

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 2020-21*.

Overview of payments to the states

Australian Government payments to the states in 2020-21 are estimated to be \$134.5 billion, or 20.2 per cent of total Australian Government expenditure for the year. This amount comprises payments for specific purposes of \$69.4 billion and general revenue assistance of \$65.0 billion.

In 2020-21, payments to the states include support provided by the Australian Government in response to the COVID-19 pandemic to areas where states have primary responsibility. This includes payments relating to health services; local roads and community infrastructure to support jobs and local economies; training places to help young people and job seekers; domestic, family and sexual violence services; and legal assistance services. Payments to the states do not capture the direct support provided by the Australian Government to households and businesses through COVID-19 response measures such as the JobKeeper Payment and the Coronavirus Supplement.

Table C.1 shows payments for specific purposes and general revenue assistance to the states.

Appendix C: Australia's Federal Relations

Table C.1: Australian Government payments to the states, 2020-21 to 2023-24

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2020-21									
Payments for specific purposes(a)	20,847	16,321	15,478	7,428	4,387	1,532	1,113	1,490	69,433
GST entitlement	18,453	15,876	13,387	2,941	5,906	2,530	1,222	2,835	63,150
Other general revenue assistance(c)	-	-	-	1,562	-	-	41	-	1,884
Total payments to the states	39,300	32,198	28,865	11,931	10,293	4,062	2,376	4,325	134,466
2021-22									
Payments for specific purposes(a)	21,293	17,168	16,182	8,306	4,592	1,638	1,117	1,612	72,440
GST entitlement(b)	~	~	~	~	~	~	~	~	67,180
Other general revenue assistance(c)	20	11	-	1,528	-	-	42	-	1,866
Total payments to the states	21,313	17,179	16,182	9,834	4,592	1,638	1,158	1,612	141,486
2022-23									
Payments for specific purposes(a)	21,798	18,074	16,747	8,402	4,572	1,754	1,147	1,334	74,529
GST entitlement(b)	~	~	~	~	~	~	~	~	71,317
Other general revenue assistance(c)	672	553	423	3	121	20	75	-	2,034
Total payments to the states	22,470	18,627	17,170	8,405	4,692	1,774	1,222	1,334	147,880
2023-24									
Payments for specific purposes(a)	22,469	19,449	17,277	8,053	5,066	1,876	1,180	1,251	77,289
GST entitlement(b)	~	~	~	~	~	~	~	~	74,616
Other general revenue assistance(c)	701	580	444	1	137	33	78	-	2,103
Total payments to the states	23,170	20,029	17,721	8,054	5,202	1,909	1,258	1,251	154,009

(a) As state allocations for a number of programs have not yet been determined, these payments are not included in state totals. As a result, total payments may not equal the sum of state totals.

(b) The GST is distributed among the states based on the GST revenue sharing relativities recommended by the Commonwealth Grants Commission (the Commission) and determined by the Treasurer for 2020-21. The Commission does not provide projected relativities beyond 2020-21.

(c) State allocations for royalties are not published due to commercial sensitivities. These payments are not included in state totals. As a result, 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 \$69.4 billion in 2020-21, which is 10.4 per cent of total Australian Government expenditure for the year and an increase of \$5.7 billion (or 8.9 per cent) on the \$63.8 billion the states received in 2019-20.

The Australian Government provides the following types of specific purpose payments (SPPs) to the states:

- National Specific Purpose Payments (National SPPs) in respect of 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 C.2 shows total payments for specific purposes by type of SPP.

Appendix C: Australia's Federal Relations

Table C.2: Total payments for specific purposes by category, 2020-21 to 2023-24

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2020-21									
National Specific Purpose Payments	496	408	315	161	107	33	26	15	1,561
National Health Reform funding(b)	7,991	6,622	5,479	2,555	1,507	517	474	331	25,476
Quality Schools funding	6,709	5,656	4,873	2,195	1,421	515	358	365	22,091
National Housing and Homelessness funding	489	415	327	170	111	35	27	20	1,595
National Partnership payments(c)	5,162	3,221	4,484	2,347	1,241	434	228	758	18,711
Total payments for specific purposes	20,847	16,321	15,478	7,428	4,387	1,532	1,113	1,490	69,433
2021-22									
National Specific Purpose Payments	498	411	319	163	108	33	26	15	1,574
National Health Reform funding	7,683	6,229	5,731	2,690	1,513	509	469	365	25,189
Quality Schools funding	7,468	6,124	5,321	2,515	1,726	544	381	410	24,489
National Housing and Homelessness funding	485	398	320	164	107	33	26	19	1,552
National Partnership payments(c)	5,159	4,006	4,491	2,774	1,138	519	214	803	19,637
Total payments for specific purposes	21,293	17,168	16,182	8,306	4,592	1,638	1,117	1,612	72,440
2022-23									
National Specific Purpose Payments	502	417	323	165	109	34	27	14	1,591
National Health Reform funding	8,122	6,531	6,139	2,853	1,578	522	504	400	26,649
Quality Schools funding	7,916	6,528	5,619	2,692	1,840	569	403	423	25,991
National Housing and Homelessness funding	489	403	324	166	108	34	26	19	1,569
National Partnership payments(c)	4,768	4,196	4,341	2,526	937	596	187	478	18,731
Total payments for specific purposes	21,798	18,074	16,747	8,402	4,572	1,754	1,147	1,334	74,529

