

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 2016-17*, and at www.federalfinancialrelations.gov.au.

Overview of payments to the States

Payments to the States in 2016-17 are estimated to be \$114.6 billion, or 25.5 per cent of total Commonwealth expenditure for the year. This amount comprises payments for specific purposes of \$54.2 billion and general revenue assistance of \$60.4 billion.

Table 3.21 shows payments for specific purposes and general revenue assistance to the States.

Table 3.21: Commonwealth payments to the States, 2016-17 to 2019-20

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2016-17									
Payments for specific purposes	17,101	11,696	11,219	5,833	3,914	1,205	872	1,192	54,195
General revenue assistance	17,419	13,742	14,075	2,008	6,000	2,278	1,175	3,190	60,408
Total payments to the States	34,520	25,439	25,294	7,841	9,914	3,482	2,047	4,382	114,602
2017-18									
Payments for specific purposes	16,915	12,146	12,062	6,222	4,291	1,180	842	1,190	55,878
General revenue assistance	18,315	14,510	14,772	2,107	6,266	2,368	1,231	3,316	63,347
Total payments to the States	35,229	26,657	26,834	8,329	10,557	3,548	2,074	4,506	119,225
2018-19									
Payments for specific purposes	16,854	12,949	12,099	6,502	3,793	1,264	859	900	55,750
General revenue assistance	19,271	15,331	15,515	2,211	6,549	2,464	1,291	3,450	66,495
Total payments to the States	36,126	28,280	27,614	8,713	10,342	3,728	2,150	4,350	122,245
2019-20									
Payments for specific purposes	16,048	12,131	11,736	6,308	3,581	1,092	898	872	52,785
General revenue assistance	20,168	16,109	16,203	2,310	6,808	2,550	1,347	3,570	69,458
Total payments to the States	36,216	28,240	27,939	8,618	10,389	3,642	2,244	4,442	122,243

(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.

Payments for specific purposes

The Commonwealth 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 \$54.2 billion in 2016-17, which is 12.1 per cent of total Commonwealth expenditure for the year and an increase of \$6 billion (or 12.5 per cent) on the \$48.2 billion the States received in 2015-16.

The Commonwealth 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, skills and workforce development, and affordable housing;
- National Health Reform (NHR) funding, largely for public hospital services;
- Students First funding for government and non-government schools; and
- National Partnership payments in a wide range of areas.

Table 3.22 shows total payments for specific purposes by each type of SPP.

Table 3.22: Total payments for specific purposes by category, 2016-17 to 2019-20

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2016-17									
National Specific Purpose Payments	1,379	1,083	863	468	304	92	71	43	4,303
National Health Reform funding	5,717	4,373	3,630	2,011	1,268	365	341	206	17,911
Students First funding	5,277	4,256	3,656	1,683	1,187	399	279	316	17,055
National Partnership payments(b)	4,729	1,985	3,069	1,671	1,155	348	182	626	14,926
Total payments for specific purposes	17,101	11,696	11,219	5,833	3,914	1,205	872	1,192	54,195
2017-18									
National Specific Purpose Payments	1,406	1,109	879	477	308	93	47	44	4,362
National Health Reform funding	6,051	4,607	3,860	2,146	1,328	380	365	229	18,966
Students First funding	5,592	4,487	3,839	1,869	1,259	411	294	314	18,066
National Partnership payments(b)	3,866	1,943	3,484	1,731	1,396	296	137	603	14,484
Total payments for specific purposes	16,915	12,146	12,062	6,222	4,291	1,180	842	1,190	55,878
2018-19									
National Specific Purpose Payments	928	1,138	896	487	202	94	47	44	3,836
National Health Reform funding	6,402	4,853	4,103	2,289	1,391	395	391	253	20,076
Students First funding(c)	5,786	4,710	3,978	2,062	1,331	419	313	305	18,906
National Partnership payments(b)	3,739	2,247	3,121	1,664	870	356	108	298	12,933
Total payments for specific purposes	16,854	12,949	12,099	6,502	3,793	1,264	859	900	55,750
2019-20									
National Specific Purpose Payments	941	748	586	498	203	61	48	29	3,114
National Health Reform funding	6,770	5,112	4,360	2,440	1,456	411	418	278	21,245
Students First funding(c)	6,037	4,954	4,216	2,170	1,389	433	330	322	19,853
National Partnership payments(b)	2,300	1,318	2,575	1,199	533	188	101	243	8,574
Total payments for specific purposes	16,048	12,131	11,736	6,308	3,581	1,092	898	872	52,785

(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.

(c) State allocations from the 2018 school year onwards are indicative only and final allocations are subject to formal negotiations between the Commonwealth, the States and the non-government schools sector.

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 3.23 shows total payments for specific purposes by sector.

