

Appendix C: Australia's Federal Relations

This appendix 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 at www.federalfinancialrelations.gov.au and in Budget Paper No. 3, *Federal Financial Relations 2019-20*.

Overview of payments to the states

Payments to the states in 2019-20 are estimated to be \$126.3 billion, or 25.1 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 \$67.3 billion.

Table C1 shows payments for specific purposes and general revenue assistance to the states.

Table C1: Australian Government payments to the states, 2019-20 to 2022-23

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2019-20									
Payments for specific purposes(a)	17,495	14,431	12,892	6,201	3,868	1,283	1,005	1,254	59,024
GST entitlement	18,192	16,798	13,868	3,489	6,592	2,417	1,368	2,685	65,410
Other general revenue assistance(c)	-	-	-	846	-	-	41	252	1,875
Total payments to the states	35,687	31,229	26,760	10,537	10,460	3,701	2,414	4,192	126,310
2020-21									
Payments for specific purposes(a)	18,892	15,012	15,278	7,353	4,106	1,415	1,068	1,313	65,019
GST entitlement(b)	~	~	~	~	~	~	~	~	67,610
Other general revenue assistance(c)	-	-	-	566	-	-	41	-	1,236
Total payments to the states	18,892	15,012	15,278	7,919	4,106	1,415	1,109	1,313	133,865
2021-22									
Payments for specific purposes(a)	19,203	15,774	15,489	7,597	4,189	1,532	1,039	1,389	66,710
GST entitlement(b)	~	~	~	~	~	~	~	~	71,440
Other general revenue assistance(c)	-	-	-	308	-	-	42	-	894
Total payments to the states	19,203	15,774	15,489	7,906	4,189	1,532	1,080	1,389	139,044

Table C1: Australian Government payments to the states, 2019-20 to 2022-23 (continued)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2022-23									
Payments for specific purposes(a)	20,156	17,363	16,059	7,599	4,191	1,568	1,107	1,282	69,794
GST entitlement(b)	~	~	~	~	~	~	~	~	75,111
Other general revenue assistance(c)	-	-	-	24	-	-	43	-	552
Total payments to the states	20,156	17,363	16,059	7,623	4,191	1,568	1,149	1,282	145,457

(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.

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 2019-20, which is 11.7 per cent of total Australian Government expenditure for the year and a decrease of \$1.3 billion (or 2.1 per cent) on the \$60.3 billion the states received in 2018-19.

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.
- National Partnership payments in a wide range of areas.

Table C2 shows total payments for specific purposes by type of SPP.

Table C2: Total payments for specific purposes by category, 2019-20 to 2022-23

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2019-20									
National Specific Purpose Payments	491	402	309	331	106	32	26	15	1,712
National Health Reform funding	6,848	5,864	4,906	2,375	1,398	425	412	306	22,535
Quality Schools funding(b)	6,495	5,264	4,572	2,129	1,485	481	348	364	21,151
National Housing and Homelessness funding	484	406	320	166	109	34	27	20	1,565
National Partnership payments(c)	3,177	2,496	2,784	1,200	771	311	193	549	12,062
Total payments for specific purposes	17,495	14,431	12,892	6,201	3,868	1,283	1,005	1,254	59,024
2020-21									
National Specific Purpose Payments	498	410	314	159	106	33	26	15	1,561
National Health Reform funding	7,212	5,876	5,347	2,521	1,450	443	441	333	23,623
Quality Schools funding(b)	6,963	5,695	4,924	2,318	1,606	508	365	378	22,759
National Housing and Homelessness funding	491	416	327	168	110	34	27	20	1,595
National Partnership payments(c)	3,729	2,614	4,367	2,187	834	397	208	567	15,482
Total payments for specific purposes	18,892	15,012	15,278	7,353	4,106	1,415	1,068	1,313	65,019
2021-22									
National Specific Purpose Payments	505	419	319	160	107	33	27	15	1,585
National Health Reform funding	7,593	6,164	5,598	2,661	1,503	462	464	371	24,816
Quality Schools funding(b)	7,365	6,082	5,187	2,482	1,724	529	379	386	24,135
National Housing and Homelessness funding	491	404	320	161	107	33	26	19	1,561
National Partnership payments(c)	3,250	2,705	4,065	2,133	749	475	143	598	14,614
Total payments for specific purposes	19,203	15,774	15,489	7,597	4,189	1,532	1,039	1,389	66,710
2022-23									
National Specific Purpose Payments	513	428	324	162	108	33	27	15	1,611
National Health Reform funding	7,992	6,466	5,974	2,815	1,558	482	492	404	26,184
Quality Schools funding(b)	7,797	6,488	5,441	2,644	1,845	550	399	391	25,557
National Housing and Homelessness funding	498	413	325	163	107	33	27	19	1,586
National Partnership payments(c)	3,356	3,568	3,995	1,815	572	469	161	453	14,857
Total payments for specific purposes	20,156	17,363	16,059	7,599	4,191	1,568	1,107	1,282	69,794

(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 2020 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.