Table C.2: Total payments for specific purposes by category, 2020-21 to 2023-24 (continued)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2023-24									
National Specific Purpose Payments	508	424	328	167	110	34	27	14	1,613
National Health Reform funding	8,585	6,866	6,582	3,037	1,645	547	539	437	28,238
Quality Schools funding	8,297	6,876	5,877	2,836	1,930	591	423	434	27,263
National Housing and Homelessness funding	494	410	329	168	109	34	26	19	1,591
National Partnership payments(c)	4,584	4,873	4,161	1,844	1,272	671	165	347	18,585
Total payments for specific purposes	22,469	19,449	17,277	8,053	5,066	1,876	1,180	1,251	77,289

(a) As state allocations for a number of programs have not yet been determined, these payments are not included in state totals. As a result, total payments may not equal the sum of state totals.

(b) Includes \$1.9 billion for the COVID-19 public health response in 2020-21.

(c) Includes financial assistance grants for local government and payments direct to local government.

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 C.3 shows total payments for specific purposes by sector.

Table C.3: Payments for specific purposes by sector, 2020-21 to 2023-24

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2020-21									
Health	8,095	6,730	5,568	2,591	1,573	538	508	499	26,136
Education	6,858	5,799	4,975	2,250	1,458	527	369	401	22,636
Skills and workforce development	751	553	430	247	160	55	41	23	2,261
Community services	649	277	722	693	82	25	18	46	2,512
Affordable housing	489	415	427	170	111	35	27	161	2,286
Infrastructure	3,131	1,909	2,756	1,220	754	274	61	296	10,441
Environment	162	132	155	42	61	16	6	11	895
Contingent payments	139	40	28	..	22	..	36	..	267
Other(b)	573	466	417	213	165	63	47	52	1,999
Total payments for specific purposes	20,847	16,321	15,478	7,428	4,387	1,532	1,113	1,490	69,433

Table C.3: Payments for specific purposes by sector, 2020-21 to 2023-24 (continued)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2021-22									
Health	7,726	6,280	5,803	2,715	1,527	520	477	406	25,471
Education	7,578	6,226	5,399	2,555	1,754	553	389	443	24,898
Skills and workforce development	580	417	323	196	127	48	31	17	1,739
Community services	630	261	219	109	78	24	17	46	1,385
Affordable housing	485	398	320	164	107	33	26	208	2,059
Infrastructure	2,961	2,820	3,248	2,197	711	316	100	423	12,798
Environment	295	58	261	64	20	48	5	5	928
Contingent payments	117	-13	-1	..	6	..	~	~	110
Other(b)	922	718	609	305	262	97	71	64	3,052
Total payments for specific purposes	21,293	17,168	16,182	8,306	4,592	1,638	1,117	1,612	72,440
2022-23									
Health	8,157	6,624	6,187	2,898	1,626	535	514	418	26,982
Education	7,916	6,528	5,619	2,692	1,840	569	403	423	26,052
Skills and workforce development	502	417	323	165	109	38	27	14	1,595
Community services	350	271	219	113	81	25	18	11	1,087
Affordable housing	489	403	324	166	108	34	26	129	1,834
Infrastructure	3,120	3,080	3,298	1,974	501	430	92	277	12,772
Environment	228	17	162	93	37	29	2	2	1,026
Contingent payments	108	7	-2	~	6	~	~	~	119
Other(b)	929	728	615	301	264	94	65	61	3,062
Total payments for specific purposes	21,798	18,074	16,747	8,402	4,572	1,754	1,147	1,334	74,529
2023-24									
Health	8,673	6,924	6,605	3,073	1,660	560	543	438	28,496
Education	8,297	6,876	5,877	2,836	1,930	591	423	434	27,324
Skills and workforce development	508	424	328	167	110	34	27	14	1,613
Community services	362	280	227	136	83	26	19	11	1,143
Affordable housing	494	410	329	168	109	34	26	19	1,592
Infrastructure	3,020	3,779	3,154	1,338	861	513	73	271	13,010
Environment	164	8	126	26	42	23	2	1	973
Contingent payments	~	~	~	~	~	~	~	~	..
Other(b)	950	747	631	308	271	97	67	62	3,138
Total payments for specific purposes	22,469	19,449	17,277	8,053	5,066	1,876	1,180	1,251	77,289

(a) As state allocations for a number of programs have not yet been determined, these payments are not included in state totals. As a result, total payments may not equal the sum of state totals.