Table 3.23: Payments for specific purposes by sector, 2016-17 to 2019-20

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2016-17									
Health	5,793	4,440	3,688	2,046	1,281	394	344	305	18,396
Education	5,440	4,385	3,771	1,746	1,227	410	289	369	17,639
Skills and workforce development	639	500	409	214	142	45	32	21	2,003
Community services	794	557	416	484	182	55	75	92	2,657
Affordable housing	460	361	431	291	118	32	24	222	1,938
Infrastructure	3,058	621	1,877	727	696	160	18	122	8,328
Environment	114	220	79	11	93	26	30	17	596
Contingent payments	2	3	24	..	1	1	-	1	32
Other(b)	800	608	525	314	175	81	61	42	2,608
Total payments for specific purposes	17,101	11,696	11,219	5,833	3,914	1,205	872	1,192	54,195
2017-18									
Health	6,100	4,645	3,904	2,178	1,338	411	368	266	19,323
Education	5,710	4,578	3,924	1,912	1,288	420	300	365	18,498
Skills and workforce development	479	378	299	162	105	32	24	15	1,494
Community services	921	623	464	455	208	60	17	89	2,839
Affordable housing	466	367	413	247	117	32	24	207	1,872
Infrastructure	2,253	735	2,410	938	951	119	17	200	8,511
Environment	158	192	65	5	107	24	30	4	612
Contingent payments	3	-	-	..	4
Other(b)	827	628	580	324	178	82	62	43	2,725
Total payments for specific purposes	16,915	12,146	12,062	6,222	4,291	1,180	842	1,190	55,878
2018-19									
Health	6,448	4,890	4,143	2,317	1,400	421	393	278	20,403
Education	5,786	4,710	3,978	2,062	1,331	419	313	345	18,945
Skills and workforce development	486	385	303	165	106	32	25	15	1,516
Community services	1,047	1,466	1,217	602	243	138	17	86	4,819
Affordable housing	442	350	275	150	96	29	22	17	1,381
Infrastructure	1,640	380	1,549	870	416	128	7	113	5,451
Environment	146	119	58	1	18	14	18	2	441
Contingent payments	..	-	1	-	-	-	-	-	1
Other(b)	859	649	576	336	183	84	64	44	2,793
Total payments for specific purposes	16,854	12,949	12,099	6,502	3,793	1,264	859	900	55,750
2019-20									
Health	6,817	5,147	4,400	2,459	1,465	424	421	288	21,426
Education	6,037	4,954	4,216	2,170	1,389	433	330	362	19,892
Skills and workforce development	493	392	307	167	107	32	25	15	1,537
Community services	321	260	205	331	76	24	18	88	1,324
Affordable housing	448	356	279	152	97	29	23	17	1,401
Infrastructure	1,030	309	1,744	679	258	65	14	56	4,155
Environment	15	37	19	-	2	-	..	2	186
Contingent payments	..	-	-	-	-	-	-	-	..
Other(b)	887	675	566	350	189	86	66	45	2,864
Total payments for specific purposes	16,048	12,131	11,736	6,308	3,581	1,092	898	872	52,785

(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 3.24 shows total payments for specific purposes by sector and category (National SPPs, NHR funding, Students First funding and National Partnership payments).

Table 3.24: Payments for specific purposes by sector and category, 2016-17 to 2019-20

\$million	2016-17	2017-18	2018-19	2019-20
<i>Health</i>				
National Health Reform funding	17,911	18,966	20,076	21,245
National Partnerships	485	357	327	181
<i>Education</i>				
Students First funding	17,055	18,066	18,906	19,853
National Partnerships	583	432	40	40
<i>Skills and workforce development</i>				
National Skills and Workforce Development SPP	1,476	1,494	1,516	1,537
National Partnerships	527	-	-	-
<i>Community services</i>				
National Disability SPP	1,484	1,510	942	180
National Partnerships	1,173	1,330	3,877	1,144
<i>Affordable housing</i>				
National Affordable Housing SPP	1,343	1,359	1,378	1,397
National Partnerships	595	514	4	4
<i>Infrastructure</i>				
National Partnerships	8,328	8,511	5,451	4,155
<i>Environment</i>				
National Partnerships	596	612	441	186
<i>Contingent payments</i>				
National Partnerships	32	4	1	..
<i>Other</i>				
National Partnerships(a)	2,608	2,725	2,793	2,864
Total payments for specific purposes	54,195	55,878	55,750	52,785

(a) Includes financial assistance grants for local government.

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

The Commonwealth provides funding under the Natural Disaster Relief and Recovery Arrangements (NDRRA) to assist the States following 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 or not a State has completed eligible reconstruction work or submitted an eligible claim under the NDRRA. Estimated NDRRA cash payments are shown in Table 3.25 below. Accrual estimates are presented in Table A.8 in Annex A (available online).

