

PART 1: AUSTRALIA'S FEDERAL RELATIONS

OVERVIEW

The 2016-17 Budget is a national economic plan for growth and jobs. Australia's future depends on how well we grow and shape our economy as we move from the unprecedented boom in mining investment to a stronger, broader based economy.

In 2016-17, the Commonwealth will provide the States with \$116.5 billion in total payments, including payments for specific purposes of \$55.3 billion and general revenue assistance of \$61.3 billion. This contribution represents approximately 25.9 per cent of total Commonwealth expenditure in 2016-17. Overall, Commonwealth funding to the States in 2016-17 will support around 47 per cent of State spending.

The Commonwealth will continue to ensure funding certainty for public hospitals and schools by providing an estimated \$4.1 billion in additional funding until 2020.

- At the 1 April 2016 Council of Australian Governments (COAG) meeting, the Commonwealth and the States signed a three year Heads of Agreement for public hospitals ahead of consideration of longer-term funding arrangements. This agreement preserves important parts of the existing system, including activity based funding and the national efficient price. The Commonwealth will provide an estimated additional \$2.9 billion over three years for public hospital services with growth capped at 6.5 per cent per year. This additional funding is linked to reforms which focus on improving patient safety and the quality of services and reducing unnecessary hospitalisations.
- Between 2018 and 2020, the Commonwealth will also make available \$1.2 billion in additional funding for government and non-government schools. Funding, which will grow by 3.56 per cent and enrolments each year, will be contingent on reform efforts by the States and non-government schools sector to improve education outcomes.

These funding arrangements for schools and hospitals provide an opportunity to develop longer-term funding arrangements and further reforms that focus on quality and sustainability into the future.

The Commonwealth will also provide the States with funding for significant new commitments, including:

- Establishing a new \$1.7 billion Child and Adult Public Dental Scheme for which adult concession card holders and all children will be eligible.

- Accelerating the States' access to funding from the DisabilityCare Australia Fund — the fund that supports National Disability Insurance Scheme expenditure — conditional on the States' agreement to reforms to the governance of the scheme.

The Government is investing a record \$50 billion from 2013-14 to 2019-20 to deliver critical road and rail infrastructure projects. The 2016-17 Budget includes new commitments to allocate funding to significant infrastructure projects including the Forrestfield-Airport Link, the Perth Freight Link and the Ipswich Motorway. The Government is also reallocating \$1.5 billion — originally for Melbourne's East West Link — to help upgrade other priority transport infrastructure in Victoria.

TOTAL PAYMENTS TO THE STATES

The Commonwealth provides substantial levels of funding to the States in key sectors such as health, education, community services and infrastructure and continues to support important productivity enhancing projects and reforms. In addition, the Commonwealth provides general revenue assistance which can be spent according to States' own budget priorities.

In aggregate, the States are estimated to receive Commonwealth payments of \$116.5 billion in 2016-17 for specific purposes and general revenue assistance. This represents an \$8.4 billion increase compared to 2015-16. Total payments to the States from 2015-16 to 2018-19 have increased by \$10.6 billion since the *Mid-Year Economic and Fiscal Outlook 2015-16*. Total payments to the States as a proportion of Commonwealth expenditure are estimated to be 25.9 per cent in 2016-17.

Table 1.1 shows that Commonwealth financial assistance supports more than 45 per cent of State spending. States also have access to their own revenue sources to fund their expenditure.

Table 1.1: Commonwealth payments as a proportion of total State spending

	2014-15(a)	2015-16(b)	2016-17(b)
Total Commonwealth payments (\$m)	103,423	108,195	116,545
Per cent of State spending	45.2	45.7	47.4

(a) Data was sourced from Commonwealth and States' Final Budget Outcomes from 2014-15.

(b) Data was sourced from the latest available State Budget updates.

Payments for specific purposes

In 2016-17, the Commonwealth will provide the States with \$55.3 billion in payments for specific purposes, an increase of \$5.3 billion compared with \$50.0 billion in 2015-16. Payments for specific purposes as a proportion of total Commonwealth expenditure are estimated to be 12.3 per cent in 2016-17.

National Specific Purpose Payments (National SPPs), National Health Reform and Students First funding are expected to total \$39.2 billion in 2016-17, an increase of \$2.2 billion from 2015-16.

National Partnership payments are expected to be \$16.1 billion in 2016-17, an increase of \$3.2 billion from 2015-16.

Part 2 of this Budget Paper provides further information on payments to the States for specific purposes.

General revenue assistance

General revenue assistance, which principally comprises the GST entitlement, provides untied funding to support the delivery of State services.

In 2016-17, the States are expected to receive \$61.3 billion in general revenue assistance, comprising \$60.7 billion for the GST entitlement and \$605 million for other general revenue assistance. This is an increase of \$3.0 billion from \$58.2 billion in 2015-16. Payments for general revenue assistance are estimated to be 13.6 per cent of Commonwealth expenditure in 2016-17.

Part 3 of this Budget Paper provides further information on general revenue assistance to the States, including GST.