Appendix C: Australia's Federal Relations

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 C3 shows total payments for specific purposes by sector.

Table C3: Payments for specific purposes by sector, 2019-20 to 2022-23

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2019-20									
Health	6,910	5,917	4,951	2,401	1,465	463	421	338	22,872
Education	6,647	5,410	4,683	2,187	1,524	494	360	407	21,726
Skills and workforce development	491	402	309	158	106	35	26	15	1,716
Community services	639	244	551	275	73	23	47	58	1,910
Affordable housing	484	406	320	166	109	34	27	133	1,680
Infrastructure	1,738	1,616	1,644	819	457	174	45	259	6,753
Environment	81	61	57	6	30	8	40	15	544
Contingent payments	21	2	12	4	-	..	38
Other(b)	483	374	364	188	104	49	39	28	1,786
Total payments for specific purposes	17,495	14,431	12,892	6,201	3,868	1,283	1,005	1,254	59,024
2020-21									
Health	7,236	5,906	5,374	2,542	1,530	468	444	363	23,932
Education	7,070	5,800	5,000	2,358	1,634	517	373	412	23,167
Skills and workforce development	498	410	314	159	106	37	26	15	1,726
Community services	618	253	702	609	75	23	17	45	2,342
Affordable housing	491	416	327	168	110	34	27	134	1,709
Infrastructure	1,909	1,450	2,875	1,137	428	231	84	279	8,393
Environment	129	52	61	7	21	5	25	1	537
Contingent payments	3	..	7	-	-	..	-	-	11
Other(b)	939	725	618	371	201	98	71	64	3,202
Total payments for specific purposes	18,892	15,012	15,278	7,353	4,106	1,415	1,068	1,313	65,019
2021-22									
Health	7,607	6,184	5,627	2,685	1,540	472	466	397	24,995
Education	7,376	6,095	5,205	2,489	1,731	532	380	416	24,225
Skills and workforce development	505	419	319	160	107	38	27	15	1,750
Community services	630	261	219	109	78	24	17	46	1,386
Affordable housing	491	404	320	161	107	33	26	208	1,751
Infrastructure	1,490	1,655	3,077	1,609	398	328	48	241	8,847
Environment	131	1	88	1	22	5	..	1	559
Contingent payments	3	-	-	-	-	..	-	-	3
Other(b)	970	755	633	381	207	100	74	66	3,195
Total payments for specific purposes	19,203	15,774	15,489	7,597	4,189	1,532	1,039	1,389	66,710

Table C3: Payments for specific purposes by sector, 2019-20 to 2022-23 (continued)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2022-23									
Health	8,053	6,543	6,035	2,860	1,576	494	502	443	26,528
Education	7,797	6,488	5,441	2,644	1,845	550	399	391	25,618
Skills and workforce development	513	428	324	162	108	38	27	15	1,615
Community services	350	271	219	113	81	25	18	11	1,087
Affordable housing	498	413	325	163	107	33	27	129	1,697
Infrastructure	1,913	2,437	3,034	1,270	231	322	63	228	9,499
Environment	33	..	29	1	32	5	-	1	480
Contingent payments	..	-	-	-	-	-	-	-	..
Other(b)	998	783	652	386	211	100	70	64	3,269
Total payments for specific purposes	20,156	17,363	16,059	7,599	4,191	1,568	1,107	1,282	69,794

(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 C4 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 C4: Payments for specific purposes by sector and category, 2019-20 to 2022-23

\$million	2019-20	2020-21	2021-22	2022-23
<i>Health</i>				
National Health Reform funding	22,535	23,623	24,816	26,184
National Partnerships	337	309	179	345
<i>Education</i>				
Quality Schools funding	21,151	22,759	24,135	25,557
National Partnerships	575	408	91	61
<i>Skills and workforce development</i>				
National Skills and Workforce Development SPP	1,539	1,561	1,585	1,611
National Partnerships	177	166	165	5
<i>Community services</i>				
National Disability SPP	173	-	-	-
National Partnerships	1,737	2,342	1,386	1,087
<i>Affordable housing</i>				
National Housing and Homelessness funding	1,565	1,595	1,561	1,586
National Partnerships	115	115	190	111
<i>Infrastructure</i>				
National Partnerships	6,753	8,393	8,847	9,499
<i>Environment</i>				
National Partnerships	544	537	559	480
<i>Contingent payments</i>				
National Partnerships	38	11	3	..
<i>Other</i>				
National Partnerships(a)	1,786	3,202	3,195	3,269
Total payments for specific purposes	59,024	65,019	66,710	69,794

(a) Includes financial assistance grants for local government.