Table 3.25: Estimated NDRRA cash payments, 2016-17 to 2019-20

\$'000	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2016-17	115,097	121,954	1,115,217	13,214	4,377	70,626	-	35,799	1,476,284
2017-18	4,514	3,171	141,424	7,625	753	-	-	25,512	182,999
2018-19	-	-	53,045	-	25	-	-	-	53,070
2019-20	-	-	-	-	-	-	-	-	-

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 2016-17, the States are expected to receive \$60.4 billion in general revenue assistance from the Commonwealth, comprising \$59.7 billion in GST entitlements and \$667.5 million in other general revenue assistance. This is a 4.1 per cent increase in general revenue assistance on the \$58.0 billion the States received in 2015-16. General revenue assistance to the States is estimated to represent 13.5 per cent of total Commonwealth expenditure in 2016-17.

Table 3.26 summarises GST and other general revenue assistance payments to the States. Detailed tables of GST and other general revenue assistance, including State shares of each payment, are provided in Annex A (available online).

Table 3.26: General revenue assistance, 2016-17 to 2019-20

\$million	2016-17	2017-18	2018-19	2019-20
GST entitlements	59,740.0	62,740.0	65,940.0	68,920.0
Other payments				
<i>ACT municipal services</i>	39.1	39.5	40.1	40.6
<i>Compensation for reduced royalties</i>	31.9	31.3	28.1	28.1
<i>Royalties</i>	521.5	460.8	411.7	394.0
<i>Snowy Hydro Ltd tax compensation</i>	75.0	75.0	75.0	75.0
Total other	667.5	606.7	554.9	537.8
Total GST and other payments	60,407.5	63,346.7	66,494.9	69,457.8

GST payments

Under the Intergovernmental Agreement, the States are entitled to receive payments from the Commonwealth broadly equivalent to the revenue raised from the GST in any given financial year, after some minor adjustments, as discussed below.

The Commonwealth 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 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 Commonwealth for the agreed costs incurred by the Australian Taxation Office (ATO) in administering the GST. In practice, this is achieved by the Commonwealth 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 (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 2015-16, the States' GST entitlement was \$98.4 million lower than the advances paid during that year. A balancing adjustment was made to States' GST payments in 2016-17 to account for this.

A reconciliation of GST revenue and the States' GST entitlement is provided in Table 3.27.

Table 3.27: Reconciling GST revenue and the States' GST entitlement

\$million	Outcome	Estimates			
	2015-16	2016-17	2017-18	2018-19	2019-20
GST revenue	60,312	62,410	65,680	69,270	72,040
less Change in GST receivables	2,855	2,457	2,720	3,089	2,865
GST receipts	57,457	59,953	62,960	66,181	69,175
less Non-GIC penalties collected	185	200	220	240	250
less GST collected by Commonwealth agencies but not yet remitted to the ATO	-79	13	..	1	5
States' GST entitlement	57,352	59,740	62,740	65,940	68,920

Table 3.28 provides a reconciliation of estimates of the States' GST entitlement since the *Pre-election Economic and Fiscal Outlook 2016* (2016 PEFO). The reconciliation accounts for policy decisions and parameter and other variations.

Part 3: Fiscal strategy and outlook

Table 3.28: Reconciliation of the GST entitlement estimates since the 2016 PEFO

\$million	2016-17	2017-18	2018-19	2019-20
GST entitlement at 2016 PEFO(a)	60,660	63,940	67,350	70,370
<i>Changes between 2016 PEFO and 2016-17 MYEFO</i>				
Effect of policy decisions	0	15	5	5
Effect of parameter and other variations	-920	-1,215	-1,415	-1,455
Total variations	-920	-1,200	-1,410	-1,450
GST entitlement at 2016-17 MYEFO	59,740	62,740	65,940	68,920

(a) The GST entitlement was not published in the 2016 PEFO and was unchanged from the 2016-17 Budget.

Specific policy decisions taken since the 2016 PEFO that affect the GST entitlement are shown in Table 3.29. These decisions increase the States' GST entitlement estimates by \$25.0 million over four years.

Detailed information on policy decisions since the 2016 PEFO is included in Appendix A.

Table 3.29: Policy decisions since the 2016 PEFO that affect the GST entitlement

\$million	2016-17	2017-18	2018-19	2019-20
Tax integrity – improve the transparency of taxation debts	0.0	15.0	5.0	5.0
Total	0.0	15.0	5.0	5.0

Distribution of the GST among the States

The Commonwealth distributes the GST among the States in accordance with the principle of horizontal fiscal equalisation, having regard to the GST revenue sharing relativities recommended by the Commonwealth Grants Commission.

Table 3.30 shows the detailed calculation for the distribution of the States' estimated GST entitlement in 2016-17.