(b) Includes financial assistance grants for local government.

Table C.4 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 C.4: Payments for specific purposes by sector and category, 2020-21 to 2023-24

\$million	2020-21	2021-22	2022-23	2023-24
<i>Health</i>				
National Health Reform funding(a)	25,476	25,189	26,649	28,238
National Partnership payments	659	282	333	259
<i>Education</i>				
Quality Schools funding	22,091	24,489	25,991	27,263
National Partnership payments	545	409	61	61
<i>Skills and workforce development</i>				
National Skills and Workforce Development SPP	1,561	1,574	1,591	1,613
National Partnership payments	700	165	5	-
<i>Community services</i>				
National Partnership payments	2,512	1,385	1,087	1,143
<i>Affordable housing</i>				
National Housing and Homelessness funding	1,595	1,552	1,569	1,591
National Partnership payments	692	508	265	1
<i>Infrastructure</i>				
National Partnership payments	10,441	12,798	12,772	13,010
<i>Environment</i>				
National Partnership payments	895	928	1,026	973
<i>Contingent payments</i>				
National Partnership payments	267	110	119	..
<i>Other</i>				
National Partnership payments(b)	1,999	3,052	3,062	3,138
Total payments for specific purposes	69,433	72,440	74,529	77,289

(a) Includes \$1.9 billion for the COVID-19 public health response in 2020-21.

(b) Includes financial assistance grants for local government.

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 C.5. Expense estimates are presented in Table A.8 in Annex A (available online).

Table C.5: Estimated DRFA cash payments, 2020-21 to 2023-24

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2020-21	68.2	-	669.4	144.2	7.3	42.0	1.9	25.6	958.5
2021-22	359.4	47.6	418.8	7.6	43.8	5.5	-	-	882.7
2022-23	13.5	24.7	16.6	-	10.1	0.1	-	-	65.0
2023-24	-	-	-	-	-	..	-	-	..

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 2020-21, the states are expected to receive \$65.0 billion in general revenue assistance from the Australian Government, comprising \$63.2 billion in goods and services tax (GST) entitlements and \$1.9 billion in other general revenue assistance. General revenue assistance to the states is estimated to represent 9.7 per cent of total Australian Government expenditure in 2020-21.

Table C.6 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 C.6: General revenue assistance, 2020-21 to 2023-24

\$million	2020-21	2021-22	2022-23	2023-24
GST entitlements	63,150	67,180	71,317	74,616
Other payments				
<i>ACT municipal services</i>	41	42	42	43
<i>Compensation for reduced royalties</i>	15	10	3	1
<i>Royalties</i>	280	265	167	128
<i>Transitional GST top-up payments(a)</i>	1,547	1,518	-	-
<i>HFE transition payments(a)</i>	-	31	1,821	1,930
Total other	1,884	1,866	2,034	2,103
Total GST and other payments	65,034	69,046	73,350	76,719

(a) Estimates of the transitional GST top-up payments and horizontal fiscal equalisation (HFE) transition payments for 2021-22 and later years are based on current GST relativities, and adjusted to take into account the transition to the new HFE system.

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. Table C.7 reconciles GST revenue and the states' GST entitlement.

Table C.7: Reconciling GST revenue and the states' GST entitlement

\$million	2020-21	2021-22	2022-23	2023-24
GST revenue	65,750	68,770	73,160	76,620
<i>less</i> Change in GST receivables	2,538	2,129	2,409	2,609
GST receipts	63,212	66,641	70,751	74,011
<i>less</i> Non-GIC penalties collected	50	60	70	60
<i>less</i> GST collected by Commonwealth agencies but not yet remitted to the ATO	12	1	1	1
<i>plus</i> GST pool boost	-	600	637	666
States' GST entitlement	63,150	67,180	71,317	74,616

Table C.8 reconciles the change in the estimates of the states' GST entitlement since the 2020-21 Budget.