Appendix C: Australia's Federal Relations

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

The Australian Government provides funding under the Disaster Recovery Funding Arrangements (DRFA) 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 DRFA. This is regardless of whether a state has completed eligible reconstruction work or submitted an eligible claim under the DRFA. Estimated DRFA cash payments are shown in Table C5 below. Expense estimates are presented in Table A.8 in Annex A (available online).

Table C5: Estimated DRFA cash payments, 2019-20 to 2022-23

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2019-20	16.5	28.0	260.9	134.7	0.2	58.2	..	49.9	548.3
2020-21	..	0.7	887.4	-	-	7.7	-	-	895.8
2021-22	-	-	-	-	-	3.2	-	-	3.2
2022-23	-	-	-	-	-	-	-	-	-

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 2019-20, the states are expected to receive \$67.3 billion in general revenue assistance from the Australian Government, comprising \$65.4 billion in goods and services tax (GST) entitlements and \$1.9 billion in other general revenue assistance. This is a 1.0 per cent increase in general revenue assistance on the \$66.6 billion the states received in 2018-19. General revenue assistance to the states is estimated to represent 13.4 per cent of total Australian Government expenditure in 2019-20.

Table C6 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 C6: General revenue assistance, 2019-20 to 2022-23

\$million	2019-20	2020-21	2021-22	2022-23
GST entitlements	65,410.0	67,610.0	71,440.0	75,110.8
Other payments				
<i>ACT municipal services</i>	40.7	41.2	41.9	42.5
<i>Compensation for reduced royalties</i>	32.0	28.6	26.3	24.3
<i>Royalties</i>	736.4	629.3	543.4	485.6
<i>Transitional GST top-up payments(a)</i>	1,066.3	537.2	282.0	-
Total other	1,875.4	1,236.3	893.6	552.4
Total GST and other payments	67,285.4	68,846.3	72,333.6	75,663.3

(a) The Government paid Western Australia \$434 million of its 2019-20 GST top-up payment in 2018-19. Estimates beyond 2019-20 are based upon the GST relativities presented in the final report of the Productivity Commission Inquiry into Horizontal Fiscal Equalisation, and the Government's interim response.

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. From 2021-22, the states' GST entitlements will also be boosted each year by additional Australian Government funding.

The Australian Government makes monthly advance GST payments to the states throughout the year based on the GST estimates for that year. Estimates of the GST are used as the actual amount of GST revenue collected over 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. Subsequently, a balancing adjustment payment (referred to as the 'prior year balancing adjustment') is made to each state to ensure the states receive the GST payments to which they are entitled.

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

Adjustments and additions 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 (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.
- 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.

A reconciliation of GST revenue and the states' GST entitlement is provided in Table C7.

Table C7: Reconciling GST revenue and the states' GST entitlement

\$million	2019-20	2020-21	2021-22	2022-23
GST revenue	67,230	69,790	73,240	76,960
<i>less</i> Change in GST receivables	1,672	2,056	2,270	2,338
GST receipts	65,558	67,734	70,970	74,622
<i>less</i> Non-GIC penalties collected	110	120	130	140
<i>less</i> GST collected by Commonwealth agencies but not yet remitted to the ATO	38	4	0	2
<i>plus</i> GST pool boost	0	0	600	631
States' GST entitlement	65,410	67,610	71,440	75,111

Table C8 provides a reconciliation of estimates of the states' GST entitlement since the 2019 PEFO. The reconciliation accounts for policy decisions and parameter and other variations.

Table C8: Reconciliation of the GST entitlement estimates since the 2019 PEFO

\$million	2019-20	2020-21	2021-22	2022-23
GST entitlement at 2019 PEFO	67,200	70,010	74,130	78,021
<i>Changes between 2019 PEFO and 2019-20 MYEFO</i>				
Effect of policy decisions	3	13	25	40
Effect of parameter and other variations	-1,793	-2,413	-2,715	-2,951
Total variations	-1,790	-2,400	-2,690	-2,911
GST entitlement at 2019-20 MYEFO	65,410	67,610	71,440	75,111

Specific policy decisions taken since the 2019 PEFO that affect the GST entitlement are shown in Table C9. These decisions increase the amount of the GST entitlement by around \$81 million over four years.