Table 1.2: Commonwealth payments to the States

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2015-16									
Payments for specific purposes(a)	15,192	11,253	10,150	5,569	3,315	1,111	765	1,250	49,958
General revenue assistance(b)	17,547	12,897	13,044	1,912	5,573	2,266	1,080	3,274	58,236
Total payments to the States	32,739	24,150	23,194	7,481	8,888	3,377	1,845	4,524	108,195
2016-17									
Payments for specific purposes(a)	17,235	11,760	11,491	5,918	3,925	1,233	874	1,191	55,280
General revenue assistance(b)	17,684	13,910	14,297	2,041	6,101	2,307	1,193	3,262	61,265
Total payments to the States	34,920	25,671	25,789	7,959	10,025	3,540	2,067	4,453	116,545
2017-18									
Payments for specific purposes(a)	17,114	12,081	12,060	6,332	4,195	1,136	848	1,055	56,025
General revenue assistance(b)	18,649	14,710	15,076	2,162	6,399	2,402	1,255	3,423	64,529
Total payments to the States	35,763	26,791	27,136	8,494	10,594	3,538	2,104	4,478	120,554
2018-19									
Payments for specific purposes(a)	16,482	12,883	12,019	6,498	3,937	1,225	866	830	55,291
General revenue assistance(b)	19,655	15,545	15,883	2,287	6,707	2,499	1,319	3,590	67,894
Total payments to the States	36,136	28,428	27,902	8,785	10,644	3,724	2,186	4,421	123,185
2019-20									
Payments for specific purposes(a)	15,993	12,322	11,386	6,235	3,624	1,101	919	851	52,981
General revenue assistance(b)	20,550	16,296	16,596	2,403	6,973	2,578	1,375	3,736	70,922
Total payments to the States	36,543	28,619	27,981	8,638	10,598	3,679	2,294	4,587	123,903

(a) State allocations for a small number of programs have yet to be determined. These payments are not reflected in State totals. In some instances, total payments for specific purposes may not equal the sum of State totals.

(b) As State allocations for royalties are not published due to commercial sensitivities, these payments are not reflected in State totals. Total general revenue assistance does not therefore equal the sum of the State totals.

For 2016-17, total payments to the States as a proportion of GDP are estimated to be 6.8 per cent, with payments for specific purposes estimated to be 3.2 per cent and general revenue assistance estimated to be 3.6 per cent.

Table 1.3: Total Commonwealth payments to the States as a proportion of GDP

\$million	National SPPs	National Health Reform funding	Students First funding	National Partnership payments	GST entitlement	Other general revenue assistance	Total	Per cent change from previous year	Per cent of GDP
		(a)	(b)	(c)					
2015-16	4,220	17,196	15,636	12,908	57,450	786	108,195	-	6.6
2016-17	4,306	17,912	16,996	16,068	60,660	605	116,545	7.7	6.8
2017-18	4,377	18,923	17,997	14,727	63,940	589	120,554	3.4	6.7
2018-19	3,855	19,987	18,833	12,616	67,350	544	123,185	2.2	6.5
2019-20	3,138	21,106	19,777	8,959	70,370	552	123,903	0.6	6.2

(a) New arrangements for public hospital funding will apply from 1 July 2017.

(b) New indexation arrangements for schools funding will apply from 1 January 2018.

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

Box 1.1: The Commonwealth's contribution to State expenditure

The Australian Constitution determines the areas of expenditure for which the States have primary responsibility, such as schools, hospitals, roads and public transport.

The Commonwealth funds around 47 per cent of the States' general government spending through financial grants. The States also have access to their own revenue sources to fund their expenditure. Notwithstanding the substantial level of Commonwealth support to the States, all levels of Government must live within their means if services to Australian citizens are to be sustainable into the future.

In 2016-17, the Commonwealth will provide the States with \$116.5 billion in total payments. This comprises around 47 per cent specific purpose payments and 53 per cent general revenue assistance. Specific purpose payments are required to be spent in areas for which the States have primary responsibility. General revenue assistance, principally comprising the GST entitlement, provides untied funding to support the delivery of State services.

An illustrative way to look at the Commonwealth's total contribution to State expenditure is to combine Commonwealth tied payments per sector with general revenue assistance apportioned across sectors. This approach is presented in Table A below.

The Commonwealth's payments to the States are at a record high at a time when State budgets are in a strong position. In aggregate, the States are expecting a net operating surplus of 0.2 per cent of GDP in 2015-16, improving to 0.3 per cent of GDP in 2018-19. Further analysis of the States' fiscal position is provided in Part 4: Developments in the consolidated non-financial public sector.

Box 1.1: The Commonwealth's contribution to State expenditure (continued)

At the COAG meeting in April 2016, the Commonwealth and the States agreed to work together to develop options to share personal income tax revenue raised and collected by the Commonwealth in exchange for reducing payments from the Commonwealth for specific purposes. These options will aim to increase the States' autonomy in meeting their ongoing expenditure responsibilities, provide the States with access to a broad revenue base that grows with the economy, and generate efficiencies by reducing the administrative burden associated with numerous tied Commonwealth grants.

Table A: Commonwealth's contribution to State expenditure^(a)

	Commonwealth tied payments \$million	State spending supported by general revenue assistance (c) \$million	Total State spending \$million	State spending supported by Commonwealth revenue per cent
2014-15				
Education	17,244	10,838	52,604	53.4
Health	16,803	14,343	63,597	49.0
Social security and welfare	2,155	4,624	17,240	39.3
Housing and community amenities	2,161	2,763	11,175	44.1
Agriculture, forestry and fishing	480	602	2,444	44.3
Transport and communication	4,851	6,301	25,407	43.9
Other functions(b)	4,304	15,954	56,355	35.9
Payments for specific purposes	47,997			
General revenue assistance		55,425		
Total			228,822	45.2

(a) Functional data is consistent with Government Financial Statistics and sourced from Commonwealth and States' 2014-15 Final Budget Outcomes.

(b) 'Other functions' includes additional functions not elsewhere itemised but does not include general revenue assistance.

(c) General revenue assistance is provided to the States without conditions, to spend according to their own budget priorities. For illustrative purposes general revenue assistance is allocated to expense functions based on the ratio of discretionary spending in each function as a share of States' total discretionary spending.