Table C.8: Reconciliation of the GST entitlement estimates since the 2020-21 Budget

\$million	2020-21	2021-22	2022-23	2023-24
GST entitlement at 2020-21 Budget	59,920	66,140	70,752	74,587
<i>Changes between 2020-21 Budget and 2020-21 MYEFO</i>				
Effect of policy decisions	0	0	0	0
Effect of parameter and other variations	3,230	1,040	565	30
Total variations	3,230	1,040	565	30
GST entitlement at 2020-21 MYEFO	63,150	67,180	71,317	74,616

Policy decisions taken since the 2020-21 Budget are not expected to have a material impact on the GST entitlement.

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. Table C.9 shows the calculation for the distribution of the states' estimated GST entitlement in 2020-21. This method of calculation is prescribed in the *Federal Financial Relations Act 2009*.

Table C.9: Distribution of the GST entitlement, 2020-21^(a)

	Estimated 31 December 2020 population	GST relativities	Adjusted population (1) x (2)	Share of adjusted population	Share of GST pool \$million
2020-21	(1)	(2)	(3)	(4)	(5)
NSW	8,156,893	0.91808	7,488,680	29.2%	18,453
VIC	6,712,016	0.95992	6,442,998	25.1%	15,876
QLD	5,178,758	1.04907	5,432,880	21.2%	13,387
WA	2,654,112	0.44970	1,193,554	4.7%	2,941
SA	1,765,497	1.35765	2,396,927	9.4%	5,906
TAS	541,121	1.89742	1,026,734	4.0%	2,530
ACT	430,655	1.15112	495,736	1.9%	1,222
NT	241,271	4.76893	1,150,605	4.5%	2,835
Total	25,680,323	na	25,628,113	100.0%	63,150

(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 2019-20 balancing adjustment of -\$5.2 billion which is being made to the states' monthly GST advance payments in 2020-21.

The calculation of the final GST entitlement for 2019-20 is shown in Table C.10. The Assistant Treasurer made a Determination giving effect to this entitlement on 20 October 2020. 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 2019-20.

Table C.10: Calculation of the GST entitlement and balancing adjustment, 2019-20^(a)

	31 December 2019 population	GST relativities	Adjusted population (1) x (2)	Share of adjusted population	Share of GST pool \$million	GST advances \$million	Balancing adjustment \$million (5) — (6)
2019-20	(1)	(2)	(3)	(4)	(5)	(6)	(7)
NSW	8,128,984	0.87013	7,073,273	27.8%	16,723	18,192	-1,469
VIC	6,651,074	0.98273	6,536,210	25.7%	15,453	16,798	-1,345
QLD	5,129,996	1.05370	5,405,477	21.2%	12,780	13,868	-1,088
WA	2,639,080	0.51842	1,368,152	5.4%	3,235	3,489	-255
SA	1,759,184	1.46552	2,578,119	10.1%	6,095	6,592	-496
TAS	537,012	1.75576	942,864	3.7%	2,229	2,417	-188
ACT	427,419	1.23759	528,969	2.1%	1,251	1,368	-117
NT	244,761	4.26735	1,044,481	4.1%	2,469	2,685	-216
Total	25,517,510	na	25,477,545	100.0%	60,236	65,410	-5,174

(a) These amounts do not take into account the 2018-19 balancing adjustment of -\$470 million which was made to the state's monthly GST advance payments in 2019-20.

GST administration

States reimburse the Australian Government for the agreed costs incurred by the Australian Taxation Office (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 \$621.5 million for 2020-21, as shown in Table C.11.

Table C.11: GST administration budget^(a)

\$million	Actual		Estimates		
	2019-20	2020-21	2021-22	2022-23	2023-24
Administration budget at 2020-21 Budget	646.6	621.5	675.7	671.7	487.4
Changes from 2020-21 Budget to MYEFO					
Parameter variations	-	-	-	-0.5	-
Other variations	-	-	5.4	3.3	-6.3
Total variations	-	-	5.4	2.8	-6.3
Administration budget at 2020-21 MYEFO	646.6	621.5	681.1	674.5	481.1
less Prior year adjustment	-	-	-	-	-
equals State government payments(b)	646.6	621.5	681.1	674.5	481.1

(a) The move to full cost recovery has led to a greater focus on the actual costs of GST administration which has identified increased indirect administration costs. Increases relate to investment in technology to improve the resilience of ATO information technology security, data storage and sustainment and data analytics. The 2020-21 estimate at the 2020-21 Budget also included a decrease in costs due to ATO resources being diverted to support COVID-19 stimulus work. GST activities will gradually return to business as usual during the 2020-21 year.

(b) GST administration costs for 2019-20 were capped at the estimate as per Schedule B of 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.