Detailed information on policy decisions since the 2019 PEFO is included in Appendix A.

Table C9: Policy decisions since the 2019 PEFO that affect the GST entitlement

\$million	2019-20	2020-21	2021-22	2022-23
Black Economy - assisting businesses to meet their reporting obligations	0.0	0.0	*	*
Black Economy - introducing a sharing economy reporting regime	0.0	0.0	0.0	4.1
Combatting Illegal Phoenixing - reducing the impact of illegal phoenixing on businesses, employees and government	0.0	6.7	17.6	27.2
Expanding the Working Holiday Maker program	2.9	5.9	6.8	7.1
Regional Migration Initiatives	0.0	0.0	0.7	1.6
Total	2.9	12.6	25.1	40.0

* The nature of the measure is such that a reliable estimate cannot be provided.

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 to 2026-27, the horizontal fiscal equalisation system will progressively

transition 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 C10 shows the detailed calculation for the distribution of the states' estimated GST entitlement in 2019-20. This method of calculation is prescribed in legislation in the *Federal Financial Relations Act 2009*.

Table C10: Distribution of the GST entitlement, 2019-20^(a)

	Estimated 31 December 2019 population (1)	GST relativities (2)	Adjusted population (1) x (2) (3)	Share of adjusted population % (4)	2019-20 GST entitlement \$million (5)
NSW	8,167,767	0.87013	7,107,019	27.8%	18,192.1
VIC	6,677,874	0.98273	6,562,547	25.7%	16,798.4
QLD	5,141,594	1.05370	5,417,698	21.2%	13,867.9
WA	2,629,382	0.51842	1,363,124	5.3%	3,489.2
SA	1,757,149	1.46552	2,575,137	10.1%	6,591.7
TAS	537,871	1.75576	944,372	3.7%	2,417.3
ACT	431,836	1.23759	534,436	2.1%	1,368.0
NT	245,837	4.26735	1,049,073	4.1%	2,685.3
Total	25,589,310	n/a	25,553,406	100.0%	65,410.0

(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 2018-19 balancing adjustment of -\$470.3 million which was made to the state's monthly GST advance payments in 2019-20.

The calculation of the GST entitlement for 2018-19 is shown in Table C11. The Treasurer made a Determination giving effect to this entitlement on 8 November 2019. The table also includes the distribution of the balancing adjustment, taking account of differences between advances of GST paid to each state and each state's final entitlement for 2018-19.

Table C11: Calculation of the GST entitlement and balancing adjustment, 2018-19^(a)

	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)	2018-19 GST advances \$million (6)	Balancing adjustment \$million (5) - (6) (7)
NSW	8,046,070	0.85517	6,880,758	27.4%	17,826.3	17,952.6	-126.3
VIC	6,526,413	0.98670	6,439,612	25.6%	16,683.4	16,809.6	-126.2
QLD	5,052,827	1.09584	5,537,090	22.0%	14,345.2	14,440.8	-95.6
WA	2,606,338	0.47287	1,232,459	4.9%	3,193.0	3,215.9	-22.9
SA	1,742,744	1.47727	2,574,503	10.2%	6,669.9	6,715.7	-45.8
TAS	531,529	1.76706	939,244	3.7%	2,433.3	2,448.8	-15.4
ACT	423,811	1.18070	500,394	2.0%	1,296.4	1,308.0	-11.6
NT	245,854	4.25816	1,046,886	4.2%	2,712.2	2,738.6	-26.4
Total	25,175,586	n/a	25,150,945	100.0%	65,159.7	65,630.0	-470.3

(a) These amounts do not take into account the 2017-18 balancing adjustment of -\$316.5 million which was made to the state's monthly GST advance payments in 2018-19.

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. The GST administration budget for the ATO is estimated to be \$646.6 million for 2019-20, as shown in Table C12.

Table C12: GST administration budget

\$million	Actual		Estimates		
	2018-19	2019-20	2020-21	2021-22	2022-23
Administration budget at 2019 PEFO	599.2	646.6	612.0	615.0	618.0
Changes from 2019 PEFO to MYEFO	-	-	-	-	-
Parameter variations	-	-	-	-	-
Other variations	-	-	-	-	-
Total variations	-	-	-	-	-
Administration budget at 2019-20 MYEFO	599.2	646.6	612.0	615.0	618.0
less Prior year adjustment	-	-	-	-	-
<i>equals</i> State government payments (a)	599.2	646.6	612.0	615.0	618.0

(a) The GST administration costs for 2018-19 were capped at the 2017-18 Budget estimate. The ATO continues to review its methodology for estimating the cost to administer the GST.