>Community services</i>									
National Disability SPP									
National Disability SPP	-	-	-	174	-	-	-	-	174
National Partnerships	648	251	557	32	76	24	49	59	1,696
Total community services payments	648	251	557	206	76	24	49	59	1,870
<i>Affordable housing</i>									
National Housing and Homeslessness funding									
National Housing and Homeslessness funding	483	405	321	167	109	34	26	20	1,565
National Partnerships	..	-	-	-	-	-	-	86	86
Total affordable housing payments	483	405	321	167	109	34	26	106	1,651
<i>Infrastructure</i>									
National Partnerships	1,446	1,040	1,347	616	206	112	12	200	4,979
<i>Environment</i>									
National Partnerships	45	63	66	9	68	24	3	13	291
<i>Contingent payments</i>									
National Partnerships	1,360	165	-113	130	90	-33	1	20	1,621
<i>Other</i>									
National Partnerships(b)	896	700	624	348	192	90	69	48	2,967
Total payments for specific purposes	20,623	15,254	13,342	6,637	4,252	1,356	1,045	1,257	63,766

(a) Entitlements for 2019-20 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 governments.

The Disaster Recovery Funding Arrangements and the Natural Disaster Relief and Recovery Arrangements

The Australian Government provides funding under the Disaster Recovery Funding Arrangements (DRFA) and the Natural Disaster Relief and Recovery Arrangements (NDRRA) to assist the states in relief and recovery efforts following eligible natural disasters.

Table 28 shows total cash payments made in 2019-20.

Table 28: DRFA and NDRRA cash payments, 2019-20

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
DRFA and NDRRA	674.6	126.3	506.9	-	33.7	21.9	..	11.4	1,374.8
Total	674.6	126.3	506.9	-	33.7	21.9	..	11.4	1,374.8

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 DRFA and the NDRRA. This is regardless of whether a state has completed eligible disaster reconstruction work or submitted an eligible claim. See Table 43 in Attachment A for the expense outcome.

General revenue assistance

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

In 2019-20, the states received \$62.0 billion in general revenue assistance from the Australian Government, comprising \$60.2 billion in GST entitlements and \$1.8 billion of other general revenue assistance (Table 29). Total general revenue assistance to the states constituted 10.7 per cent of total Australian Government expenditure in 2019-20.

Table 29: General revenue assistance, 2019-20

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement(a)	16,723.2	15,453.4	12,780.0	3,234.7	6,095.4	2,229.2	1,250.6	2,469.4	60,235.9
Other payments									
ACT municipal services	-	-	-	-	-	-	40.7	-	40.7
Compensation for reduced royalties	-	-	-	19.2	-	-	-	-	19.2
Royalty payments	-	-	-	663.6	-	-	-	2.7	666.2
Transitional GST top-up payments(b)	-	-	-	814.2	-	-	-	252.1	1,066.3
Total other general revenue assistance	-	-	-	1,497.0	-	-	40.7	254.8	1,792.4
Total	16,723.2	15,453.4	12,780.0	4,731.6	6,095.4	2,229.2	1,291.3	2,724.2	62,028.3

(a) The 2019-20 GST outcome will be finalised following a Determination by the Treasurer. This figure reflects the most recent data received from the Australian Taxation Office.

(b) The Government paid Western Australia the balance of its \$1.2 billion 2019-20 top-up payment following a partial pre-payment of \$434 million in 2018-19.

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, subject to some minor adjustments as discussed below.

- 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 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.

In 2019-20, 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, 2019-20

\$million	Total
GST revenue	65,287.2
less Change in GST receivables	5,023.9
GST receipts	60,263.3
less Non-GIC penalties collected	60.2
less Net GST collected by Commonwealth agencies but not yet remitted to the ATO	-32.8
States' GST entitlement(a)	60,235.9

(a) The 2019-20 GST outcome will be finalised following a Determination by the Treasurer.

The Australian Government made monthly payments (advances) to the states throughout 2019-20 based on GST estimates, as updated at the 2019-20 MYEFO. GST estimates were used because the actual amount of GST revenue collected in 2019-20 is not known until after the end of the financial year.

For 2019-20, the states' GST entitlement is expected to be \$60.2 billion. This is \$5.2 billion lower than the advances paid during 2019-20. Once the Treasurer has made a Determination of the GST entitlement for 2019-20, a balancing adjustment will 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, 2019-20

\$million	Total
States' GST entitlement(a)	60,235.9
less Advances of GST made throughout 2019-20	65,410.0
<i>equals</i> Balancing adjustment	-5,174.1

(a) The 2019-20 GST outcome will be finalised following a Determination by the Treasurer.

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.

Following consultation with the states, the Treasurer issued a Determination of the GST revenue sharing relativities for 2019-20 in March 2019. The relativities for 2019-20 are shown in Table 32.

Table 32: GST relativities, 2019-20

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2019-20	0.87013	0.98273	1.05370	0.51842	1.46552	1.75576	1.23759	4.26735

The detailed calculation for the distribution of the GST entitlement in 2019-20 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 2019, as determined by the Australian Statistician.

Table 33: Calculation of the 2019-20 GST entitlements ^(a)

	Population as at 31 December 2019 (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	8,128,984	0.87013	7,073,273	27.8	16,723.2
VIC	6,651,074	0.98273	6,536,210	25.7	15,453.4
QLD	5,129,996	1.05370	5,405,477	21.2	12,780.0
WA	2,639,080	0.51842	1,368,152	5.4	3,234.7
SA	1,759,184	1.46552	2,578,119	10.1	6,095.4
TAS	537,012	1.75576	942,864	3.7	2,229.2
ACT	427,419	1.23759	528,969	2.1	1,250.6
NT	244,761	4.26735	1,044,481	4.1	2,469.4
Total	25,517,510	na	25,477,545	100.0	60,235.9

(a) The 2019-20 GST outcome will be finalised following a Determination by the Treasurer.

Table 34 provides a summary of the advances made in 2019-20 against the states' estimated final entitlements shown in Table 33. The variance between advances paid in 2019-20 and the states' final entitlements will be included as an adjustment to payments in the 2020-21 financial year.

Table 34: Summary of GST advances made in 2019-20 and distribution of the balancing adjustment across states ^(a)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
GST entitlement	16,723.2	15,453.4	12,780.0	3,234.7	6,095.4	2,229.2	1,250.6	2,469.4	60,235.9
19-20 advances	18,192.1	16,798.4	13,867.9	3,489.2	6,591.7	2,417.3	1,368.0	2,685.3	65,410.0
Balancing adjustment	-1,468.9	-1,345.0	-1,087.9	-254.6	-496.3	-188.2	-117.4	-215.9	-5,174.1

(a) The 2019-20 GST outcome will be finalised following a Determination by the Treasurer.

GST administration

States compensate the Australian Government 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, 2019-20

\$million	Actual	
	2018-19	2019-20
Australian Taxation Office budget	599.2	646.6
less Prior year adjustment	-	-
<i>equals</i> State government administration payments	599.2	646.6
less Australian Taxation Office outcome	599.2	646.6
<i>equals</i> Commonwealth budget impact	-	-
<i>plus</i> Prior year adjustment	-	-
<i>equals</i> Following year adjustment	-	-

The estimated outcome for the 2019-20 GST administration expense is \$646.6 million. GST administration costs for 2019-20 were capped at the estimate as per Schedule B of

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the *GST Administration Performance Agreement* and will move to a full cost recovery arrangement from 2020-21 as endorsed by the Council on Federal Financial Relations.