Table 3.30: Distribution of the GST entitlement, 2016-17^(a)

	Estimated 31 December 2016 population (1)	GST relativities (2)	Adjusted population (1) x (2) (3)	Share of adjusted population % (4)	2016-17 GST entitlement \$million (5)
NSW	7,784,199	0.90464	7,041,898	29.1	17,368.9
VIC	6,113,725	0.90967	5,561,472	23.0	13,717.4
QLD	4,872,693	1.17109	5,706,362	23.6	14,074.8
WA	2,641,037	0.30330	801,027	3.3	1,975.7
SA	1,716,712	1.41695	2,432,495	10.0	5,999.8
TAS	519,683	1.77693	923,440	3.8	2,277.7
ACT	398,209	1.15648	460,521	1.9	1,135.9
NT	244,736	5.28450	1,293,307	5.3	3,189.9
Total	24,290,994	na	24,220,522	100.0	59,740.0

(a) Amounts shown are estimates of each State's GST entitlement based on the estimated total GST pool. These amounts do not take into account the 2015-16 balancing adjustment of -\$98.4 million. A balancing adjustment was made to States' GST payments in 2016-17 to account for this.

The calculation of the GST entitlement for 2015-16 is shown in Table 3.31. The Treasurer made a Determination giving effect to this entitlement on 3 November 2016. 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 2015-16.

Table 3.31: Calculation of the GST entitlement and balancing adjustment, 2015-16^(a)

	31 December 2015 population (1)	GST relativities (2)	Adjusted population (1) x (2) (3)	Share of adjusted population % (4)	2015-16 GST entitlement \$million (5)	2015-16 GST advances \$million (6)	Balancing adjustment \$million (5) - (6) (7)
NSW	7,670,742	0.94737	7,267,031	30.4	17,461.0	17,496.7	-35.7
VIC	5,996,385	0.89254	5,352,013	22.4	12,859.6	12,872.0	-12.4
QLD	4,808,771	1.12753	5,422,034	22.7	13,027.9	13,044.0	-16.1
WA	2,603,899	0.29999	781,144	3.3	1,876.9	1,882.6	-5.7
SA	1,702,785	1.35883	2,313,795	9.7	5,559.5	5,573.2	-13.7
TAS	517,404	1.81906	941,189	3.9	2,261.5	2,265.7	-4.3
ACT	393,013	1.10012	432,361	1.8	1,038.9	1,041.8	-2.9
NT	244,031	5.57053	1,359,382	5.7	3,266.3	3,274.0	-7.7
Total	23,937,030	na	23,868,949	100.0	57,351.6	57,450.0	-98.4

(a) These amounts do not take into account the 2014-15 balancing adjustment of \$342.0 million which was paid in 2015-16.

Table 3.32 shows the distribution of the GST entitlement over the current financial year and forward estimates. These estimates are based on the assumption that the GST relativities in the current financial year also apply to the forward estimate years. The Commonwealth publishes State breakdowns of the GST entitlement over the forward years for the purpose of publishing an estimate of total payments to each State.

Part 3: Fiscal strategy and outlook

Table 3.32: Distribution of the GST entitlement^(a)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2016-17	17,368.9	13,717.4	14,074.8	1,975.7	5,999.8	2,277.7	1,135.9	3,189.9	59,740.0
2017-18	18,264.5	14,485.2	14,772.0	2,076.0	6,266.1	2,368.3	1,191.7	3,316.2	62,740.0
2018-19	19,221.4	15,306.3	15,514.6	2,182.8	6,549.3	2,464.4	1,251.2	3,450.1	65,940.0
2019-20	20,117.8	16,083.6	16,203.0	2,282.2	6,807.5	2,550.0	1,306.2	3,569.7	68,920.0

(a) Amounts shown are estimates of each State's GST entitlement based on the estimated total GST pool. For 2016-17, these amounts do not take into account the 2015-16 balancing adjustment of -\$98.4 million. A balancing adjustment was made to States' GST payments in 2016-17 to account for this.

GST administration

States compensate the Commonwealth for the costs incurred by the ATO in administering the GST, including costs incurred by the Department of Immigration and Border Protection. The GST administration budget for the ATO is estimated to be \$682.4 million for 2016-17, as shown in Table 3.33.

Table 3.33: GST administration budget

\$million	Actual	Estimates			
	2015-16	2016-17	2017-18	2018-19	2019-20
Australian Taxation Office budget	679.6	682.4	636.7	619.0	598.3
<i>less</i> Prior year adjustment	7.4	0.0			
<i>equals</i> State government payments	672.2	682.4	636.7	619.0	598.3
<i>less</i> Australian Taxation Office outcome(a)	679.6				
<i>equals</i> Commonwealth budget impact	-7.4				
<i>plus</i> Prior year adjustment	7.4				
<i>equals</i> Following year adjustment	0.0				

(a) Estimated outcome for 2015-16 pending confirmation by the Australian National Audit Office.